The RAFAKO Group

THE PBG GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2016

with the auditor's opinion

COPY NO. 1

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(PLN '000)

Consolidated 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		**1,875,312**	**1,550,090**
Revenue from sale of goods and services	12.1	1,870,559	1,548,069
Revenue from sale of materials	12.2	4,753	2,021
Cost of sales	12.4	(1,750,999)	(1,423,015)
Gross profit/(loss)		**124,313**	**127,075**
Other income	12.7	3,613	4,204
Distribution costs	12.4	(31,962)	(29,416)
Administrative expenses	12.4	(57,750)	(53,054)
Other expenses	12.8	(13,517)	(8,090)
Operating profit/(loss)		**24,697**	**40,719**
Finance income	12.9	5,016	17,972
Finance costs	12.10	(7,220)	(12,612)
Profit/(loss) before tax		**22,493**	**46,079**
Income tax expense	13.1	(11,553)	(12,074)
Profit/(loss) from continuing operations		**10,940**	**34,005**
Discontinued operations		–	(55)
Profit/(loss) from discontinued operations		**–**	**(55)**
Net profit for the year		**10,940**	**33,950**

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)

Consolidated 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
Other comprehensive income for period		**(744)**	**(486)**
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Exchange differences on translating foreign operations		(56)	(231)
Exchange differences on translating foreign operations attributable to non-controlling interests		5	(1)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(51)**	**(232)**
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	13.1	162	60
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(693)**	**(254)**
Total comprehensive income for period		**10,196**	**33,464**
Net profit/(loss) attributable to:		**10,940**	**33,950**
Owners of the parent		10,513	34,070
Non-controlling interests		427	(120)
Comprehensive income attributable to:		**10,196**	**33,464,**
Owners of the parent		9,764	33,585,
Non-controlling interests		432	(121)
Earnings/(loss) per share:			
Basic/diluted earnings/(loss) per share, PLN		0.12	0.46
Earnings/(loss) per share from continuing operations			
Basic/diluted earnings/(loss) per share, PLN		0.12	0.46

Racibórz, March 21st 2017

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President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN '000)

Consolidated statement of financial position

as at December 31st 2016

	Note	Dec 31 2016	Dec 31 2015
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	18	178,585	183,439
Intangible assets	21	18,782	15,211
Long-term trade receivables, other receivables and prepayments	23	34,007	35,648
Trade receivables		33,817	35,409
Other receivables and prepayments		190	239
Non-current financial assets		24,911	30,129
Shares in other entities	22	840	229
Other non-current financial assets	24	24,071	29,900
Deferred tax asset	13.3	51,387	47,796
		307,672	**312,223**
Current (short-term) assets			
Inventories	25	13,983	18,817
Short-term trade receivables, other receivables and prepayments	26	750,365	481,766
Trade receivables	26	587,263	277,397
Income tax receivable	26	19,583	21,137
Other receivables and prepayments	26	143,519	183,232
Gross amount due from customers for construction contract work	11	235,351	233,992
Current financial assets		118,763	203,357
Short-term deposits	27.1	74	70
Short-term loans advanced		35	80
Other current financial assets	27.2	11,130	5,946
Cash and cash equivalents	27.3	107,524	197,261
		1,118,462	**937,932**
Assets held for sale	20	935	1,063
TOTAL ASSETS		**1,427,069**	**1,251,218**

Racibórz, March 21st 2017

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(PLN '000)

Consolidated statement of financial position

as at December 31st 2016

	Note	Dec 31 2016	Dec 31 2015
EQUITY AND LIABILITIES			
Equity (attributable to owners of the parent)			
Share capital	30.1	169,864	169,864
Share premium	30.4	95,340	95,340
Reserve funds		175,365	112,715
Exchange differences on translating foreign operations		(97)	(41)
Retained earnings / Accumulated losses	30.5	(5,617)	47,213
		434,855	**425,091**
Equity (attributable to non-controlling interests)	30.7	8,996	4,675
Total equity		**443,851**	**429,766**
Non-current liabilities			
Finance lease liabilities	37, 33.1	3,540	3,686
Deferred tax liability	13.3	384	94
Employee benefit obligation	32	21,855	23,552
Long-term trade and other payables		48,070	40,332
Trade payables	33.1	40,213	34,844
Amounts payable for tangible and intangible assets	33.1	149	852
Other liabilities	33.1	7,708	4,636
		73,849	**67,664**
Current liabilities			
Short-term trade and other payables		577,013	467,547
Trade payables	33.2	473,476	400,842
Amounts payable for tangible and intangible assets	33.2	1,610	2,663
Income tax payable	33.9	123	4
Other liabilities	33.2	101,804	64,038
Current portion of interest-bearing borrowings	31	147,107	109,208
Other financial liabilities and finance lease liabilities	33.2, 37	2,045	1,542
Employee benefit obligation	32	2,022	2,004
Gross amounts due to customers for construction contract work and provisions for contract work		181,182	173,487
Gross amount due to customers for construction contract work	11	156,644	142,795
Provisions for construction contract work	11	24,017	29,885
Grants	34	521	807
		909,369	**753,788**
Total liabilities		**983,218**	**821,452**
TOTAL EQUITY AND LIABILITIES		**1,427,069**	**1,251,218**

Racibórz, March 21st 2017

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

Consolidated 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 from continuing operations		22,493	46,079
Profit/(loss) before tax from discontinued operations		–	(66)
Profit/(loss) before tax		22,493	46,013
Adjustments for:		**(135,160)**	**27,909**
Depreciation and amortisation	12.5	14,400	12,833
Foreign exchange gains/(losses)		165	93
Interest and dividends, net		4,608	4,181
(Gain)/loss from investing activities		(121)	(3,565)
Increase/(decrease) in financial liabilities/financial assets from valuation of derivative instruments		–	(89)
Impairment of assets held for sale		–	(66)
(Increase)/decrease in receivables	17	(268,651)	(22,157)
Change in inventories		4,834	3,404
Increase/(decrease) in employee benefit obligations, excluding borrowings	17	125,608	106,566
Change in prepayments and accruals for construction contracts	17	6,622	(41,794)
Income tax paid		(22,414)	(30,330)
Other		(211)	(1,167)
Net cash from operating activities		**(112,667)**	**73,922**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		1,944	1,615
Purchase of property, plant and equipment and intangible assets	17	(8,749)	(30,285)
Sale of financial assets		–	21,430
Purchase of financial assets		(721)	–
Dividends and interest received		44	94
Repayment of loans advanced		–	31
Other		88	(1,622)
Net cash from investing activities		**(7,394)**	**(8,737)**

Racibórz, March 21st 2017

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(PLN '000)

Consolidated statement of cash flows – contd.
for the 12 months ended December 31st 2016

	Note	12 months ended Dec 31 2016	12 months ended Dec 31 2015
Cash flows from financing activities			
Proceeds from issue of shares	35	–	89,225
Proceeds from contributions to equity		–	1,200
Payment of finance lease liabilities		(3,161)	(1,981)
Proceeds from borrowings		37,773	–
Repayment of borrowings	17	–	(18,970)
Interest paid		(3,070)	(3,502)
Bank fees		(838)	(1,087)
Other		(261)	1,557
Net cash from financing activities		**30,443**	**66,442**
Net increase/(decrease) in cash and cash equivalents		**(89,618)**	**131,627**
Net foreign exchange differences		(119)	(265)
Cash at beginning of period	27.3	197,261	65,899
Cash at end of period	27.3	**107,524**	**197,261**

Racibórz, March 21st 2017

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

Consolidated 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*	*Non-controlling interests*	*Total equity*
As at Jan 1 2016	**169,864**	**95,340**	**112,715**	**(41)**	**47,213**	**425,091**	**4,675**	**429,766**
Profit from continuing operations	–	–	–	–	10,513	10,513	427	10,940
Other comprehensive income	–	–	–	(56)	(693)	(749)	5	(744)
Distribution of retained earnings	–	–	62,650	–	(62,650)	–	–	–
Change in Group structure	–	–	–	–	–	–	3,889	3,889
As at Dec 31 2016	**169,864**	**95,340**	**175,365**	**(97)**	**(5,617)**	**434,855**	**8,996**	**443,851**
As at Jan 1 2015	**139,200**	**36,778**	**114,393**	**190**	**10,700**	**301,261**	**12,193**	**313,454**
Profit from continuing operations	–	–	–	–	34,070	34,070	(120)	33,950
Other comprehensive income	–	–	–	(231)	(254)	(485)	(1)	(486)
Distribution of retained earnings	–	–	25,674	–	(25,674)	–	–	–
Issue of Series J shares	30,664	58,562	–	–	–	89,226	–	89,226
Disposal of subsidiary	–	–	(27,352)	–	27,352	–	(11,452)	(11,452)
Change in Group structure	–	–	–	–	1,019	1,019	4,055	5,074
As at Dec 31 2015	**169,864**	**95,340**	**112,715**	**(41)**	**47,213**	**425,091**	**4,675**	**429,766**

Racibórz, March 21st 2017

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NOTES

1. General information

The RAFAKO Group ("Group") comprises RAFAKO S.A. ("parent") and its subsidiaries presented in Note 2.

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

The Group companies have been established for an indefinite term.

The Group's consolidated financial statements cover the year ended December 31st 2016 and include comparative data as at and for the year ended on December 31st 2015.

The Group's principal business activity includes:

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

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

The direct parent of RAFAKO is PBG S.A. of Poznań. The ultimate parent of the entire Group is PBG S.A. of Poznań.

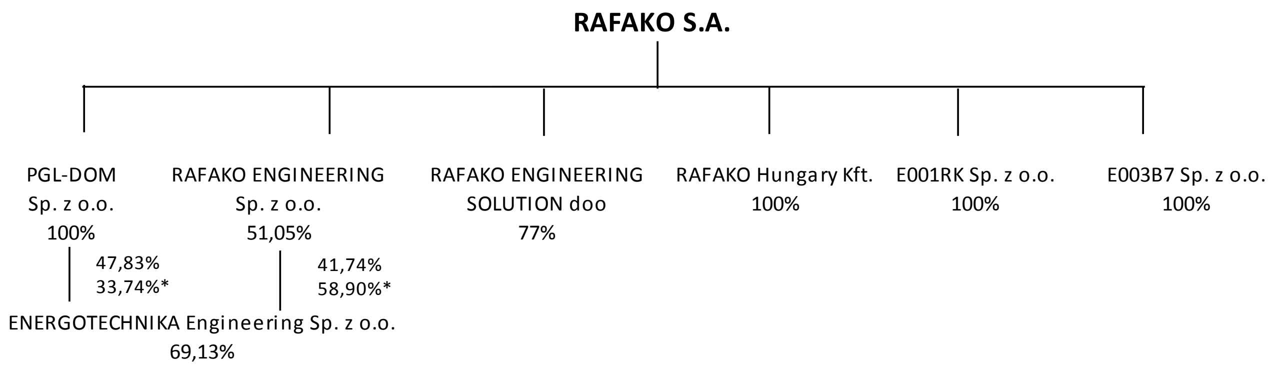
2. Composition of the Group

These consolidated financial statements comprise the financial statements of RAFAKO and financial statements of its subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, with the use of consistently applied accounting policies.

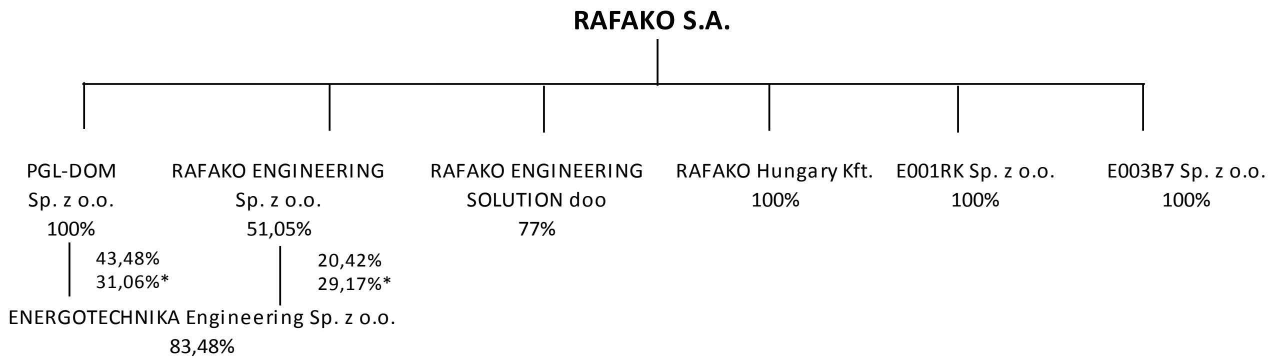
As at December 31st 2016, the RAFAKO Group was composed of the parent and seven subsidiaries operating in the power construction, services and trade sectors.

As at December 31st 2016, the following subsidiaries were consolidated in the Group's consolidated financial statements:



* % share of voting rights at the General Meeting

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



* % share of voting rights at the General Meeting

(PLN '000)

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

Name and principal place of business	*Principal business activity*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
RAFAKO Racibórz	Manufacture of steam generators except central heating hot water boilers	District Court of Gliwice KRS 34143	–
PGL-DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court of Gliwice KRS 58201	full
RAFAKO Engineering Sp. z o.o. Racibórz	Construction and process design, urban planning	District Court of Gliwice KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o.* Gliwice	Construction and process design, urban planning, engineering consultancy	District Court of Gliwice KRS 417946	full
RAFAKO ENGINEERING SOLUTION doo Belgrade	Process design, construction, industry, and environmental protection consultancy and supervision services	Commercial Register Agency of the Republic of Serbia 20320524	full
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industry	Registry Court of the Capital City of Budapest	full
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity	District Court of Gliwice KRS 479758	full
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology	District Court of Gliwice KRS 486911	full

*41.74% subsidiary of RAFAKO ENGINEERING Sp. z o. o. and 47.83% subsidiary of PGL-DOM Sp. z o.o., indirect subsidiary of RAFAKO.

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

As at December 31st 2015, the parent's share in total voting rights held in the subsidiaries was equal to the parent's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. 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.

In the 12 months ended December 31st 2016, there was a number of changes in the Group's structure.

(PLN '000)

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%.

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

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

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

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

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

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

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

4. Authorization of the financial statements

These consolidated financial statements for the year ended December 31st 2016 were authorised for issue by the parent's Management Board on March 21st 2017.

5. Significant judgements and estimates

5.1. Professional judgement

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

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

Classification of leases where the Group is the lessee

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

Identification of embedded derivatives

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

Consortium agreements

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

5.2. Uncertainty of estimates

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

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

Impairment of assets

At the end of a reporting period, the Group conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the value in use of the cash-generating unit to which these assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Group made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the 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 18, 23, 26.1, 27.2 and 28 to these consolidated financial statements.

Measurement of employee benefit obligations

Employee benefit obligations were estimated with actuarial methods.

The underlying assumptions are presented in Note 32.1.32.1 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 parent's employees (for details, see Note 33.8), the RAFAKO Management Board resolved to recognise a provision of PLN 7,622 thousand to cover the estimated cost of the programme.

Deferred tax asset

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

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 53.53

Depreciation and amortisation rates

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

Revenue recognition

In accounting for its long-term contracts, the Group uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total contract costs increased by 10% in relation to the Group's original estimate, the revenue would decrease by approximately PLN 83.1m.

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

Revenue

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

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

b) Revenue from the provision of construction services is recognised with use of the percentage of completion method. Revenue from construction contracts is recognised and disclosed in line with the policies discussed in Note 7.28.6;

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

Provision for expected contract losses

At the end of each reporting period the Group remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss is recognised as an expense in accordance with IFRS. Details of accounting for construction contract revenue and expenses in the reporting period are presented in Notes 7.28.6 and 11 to these consolidated financial statements.7.28.611

Provision for costs due to late performance of contracts

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

Provisions for warranty repairs

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

Impairment of financial assets

At the end of a reporting period, the Group makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the Group recognises an allowance to bring down the carrying amount to the present value of the expected cash flows. For a detailed discussion of the fair value/recoverable amount of receivables from related parties in bankruptcy, see Note 39.

Uncertainty related to tax settlements

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

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

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

On July 15th 2016, the Tax Legislation was amended to reflect the provisions of the General Anti-Abuse Rule ("GAAR"). GAAR is intended to prevent creation and use of abusive arrangements to avoid paying taxes in Poland. Under GAAR, tax avoidance is an arrangement the main purpose of which is to obtain a tax advantage which is contrary to the objectives and purpose of the tax legislation. In accordance with GAAR, no tax advantage can be obtained through an arrangement if the arrangement was abusive. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements operating in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more 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 Group discloses and measures current and deferred assets or liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on the taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration uncertainties related to tax settlements.

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

6. Basis of preparation of the financial statements

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

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

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

The most material factor affecting the RAFAKO Group's ability to continue as a going concern is the financial condition of the parent. These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern for at least 12 months after the end of the reporting period, i.e. December 31st 2016.

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

An analysis of the Group's financial position should take into consideration the following: in the financial year ended December 31st 2016, the parent recognised revenue of PLN 738m and a net loss of PLN 62m; further, as at December 31st 2016, the parent'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 parent 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 parent 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 Group's liquidity.

An important part of an analysis of the parent's financial condition is a forecast of profit or loss and cash flows for 2017 (and subsequent periods) prepared by the parent's 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. RAFAKO 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 parent'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 RAFAKO Management Board is taking steps to deliver a net profit in 2017 and to further improve the 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 parent will acquire new contracts to fully deliver the budgeted revenue;
- Timely delivery and execution of the contracts in RAFAKO's current order book, including in particular timely generation of cash flows from the contracts;
- Delivery of budgeted margins on the contracts in the parent's current order book, and the parent's ability to 00prevent 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;
- Parent'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 RAFAKO has access to bank credit as a source of financing after June 30th 2017.

In 2016 the Group's revenue and financial result decreased year on year. However, having considered the structure of the parent'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 consolidated financial statements the parent's Management Board did not identify any material threats to the Group continuing as a going concern in the foreseeable future. Accordingly, these consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future.

Despite the constraints discussed in this note, 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.

6.1. Statement of compliance

These consolidated 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 Group's activities, within the scope of the accounting policies applied by the Group there is a difference between IFRSs and the EU IFRSs.

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

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

The Group applied IFRSs applicable to financial statements prepared for the year beginning on January 1st 2016.

6.2. Functional currency and presentation currency

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

The Group uses the direct consolidation method and accounts for translation differences in a manner consistent with the method.

7. Significant accounting policies

7.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of RAFAKO and its controlled entities (subsidiaries) prepared as at December 31st 2016.

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

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

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

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

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

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

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

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

7.2. Investments in associates and joint ventures

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

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

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

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

7.3. Interests in joint operations

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

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

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

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

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

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

7.4. Fair value measurement

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

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

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

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

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

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

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

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

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

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

Summary of significant accounting policies concerning fair value measurement

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

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

7.5. Business combinations under common control

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

(PLN '000)

7.6. Foreign currency translation

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

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

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

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

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

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

	Dec 31 2016	*Dec 31 2015*
RSD	0.0355	0.0349
HUF	0.0105	0.0136

7.7. 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.

(PLN '000)

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 Group as an item of property, plant and equipment. Due to the lack of premises indicating the withdrawal of or inability to renew the right of perpetual usufruct of plots of land located mainly within the area of the 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 Group performs a review of its property, plant and equipment for potential impairment, of the adopted economic useful lives and depreciation methods applied and, if necessary, makes appropriate accounting adjustments affecting the current or future periods. The cost of overhauling a fixed asset that meets the capitalisation criteria is recognised as an item of property, plant and equipment.

7.8. Intangible assets

Intangible assets which are separately acquired or produced (if they meet the criteria for being recognised as development expenditure) are initially recognised at cost. Cost of intangible assets acquired in a business combination is equivalent to their fair value as at the date of the combination. 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 expensed in the period in which it is incurred.

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

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

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

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

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

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

Research and development work

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

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

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

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

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

7.9. Goodwill

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

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

7.10. Investment property

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

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

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

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

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

7.11. Leases

Finance leases which transfer to the Group all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The finance charge is recognised directly in profit or loss, unless the capitalisation criteria are met.

Property, plant and equipment used under finance leases are depreciated over the shorter of their estimated useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Lease payments under operating leases are recognised as operating expenses in profit or loss on a straight-line basis throughout the lease term.

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

7.12. Impairment of non-financial long-term assets

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

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

The Group assesses at the end of the reporting period whether there is an indication that previously recognised impairment losses on a given asset no longer exist or should be reduced. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. The increased value may not exceed the carrying amount of the asset that would have been determined (after accumulated amortisation/depreciation) if no impairment losses had been recognised on that asset in the previous years. Reversal of an 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.

7.13. Borrowing costs

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

7.14. Recoverable amount of long-term assets

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

7.15. Financial assets

Financial assets are classified into the following categories:

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

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

- those that upon initial recognition are designated as at fair value through profit or loss,

- those designated as available for sale,
- those qualifying as loans and receivables.

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

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

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

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

Financial assets at fair value through profit or loss are measured at fair value, based on their market value as at the end of the reporting period, without reflecting costs to sell. Any changes in the value of such instruments are recognised in the statement of comprehensive income as finance income or costs. If a contract contains one or more embedded derivatives, the entire contract can be designated as a financial asset at fair value through profit or loss. The above does not apply when an embedded derivative has no significant impact on the cash flows generated under the contract or when it is clear, without an analysis or following a short analysis, that if a similar hybrid instrument was first considered, separation of the embedded derivative would be prohibited. Financial assets may be designated upon initial recognition at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment in the area of measurement or recognition (accounting mismatch), or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at December 31st 2016, the Group recognised shares in listed companies and derivative instruments in the category of financial assets accounted for at fair value through profit or loss.

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

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

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

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

If the Group:

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

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

7.16. Impairment of financial assets

At the end of each reporting period the Group makes an assessment to determine whether there is any objective evidence that a financial asset or a group of assets is impaired.

7.16.1. Assets recognised at amortised cost

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

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

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

7.16.2. Financial assets carried at cost

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

7.16.3. Available-for-sale financial assets

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

7.17. Non-current assets held for sale

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

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

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

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

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

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

Property, plant and equipment as well as intangible assets classified as held for sale are not depreciated/amortised.

7.18. Derivative financial instruments and hedges

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

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

7.19. Inventories

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

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

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

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

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

7.20. Trade and other receivables

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

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

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

Other receivables include in particular 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.

7.21. Cash and cash equivalents

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

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

7.22. 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.

7.23. Provisions

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

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

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

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

7.24. Interest-bearing borrowings and other debt instruments

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

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

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

7.25. 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 Group as the derecognition of the original financial liability and the recognition of a new financial liability. Similarly, when the terms of an existing financial liability are substantially modified, the Group treats such modification as the derecognition of the original financial liability and the recognition of a new financial liability. The difference in the respective carrying amounts is recognised in profit or loss.

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

7.26. Employee benefits

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

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

The Group recognises such costs on an accrual basis.

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

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

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

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

7.27. Taxes

7.27.1. Income tax

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

7.27.1.1. Current income tax

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

7.27.1.2. Deferred income tax

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

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

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

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

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

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

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

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

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

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

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

7.27.2. Value added tax

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

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

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

7.27.3. Assessment of tax uncertainties

If in the opinion of a Group 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.

7.28. Revenue

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

7.28.1. 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.

7.28.2. Services

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

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

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

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

7.28.3. Interest

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

7.28.4. Dividends

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

7.28.5. Rental income

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

7.28.6. 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 consolidated statement of comprehensive income in the period in which the changes are made and in subsequent periods.

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

7.28.7. Government grants

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

If a grant 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.

7.29. Earnings per share

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

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

The accounting policies applied in preparing these consolidated financial statements are consistent with the policies applied in preparing the Group's consolidated financial statements for the year ended December 31st 2015, save for the effect of application of the following amended standards and new 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 Group does not operate any share-based payment plans, the application of these amendments had no effect on the Group companies' financial condition or results of operations.
  - Amendments to IFRS 3 *Business Combinations*

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

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

    The amendments apply retrospectively and clarify that:

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

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

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

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

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

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

    The application of these amendments had no effect on the Group's financial condition or results of operations.
  - Amendments to IAS 24 *Related Party Disclosures*

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

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

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

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

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

    The application of these amendments had no effect on the Group's financial condition or results of operations.
  - Amendments to IAS 34 *Interim Financial Reporting*

    The amendments apply to interim reporting and had no effect on the scope of information and data presented in these consolidated financial statements.
- Amendments to IAS 16 *and* IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

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

  The application of these amendments had no effect on the financial condition or results of operations of the Company.
- Amendments to IAS 1 *Disclosure Initiative*

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

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

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

  The application of these amendments had no effect on the Group's financial condition or results of operations.
- Amendments to IAS 27 *Equity Method in Separate Financial Statements*

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

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

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

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

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 Group'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.

9. New standards and interpretations issued but not yet effective

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

- IFRS 9 *Financial Instruments* (published on July 24th 2014) − effective for annual periods beginning on or after January 1st 2018,
- IFRS 14 *Regulatory Deferral Accounts* (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not adopted by the EU as at the date of authorisation of these financial statements,
- IFRS 15 *Revenue from Contracts with Customers* (published on May 28th 2014), including amendments to IFRS 15 *Effective Date of IFRS 15* (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on September 11th 2014) − work leading to approval of the amendments was deferred by the EU for an indefinite period − effective date was deferred by the IASB for an indefinite period,
- IFRS 16 *Leases* (published on January 13th 2016) − effective for annual periods beginning on or after January 1st 2019 − not adopted by the EU by the date of authorisation of these financial statements,
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (published on September 12th 2016) − effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements,

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (published on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements for issue, the amendments were not adopted by the EU,
- Amendments to IAS 7 *Disclosure Initiative* (published on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (published on April 12th 2016) − effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements,
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (published on June 20th 2016) – effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements,
- *Amendments to IFRS introduced as part of the Annual Improvements to IFRS 2014−2016 Cycle* (published on December 8th 2016**)**; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU; amendments to IFRS 12 are effective for annual periods beginning on or after January 1st 2017; amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1st 2018,
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 40 *Transfer of Investment Property* (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,

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

9.1. Implementation of IFRS 15

As at December 31st 2016, the Group had begun work to implement IFRS 15 *Revenue from Contracts with Customers* by reviewing all current contracts for their compliance with the new revenue recognition criteria. Due to the scope and extent of changes and necessary analyses, as at the date of these financial statements the Group had not completed a full quantitative assessment of the effect of IFRS 15 on its accounts. The Group expects that the implementation of IFRS 15 may materially affect both the Group’s balance-sheet items and its financial results.

9.2. Implementation of IFRS 9

As at December 31st 2016, the Group had begun work to implement IFRS 9, and is currently defining its new business model for managing financial assets. The Group does not apply hedge accounting and does not carry any derivative or hedging instruments. As at the date of these consolidated financial statements, the Group had not completed a full quantitative assessment of the effect of IFRS 9 on its accounts.

9.3. Implementation of IFRS 16

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

9.4. Implementation of other standards and interpretations

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

10. Operating segments

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

The Group identifies the following operating segments:

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

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

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

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

In 2015, the furnaces and mills segment (offering lignite and hard coal mills, automatic stokers and extension grates, slag traps used in heat and power generating machinery and equipment, as well as spare parts) was classified discontinued operations.

(PLN '000)

12 months ended December 31st 2016 or as at December 31st 2016	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	1,834,599	40,030	1,874,629	683	1,875,312
Inter-segment sales	2,057	17,508	19,565	(19,565)	–
Segment's total revenue	1,836,656	57,538	1,894,194	(18,882)	1,875,312
Cost of sales	(1,729,611)	(49,291)	(1,778,902)	27,903	(1,750,999)
Total					
Gross profit/(loss)	107,045	8,247	115,292	9,021	124,313
Other income/(expenses)	(88,546)	(5,944)	(94,490)	(5,126)	(99,616)
Operating profit/(loss)	18,499	2,303	20,802	3,895	24,697
Finance income/(costs)	(1,721)	(11)	(1,732)	(472)	(2,204)
Profit/(loss) before tax	16,778	2,292	19,070	3,423	22,493
Income tax expense	(10,796)	(317)	(11,113)	(440)	(11,553)
Segment's net profit/(loss)	5,982	1,975	7,957	2,983	10,940
Results					
Depreciation and amortisation	13,023	1,510	14,533	(133)	14,400
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at December 31st 2016					
Segment's assets	1,475,544	71,780	1,547,324	(120,255)	1,427,069
Segment's liabilities	1,047,494	19,267	1,066,761	(83,543)	983,218
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	8,834	5,462	14,296	(354)	13,942

(PLN '000)

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

(PLN '000)

11. Construction contracts

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

The table below presents the effects of accounting for construction contracts, including revenue and costs of the contracts performed in the 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)	4,585,053	3,260,138
Recognised profits less recognised losses to date (cumulative)	328,791	243,305
Contract revenue recognised by reference to the contract stage of completion (cumulative)	4,913,844	3,503,443
Progress billings (cumulative)	4,722,666	3,324,100
Gross amount due to customers for contract work (liability), including:	**(156,644)**	**(142,795)**
- advance payments received (liabilities arising from advances received)	(166,642)	(157,126)
- adjustment to advance payments received arising from amounts due from customers	85,890	56,859
- gross amount due to customers for contract work	(75,892)	(42,528)
Prepayments relating to accounting for construction contracts, including:	**235,351**	**233,992**
- gross amount due from customers for contract work (asset)	205,197	194,897
- contract acquisition cost and other accrued contract costs	30,154	39,095
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(4,856)	–
Provision for losses on construction contracts	(19,161)	(29,885)

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

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

11.1. Key contracts executed by the Group

11.1.1. Jaworzno Project

RAFAKO, as a member of the consortium comprising RAFAKO (consortium leader) and MOSTOSTAL WARSZAWA S.A., is executing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800–910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The value of the contract is approximately PLN 5.4bn (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, the parent does not plan for E003B7 sp. z o.o. to pay any dividend until expiry of the guarantee agreements, i.e. until April 2020, as this could result in negative consequences for RAFAKO and E003B7.

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

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

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

11.1.2. Opole project

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

E001RK Sp. z o.o. ("SPV-RAFAKO") was appointed by RAFAKO as the subcontractor in charge of the entire scope of deliveries under as part of the project. SPV-RAFAKO's remuneration for the performance of the works and services is PLN 3.96bn.

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

Accounting for the Opole project:

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

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

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

(PLN '000)

11.2. Provision for losses on construction contracts

The Group recognises provisions for anticipated contract losses in accordance with the methodology described in Note 7.28.6. If analysis shows that the estimated total contract costs will exceed reliable contract revenue (i.e. the overall result on the contract will be a loss), the entire loss on such contract is recognised in the reporting period.

	Dec 31 2016	*Dec 31 2015*
Opening balance	29,885	30,321
Recognition of provision for liability	10,806	22,870
Reversal of provision for the obligation	–	–
Utilisation of provision for liability	(21,530)	(23,306)
Closing balance	**19,161**	**29,885**
Short-term as at	19,161	29,885
Long-term as at	–	–
	19,161	**29,885**

11.3. Provision for costs due to late performance

The Group 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 liquidated damages provided for in the contract for failure to meet technical specification or from measurable value of the liability towards third parties.

During the twelve months ended December 31st 2016, the parent reviewed the amounts of recognised provisions for delay damages (including delays in meeting contractual obligations and the terms of assessing damages) under current contracts. Using the most recent contract data and based on settlements of completed contracts, the parent's Management Board decided to recognise a PLN 13,509 thousand provision for costs of late performance. In Q3 2016, 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.

	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	**–**

(PLN '000)

12. Income and expenses

12.1. 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	1,790,136	1,489,414
including: from related entities	–	–
Net revenue from sale of services	75,645	58,995
including: from related entities	13,620	3,134
Net revenue from sale of other goods	3,368	–
including: from 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	**1,870,559**	**1,548,069**
including: from related entities	13,620	3,134

The revenue increase was mainly attributable to recognition of a significant part of revenue from the Jaworzno contract (910 MW unit) by RAFAKO's subsidiary special purpose vehicle.

Revenue from sales on the domestic market increased, while sales to foreign customers declined.

12.2. Revenue from sale of materials

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Revenue from sale of materials	4,753	2,021
including: from related entities	–	–
Net revenue from sale of merchandise and materials, total	**4,753**	**2,021**
including: from related entities	–	–

12.3. Revenue by geography

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Revenue from sales to domestic customers	1,701,656	1,426,858
including: from related entities	13,620	3,134
Revenue from sales to foreign customers	173,656	123,232
including: from related entities	–	–
Net sales revenue, total	**1,875,312**	**1,550,090**
including: from related entities	13,620	3,134

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

Revenue from sales to related entities is presented in detail in Note 39 to these consolidated financial statements.

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

(PLN '000)

12.4. Cost of sales

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Depreciation and amortisation	14,400	12,569
Raw materials and consumables used	431,196	428,143
Services	1,193,207	813,688
Taxes and duties	7,379	7,259
Salaries and wages	167,219	166,264
Social security and other employee benefits	36,392	36,265
Business travel expenses	8,226	7,381
Advertising expenses	3,714	4,865
Unrealised exchange differences	257	(978)
Realised exchange differences	883	624
Cost of insurance	2,849	4,327
Other expenses	1,895	1,829
Recognition of inventory write-down	3,409	2,729
Total expenses by nature	**1,871,026**	**1,484,965**
Change in inventories, provisions, prepayments and accruals (including adjustment under IAS 11)	(31,755)	20,254
Work performed by entity and capitalised	(1,024)	(1,789)
Distribution costs (negative value)	(31,962)	(29,416)
Administrative expenses (negative value)	(57,750)	(53,054)
Cost of products sold	**1,748,535**	**1,420,960**
Cost of merchandise and materials sold	2,464	2,055
Cost of sales	**1,750,999**	**1,423,015**

In 2016, costs increased mainly due to the significant increase in the Group's sales the reporting period.

Distribution costs mainly include contract acquisition cost as well as cost of promotion and advertising. This item also includes impairment losses on trade receivables. Distribution costs recognised in the Group's comprehensive income for the twelve months of 2016 (PLN 31,962 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 57,750 thousand, having increased by PLN 4,696 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 of the parent.

(PLN '000)

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

	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	10,008	8,809
Amortisation of intangible assets	1,604	1,618
Warranty provisions	7,728	78
Net foreign exchange differences	1,140	(354)
Inventory write-downs	1,626	(2,559)
	22,106	**7,592**
Items recognised as distribution costs		
Depreciation of property, plant and equipment	500	380
Amortisation of intangible assets	87	78
Impairment losses on trade receivables	218	98
	805	**556**
Items recognised as administrative expenses		
Depreciation of property, plant and equipment	2,065	1,541
Amortisation of intangible assets	136	143
	2,201	**1,684**

12.6. Employee benefits expense

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Salaries and wages, including:	171,111	168,237
current wages and salaries expense	167,219	164,877
other benefits, including post-employment benefits	2,069	1,387
provision for bonuses	483	2,094
provision for holiday entitlements	1,340	(121)
Social security	36,392	36,265
	207,503	**204,502**
Items recognised as cost of sales (cost of merchandise and finished goods sold)	158,158	157,993
Items recognised as distribution costs	11,500	10,385
Items recognised as administrative expenses	37,845	36,124

(PLN '000)

12.7. Other income

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Income from liquidated damages	67	369
Gain on sale of property, plant and equipment	758	1,090
Grants	486	1,423
Compensation received	145	373
Reversal of provision for amounts due to the state budget	–	157
Reversal of impairment loss on other receivables	315	–
Materials recovered from liquidation of property, plant and equipment	461	–
Reversal of impairment loss on tangible assets	13	238
Other	1,368	554
	3,613	**4,204**

12.8. Other expenses

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Loss on scraping of tangible assets	295	151
Donations and grants	899	1,044
Impairment loss on other receivables	114	95
Repairs of property, plant and equipment	180	98
Scrapping of materials	536	–
Impairment of property, plant and equipment	–	49
Legal costs	263	94
Power Engineer's Day organisation cost	509	506
Provision for future costs	1,066	1,206
Provision for voluntary redundancy programme	7,622	–
Amortisation of licensing fees	–	3,444
Costs of substitute performance	–	690
Trade union expenses	391	–
Other	1,642	713
	13,517	**8,090**

*In December 2016, the parent paid out benefits of PLN 528 thousand under the voluntary redundancy programme, thus reversing provision for the same amount; for details, see Note 33.8

(PLN '000)

12.9. 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	1,642	3,485
Interest on security deposits provided	782	2,373
Other interest	–	42
Reversal of provision for finance cost	–	281
Foreign exchange gains	1,107	586
Reversal of impairment loss on interest	–	3,639
Dividends	–	11
Discount (long-term accounts receivable and payable)	1,393	7,185
Other income	92	370
	5,016	**17,972**

For details of finance income and finance costs related to financial instruments, see Note 0.

12.10. 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	3,547	3,566
Interest on employee benefits	713	670
Other interest	47	86
Bank borrowing fees	887	907
Cost on measurement of financial instruments	–	159
Discount (long-term accounts receivable and payable)	1,476	5,632
Provision for finance cost	522	1,335
Other finance costs	28	257
	7,220	**12,612**

For details of finance income and finance costs related to financial instruments, see Note 0.

(PLN '000)

13. Income tax

13.1. Income tax expense

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

Continuing operations	*12 months ended Dec 31 2016*	*12 months ended Dec 31 2015*
Tax expense relating to continuing operations:		
Current income tax	(14,693)	(10,578)
Current income tax expense	(14,694)	(10,619)
Adjustments to current income tax from previous years	1	41
Deferred tax	3,140	(1,496)
Related to recognition and reversal of temporary differences	3,140	(1,496)
Adjustments to deferred tax from previous years	–	–
Income tax expense in the consolidated statement of profit or loss	**(11,553)**	**(12,074)**
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**

Discontinued operations	*12 months ended Dec 31 2016*	*12 months ended Dec 31 2015*
Tax expense relating to discontinued operations:		
Current income tax	–	(20)
Current income tax expense	–	(20)
Adjustments to current income tax from previous years	–	–
Deferred tax	–	31
Related to recognition and reversal of temporary differences	–	31
Adjustments to deferred tax from previous years	–	–
Income tax expense in the consolidated statement of profit or loss	**–**	**11**
Deferred tax on other comprehensive income	–	–
Related to recognition and reversal of temporary differences	–	–
Income tax expense recognised in other comprehensive income	–	–

In the reporting period, the parent 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.

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

(PLN '000)

13.2. 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	22,493	46,079
Profit before tax from discontinued operations	–	(66)
Profit/(loss) before tax	22,493	46,013
Tax at statutory tax rate of 19%	4,274	8,743
Non-tax-deductible costs (permanent differences)	1,639	6,514
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	10	128
due to loss of control over subsidiary	–	2,161
other	1,262	2,165
Non-taxable income (permanent differences)	(417)	(2,858)
from liquidated damages	(103)	(370)
Utilisation of impairment losses on receivables from related parties	(137)	–
dividends received	–	(2)
due to the use of non-taxable provisions	–	(1,706)
other	(177)	(780)
Other	(183)	(294)
Tax loss not capitalised	6,572	
Correction of previous years' tax	(332)	(42)
Tax at the effective tax rate of 51.95% (2015: 26.22%)	**11,553**	**12,063**
Income tax attributable to continuing operations	(11,553)	(12,074)
Income tax attributable to discontinued operations	–	11
Income tax (expense) in the consolidated statement of comprehensive income	**11,553**	**12,063**

(PLN '000)

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

Deferred income tax calculated as at December 31st 2016 and 2015 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	(16,252)	(18,811)	2,559	(914)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,641	1,447	194	(371)
- difference between tax base and carrying amount of loans and receivables	1,739	1,209	530	611
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(42,605)	(43,185)	580	(16,020)
- difference between tax base and carrying amount of inventories	2,276	1,981	295	465
- provisions	39,243	18,420	20,823	(4,403)
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	–	–	–	(17)
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	44	(44)	(11)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	38,095	63,105	(25,010)	12,418
- tax asset related to tax loss	17,243	974	16,269	636
- adjustment to costs of unpaid invoices	7,763	18,475	(10,712)	6,348
other	1,863	1,537	326	(148)
Deferred tax expense/benefit			**5,810**	**(1,405)**
Net deferred tax asset/liability, including:	**51,003**	**45,193**		
Deferred income tax attributable to discontinued operations			(2,509)	(31)
Deferred tax expense – continuing operations			**3,301**	**(1,436)**
Net deferred tax asset/liability, including:	**51,003**	**45,193**		
Deferred tax asset	51,387	47,796		
Deferred tax liability	(384)	(94)		
Deferred tax liability – discontinued operations	–	(2,509)		

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

(PLN '000)

In 2016, the parent recorded a tax loss of PLN 121,331 thousand. RAFAKO S.A. 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 parent's 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.

As at December 31st 2016, the other RAFAKO Group companies recognised a single deferred tax asset on a tax loss of PLN 842 thousand, which will be offset against profits in future reporting periods.

14. Proposed coverage of 2016 loss

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

15. 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 and make contributions to a social benefits fund. The Group creates such funds and make periodic (basic and post-employment) contributions thereto. The objective of the fund is to finance the Group's social activities, loans advanced to its employees and other social expenditure.

	Dec 31 2016	*Dec 31 2015*
Assets of social benefits funds at Group companies	4,285	3,903
Cash	3,954	3,538
Loans advanced to employees	331	365
Liabilities to Social Benefits Funds	(4,057)	(3,605)
Net balance	**228**	**298**

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Contributions to the Social Benefits Fund during the reporting period	2,725	2,584
	2,725	**2,584**

(PLN '000)

16. Earnings /(loss) per share

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

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	10,940	34,005
Profit/(loss) from discontinued operations	–	(55)
Net profit/(loss)	10,940	33,950
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings per share	**10,513**	**34,070**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings 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 per share	84,931,998	74,472,635
Earnings/(loss) per share, PLN		
– basic earnings from profit attributable to holders of ordinary shares for period	0.12	0.46
Earnings/(loss) per share from discontinued operations, PLN		
– basic earnings from profit attributable to holders of ordinary shares for period	0.00	0.00

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

	12 months ended Dec 31 2016	12 months ended Dec 31 2015
Profit/(loss) from discontinued operations	–	(55)
Net profit/(loss) from discontinued operations, attributable to holders of ordinary shares, applied to calculate earnings per share	–	(45)

The Group 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 268,651 thousand increase in receivables disclosed in the consolidated statement of cash flows for the 12 months ended December 31st 2016 resulted mainly from:

- PLN (308,274) thousand increase in trade receivables,
- PLN (7,614) thousand increase in receivables from the state budget (including VAT),
- PLN 7,594 thousand decrease in prepayments made,
- PLN 54,520 thousand decrease in security deposits receivable,
- PLN (13,644) thousand increase in disputed receivables,
- PLN (1,233) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in 2016, see Note 26.

The PLN 125,608 thousand increase in liabilities disclosed in the consolidated statement of cash flows resulted mainly from:

- PLN 78,003 thousand increase in trade payables,
- PLN 20,202 thousand increase in VAT liabilities,
- PLN (1,679) thousand decrease in retirement benefit obligations (net of actuarial gains/(losses)),
- PLN 483 thousand increase in provision for bonuses,
- PLN 6,302 increase in provision for warranty repairs,
- PLN 1,340 thousand increase in provision for holiday entitlements,
- PLN 7,094 thousand increase in provision for the voluntary redundancy programme,
- PLN 9,375 thousand set-off of income tax liabilities,
- PLN 4,488 thousand increase in other liabilities.

The PLN 6,622 thousand change in accruals and deferrals as disclosed in the consolidated statement of cash flows was mainly caused by:

- PLN (1,359) thousand increase in gross amount due from customers for contract work and the related accruals and deferrals,
- PLN 13,849 thousand increase in gross amount due to customers for contract work, including:
  PLN (19,515) thousand decrease in advance payments,
  PLN (5,868) thousand decrease in provisions for contract work.

For a detailed description of the decrease in provisions, see Notes 11.2 and 11.3.

The PLN 19,515 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 8,749 thousand related to the acquisition of property, plant and equipment and intangible assets comprises capital expenditure on property, plant and equipment of PLN 7,537 thousand and capital expenditure on intangible assets of PLN 1,212 thousand. The expenditure on property, plant and equipment was primarily related to the modernisation of the Group's buildings and structures as well as purchase of plant and equipment and company cars.

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

The Group's cash from financing activities was also affected by interest of PLN 3,063 thousand paid on the PKO BP credit facility (December 31st 2014: PLN 3,521 thousand).

(PLN '000)

18. Property, plant and equipment

December 31st 2016	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2016	**23,776**	**91,832**	**56,489**	**8,389**	**791**	**2,162**	**183,439**
Transfers from property, plant and equipment under construction	–	490	3,143	222	–	(3,855)	–
Purchases	–	–	2,019	1,378	213	3,102	6,712
Lease agreements	–	–	–	1,832	–	–	1,832
Liquidation/sale	(20)	(74)	(356)	(580)	(13)	–	(1,043)
Exchange differences on translating foreign operations	–	–	(3)	2	34	–	33
Depreciation for period	–	(2,840)	(7,272)	(2,219)	(244)	–	(12,575)
Impairment loss for period	–	–	1	39	–	–	40
Other, including reclassification of property, plant and equipment to/from assets held for sale	(2)	(64)	101	98	14	–	147
Net carrying amount as at Dec 31 2016	**23,754**	**89,344**	**54,122**	**9,161**	**795**	**1,409**	**178,585**
As at Jan 1 2016							
Gross carrying amount	23,776	117,716	119,113	12,024	3,465	2,216	278,310
Accumulated depreciation and impairment	–	(25,884)	(62,624)	(3,635)	(2,674)	(54)	(94,871)
Net carrying amount	**23,776**	**91,832**	**56,489**	**8,389**	**791**	**2,162**	**183,439**
As at Dec 31st 2016							
Gross carrying amount	23,754	118,041	120,736	14,189	3,673	1,409	281,802
Accumulated depreciation and impairment	–	(28,697)	(66,614)	(5,028)	(2,878)	–	(103,217)
Net carrying amount	**23,754**	**89,344**	**54,122**	**9,161**	**795**	**1,409**	**178,585**

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

(PLN '000)

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

(PLN '000)

19. Property, plant and equipment held under leases

As at December 31st 2016, the parent and the subsidiaries held and used under finance lease assets with a gross carrying amount PLN 10,234 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 Group depreciates leased assets using the straight-line method.

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

20. Assets held for sale, unrelated to discontinued operations

As at December 31st 2016, the Group classified property, plant and equipment worth PLN 935 thousand (December 31st 2015: PLN 1,063 thousand) as assets held for sale, unrelated to discontinued operations.

	Dec 31 2016	*Dec 31 2015*
Non-current assets held for sale, including:		
land	66	66
buildings and structures	836	852
plant and equipment	33	133
motor vehicles	–	12
	935	**1,063**

21. Intangible assets

December 31st 2016	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2016	**5,124**	**9,713**	**374**	**–**	**15,211**
Transfers from intangible assets under development	–	424	–	(424)	–
Purchases	4,041	397	167	793	5,398
Amortisation for the year	–	(1,619)	(208)	–	(1,827)
As at Dec 31st 2016	**9,165**	**8,915**	**333**	**369**	**18,782**
As at Jan 1 2016					
Gross carrying amount	5,166	24,393	735	1,371	31,665
Accumulated amortisation and impairment	(42)	(14,680)	(361)	(1,371)	(16,454)
Net carrying amount	**5,124**	**9,713**	**374**	**–**	**15,211**
As at Dec 31st 2016					
Gross carrying amount	9,207	25,843	903	369	36,322
Accumulated amortisation and impairment	(42)	(16,928)	(570)	–	(17,540)
Net carrying amount	**9,165**	**8,915**	**333**	**369**	**18,782**

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

(PLN '000)

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

Intangible assets 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 2016;
- 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 2016.

Goodwill

In 2016, goodwill changed and as at December 31st 2016 amounted to PLN 9,165 thousand. The change resulted from acquisition of control of an organised part of business by subsidiary RAFAKO Engineering Sp. z o.o., following which the RAFAKO Group disclosed goodwill of PLN 4,041 thousand.

	Goodwill (PLN '000)
Value of property, plant and equipment	86
Value of low-cost items	13
Total fair value of net assets acquired	99
Total cost of the acquisition	4,140
Goodwill recognised on acquisition	4,041

For details of the transaction, see Note 2 to these consolidated financial statements.

Test for goodwill impairment

At the end of the reporting period, goodwill was tested by an independent expert 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 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.

At the end of the reporting period, goodwill was tested by an independent expert for impairment following acquisition of control of an organised part of the business by subsidiary RAFAKO Engineering Sp. z o.o. The test was carried out based on the present value of estimated five-year cash flows and the estimated residual value. The weighted average cost of capital (WACC) was assumed at 13.27%. The test did not reveal any impairment indicator.

Development work

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

Business combinations

In the 12 months ended December 31st 2016, subsidiary RAFAKO Engineering Sp. z o.o. assumed control over an organised part of the business of a related entity PBG gas and oil Sp. z o.o., a subsidiary of PBG S.A., which was contributed to the subsidiary as a non-cash contribution with a total value of PLN 4,140 thousand. The organised part of business was acquired in exchange for shares in RAFAKO Engineering Sp. z o.o.

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

(PLN '000)

22. Shares in other entities

	Dec 31 2016	Dec 31 2015
Shares in other listed companies	821	210
Shares in other non-listed companies	19	19
	840	**229**

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

In the 12 months ended December 31st 2016, there was a PLN 613 thousand increase in the value of shares held by the Group, which was attributable to establishment of a new company, as described in more detail in Note 2.

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

	Dec 31 2016	Dec 31 2015
Trade receivables, including:	33,817	35,409
Trade receivables from related entities	–	–
Trade receivables from other entities	33,817	35,409
Other receivables and prepayments, including:	190	239
Investment receivables	–	–
Security deposits	97	239
Other long-term receivables	93	–
Total receivables (net)	**34,007**	**35,648**
Impairment loss on receivables	–	–
Gross receivables	**34,007**	**35,648**

24. 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 Group	–	–
Other non-current financial assets, including:	24,071	29,900
Arrangement receivables from related entity	24,071	29,900
Other non-current financial assets	–	–
	24,071	**29,900**

In the 12 months ended December 31st 2016, the Group remeasured receivables from PBG S.A., as described in detail in Note 39.

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 5.

In 2017, the parent converted arrangement receivables from a related entity into bonds, as described in detail in Note 39 to these consolidated financial statements.

(PLN '000)

25. Inventories

	Dec 31 2016	*Dec 31 2015*
Materials (at net realisable value)	13,796	18,817
At cost	25,774	29,169
At net realisable value	13,796	18,817
Work in progress	–	–
At cost	–	–
Merchandise	187	–
At cost	187	–
At net realisable value	187	–
Finished goods:	–	–
At cost	–	–
At net realisable value	–	–
Total inventories, at the lower of cost and net realisable value	**13,983**	**18,817**

*Inventories pledged as security for the Group's liabilities as at the reporting date are presented in Note 29.4

Inventory write-downs

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
At beginning of period	(10,352)	(7,793)
Write-down recognised	(3,409)	(2,729)
Write-down reversed	1,783	170
Transfer to assets held for sale	–	–
Balance at end of period	**(11,978)**	**(10,352)**

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

	Dec 31 2016	*Dec 31 2015*
Trade receivables, including:	587,263	277,397
Trade receivables from related entities	4,613	17,581
Trade receivables from other entities	582,650	259,816
Income tax receivable	19,583	21,137
Other receivables and prepayments, including:	143,519	183,232
Receivables under advance payments	26,875	34,469
Receivables from the state budget	30,203	22,589
Settlement of property insurance costs	723	800
Settlements with the Company Social Benefits Fund	237	301
Disputed receivables	13,944	300
Prepaid expenses	2,504	1,219
Security deposits	68,263	122,734
Investment receivables	–	126
Other	770	694
Other receivables from related entities	–	–
Total receivables (net)	**750,365**	**481,766**
Impairment loss on receivables	32,472	32,393
Gross receivables	**782,837**	**514,159**

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

(PLN '000)

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

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

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

Short-term receivables of PLN 587,263 thousand recognised in the consolidated statement of financial position as at December 31st 2016 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 68,263 thousand disclosed in the consolidated 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 26,875 thousand as at December 31st 2016, including:

- advance consideration of PLN 7,816 thousand under a contract for the delivery and assembly of an NOx reduction unit;
- advance consideration of PLN 5,094 thousand under a contract for the design, delivery and assembly of high-pressure pipelines together with valves and auxiliary systems, as well as selection and assembly of primary fixings, as part of the unit construction;
- advance consideration of PLN 3,591 thousand under a contract for the delivery and assembly of the steel structure of a building housing the turbine house, bunkering room, LUVO and SCR, assembly of coal bunkers, as well as hoisting and laying of steam blowers;
- advance consideration of PLN 2,763 thousand under a contract for delivery, pre-assembly and assembly of the SCR reactor, and delivery of accumulators and coal bunkers.

26.1. Impairment losses on trade and other receivables

	Dec 31 2016	*Dec 31 2015*
At beginning of period, including:	(32,393)	(40,862)
- on receivables from related entities	–	–
Recognition of impairment loss on trade receivables	(573)	(1,456)
Recognition of impairment loss on other receivables	(205)	(561)
Reversal of impairment loss on trade receivables, including:	475	946
- on receivables from related entities	–	–
Use of impairment loss on other receivables	220	9,531
Use of impairment loss on trade receivables	4	9
Balance at end of period	**(32,472)**	**(32,393)**
- on receivables from related entities	–	–

(PLN '000)

In 2016, the parent reversed a PLN 91 thousand impairment loss on accrued liquidated damages.

In 2015, the parent reversed a PLN 9,531 thousand impairment loss 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	669,470*	646,965	14,657	6,232	68	1,523	25

** 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	400,560*	394,615	3,221	2,420	216,	81	7

** 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*

27. Current financial assets

27.1. Short-term deposits

As at December 31st 2016, the Group had PLN 74 thousand in short-term deposits with maturities ranging from three to 12 months.

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

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

27.2. Other current financial assets

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

In the year ended December 31st 2016, in line with prior assumptions, the Group recognised the current portion of receivables from PBG S.A. under other financial assets, as discussed in Note 39

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.

(PLN '000)

In 2017, the parent converted arrangement receivables from a related entity into bonds, as described in detail in Note 39 to these consolidated financial statements.

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

27.3. Cash and cash equivalents

	Dec 31 2016	*Dec 31 2015*
Cash in hand and at banks	106,342	114,051
Current deposits for up to 3 months, including:	1,182	83,210
- deposits pledged as security for contingent liabilities		–
	107,524	**197,261**

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 Group's immediate cash requirement, and earn interest at rates agreed with the bank.

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

As at December 31st 2016, cash included restricted cash of PLN 36.5m (December 31st 2015: PLN 95.1m), which comprised cash held by E003B7 Sp. z o.o. earmarked for the Jaworzno contract, which from the RAFAKO Group's perspective is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno project.

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

28. Other current non-financial assets

As at December 31st 2016, in the consolidated statement of financial position the Group separately disclosed 'Other current non-financial assets', which consisted of a PLN 5,676 thousand gross advance payment made in connection with the acquisition of shares, as discussed in detail in Note 27.2. As at December 31st 2016, the Group recognised a PLN 5,676 thousand impairment loss on other current non-financial assets. Due to the status of the project described in Note 27.2, the parent's Management Board concluded that the risk of non-recoverability of the assets is significant and upheld its decision to recognise an impairment loss for the full amount of the advance payment.

(PLN '000)

29. Assets pledged as security for the Group'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 are 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) are 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 13,038 thousand were pledged as security for the Company's liabilities (December 31st 2015: PLN 18,726 thousand). The inventories are pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A., and BGK's, PKO BP's, 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 the parent'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 the 12 months ended December 31st 2016, the Group did not pay any dividends.

30.6. Capital management

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

(PLN '000)

	Dec 31 2016	*Dec 31 2015*
Share of debt in equity		
Equity attributable to owners of the parent	434,855	425,091
External capital (bank credit facility and loan)	147,107	109,208
Total equity and liabilities	1,427,069	1,251,218
Capitalisation ratio (equity / total assets)	**0.30**	**0.34**

30.7. Non-controlling interests

	Dec 31 2016	*Dec 31 2015*
Opening balance	4,675	12,193
Share in profit of subsidiaries	432	(121)
Dividend	–	–
Changes of equity structure at subsidiaries	3,889	4,055
Disposal of subsidiary	–	(11,452)
Closing balance	**8,996**	**4,675**

30.8. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO (the parent) 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)

31. Interest-bearing borrowings

As at December 31st 2016, the Group's liabilities under borrowings were PLN 147,107 thousand. The bank debt ratio, calculated as the sum of bank borrowings to total equity, was 34%.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Dec 31 2016*	*Dec 31 2015*
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	Jun 30 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	Jun 30 2017****	47,713	–
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, mortgages, assignment of claims under insurance policy	PLN 500 thousand overdraft facility	PLN	1M WIBOR + margin	Sep 7 2017	–	–
						147,107	**109,208**

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

** As at the date of these financial statements, the parent 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 consolidated 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 150,000,000.00 overdraft facility.

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

The parent plans to extend the credit facility agreement for subsequent periods. The Group's credit standing should be analysed taking into account the information presented in Note 6.

32. Employee benefit obligations

32.1. Post-employment and other benefits

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

	Dec 31 2016	*Dec 31 2015*
As at Jan 1 2012	25,556	26,803
Interest expense	713	670
Current service costs	528	485
Actuarial (gains)/losses	854	314
Cost of benefits paid	(2,714)	(2,716)
Reversal of provision for employee benefit obligations*	(1,060)	–
Closing balance	**23,877**	**25,556**
Long-term provisions	21,855	23,552
Short-term provisions	2,022	2,004

*In the year ended December 31st 2016, the parent 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 33.8

The main assumptions adopted by the actuary as at December 31st 2016 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)

33. Trade and other payables

33.1. Long-term trade and other payables

	Dec 31 2016	*Dec 31 2015*
Trade payables, including:		
Trade payables to related entities	5	55
Trade payables to other entities	40,208	34,789
	40,213	**34,844**
Financial liabilities, including:		
Finance lease liabilities	3,540	3,686
	3,540	**3,686**
Other liabilities, including:		
Unpaid bonus accrual	530	311
Amounts payable for tangible and intangible assets	149	852
Provisions for warranty repairs	5,718	4,325
Amounts payable under voluntary redundancy programme	1,460	–
	7,857	**5,488**

33.2. Short-term provisions, trade and other payables

	Dec 31 2016	*Dec 31 2015*
Trade payables, including:		
Trade payables to related entities	1,400	6,330
Trade payables to other entities	472,076	394,512
	473,476	**400,842**
Amounts payable for tangible and intangible assets, including:		
Payables to related entities	–	–
Payables to other entities	1,610	2,663
	1,610	**2,663**

(PLN '000)

	Dec 31 2016	Dec 31 2015
Other liabilities		
VAT	21,985	1,783
Personal income tax	2,552	2,557
Social security liabilities	9,471	9,001
Amounts payable to the Tax Office	6	–
Other taxes, customs duties and insurance payable	238	103,
Settlements with the Company Social Benefits Fund	9	–
Salaries and wages payable	9,363	8,572
Accrued holiday entitlements	4,999	3,659
Unpaid bonus accrual	11,501	11,237
Provisions for warranty repairs	12,509	7,600
Provision for uninvoiced services and materials	5,120	5,305
Other amounts payable to employees	–	279
Other current accruals and deferred income	9,890	4,855
Provisions for other liabilities and disputed claims	6,644	7,000
Amounts payable under voluntary redundancy programme	5,634	
Security deposits	289	144
Other	1,594	1,943
	101,804	**64,038**
Other financial liabilities		
Valuation of derivatives	–	–
Finance lease liabilities	2,045	1,542
Other financial liabilities	–	–
	2,045	**1,542**

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

33.3. Amounts payable for tangible and intangible assets

As at December 31st 2016, the Group had commitments related to purchase of property, plant and equipment of PLN 1,759 thousand.

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

(PLN '000)

33.4. 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	3,659	3,780
Provision for the obligation	1,692	437
Cost of benefits paid	(352)	(558)
Reversal of provision for the obligation	–	–
Closing balance	**4,999**	**3,659**
Short-term as at	4,999	3,659
Long-term as at	–	–
	4,999	**3,659**

33.5. Unpaid bonus accrual

The parent 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 of Group, the Management Board, upon consultation with the Trade Unions, makes a decision as to the payment of a discretionary bonus to the Group employees. During the financial year, the Group recognises an accrual for the annual bonus in the amount provided for in the CBA, unless management boards of individual Group companies decide not to recognise the accrual. The parent also recognises an accrual for bonuses to project managers, which are paid upon completion of contracts.

	Dec 31 2016	*Dec 31 2015*
Opening balance	11,548	9,454
Provision for the obligation	11,130	11,036
Cost of benefits paid	(10,371)	(6,555)
Reversal of provision for the obligation	(276)	(2,387)
Closing balance	**12,031**	**11,548**
Short-term as at	11,501	11,237
Long-term as at	530	311
	12,031	**11,548**

(PLN '000)

33.6. 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 Group arising from completed construction contracts.

	Dec 31 2016	*Dec 31 2015*
Opening balance	11,925	11,848
Provision for the obligation	16,570	9,702
Costs of warranty repairs incurred	(10,268)	(9,625)
Reversal of provision for the obligation	–	–,
Closing balance	**18,227**	**11,925**
Short-term as at	12,509	7,600
Long-term as at	5,718	4,325
	18,227	**11,925**

33.7. Liabilities under bank guarantees and sureties issued

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

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

33.8. 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	–

33.9. Income tax payable

	Dec 31 2016	*Dec 31 2015*
Corporate income tax	123	4
	123	**4**

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 Group.

In 2016, no tax audits were carried out at the parent or its subsidiaries.

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

34. 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 'CO_2 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,

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- 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,
- 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*	*Transfer to discontinued operations*	*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**

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

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

In the 12 months ended December 31st 2015, the parent 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.

36. 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)

37. 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	2,938	2,045	2,073	1,542
from 1 to 5 years	3,686	3,540	4,026	3,686
over 5 years	–	–	–	–
Total minimum lease payments	**6,624**	**5,585**	**6,099**	**5,228**
Less finance costs	(1,039)	–	(871)	–
Present value of minimum lease payments, including:	**5,585**	**5,585**	**5,228**	**5,228**
short-term	2,045	2,045	1,542	1,542
long-term	3,540	3,540	3,686	3,686

38. 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 parent's liability is alleged to arise out of the cooperation agreement signed between the parties, under which ESPD agreed to provide support for RAFAKO S.A.'s efforts to win contracts for 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 RAFAKO was paid to ESPD, but RAFAKO 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 parent.

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 55to 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 parent 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 RAFAKO 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 parent carried out a relevant survey of the work performed and delivered the results to the debtors. In RAFAKO'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.

39. Arrangement receivables from related entity

At the end of the reporting period, in the statement of financial position the parent 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 44 to the full-year consolidated 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 parent 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 RAFAKO 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 parent 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., RAFAKO'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 parent'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	Mar 31 2017
Series C1	35,208	PLN 100.00	3,520,800	Jun 30 2017
Series D1	19,734	PLN 100.00	1,973,400	Dec 31 2017
Series E1	41,386	PLN 100.00	4,138,600	Jun 30 2018
Series F1	12,294	PLN 100.00	1,229,400	Dec 31 2018
Series G1	49,961	PLN 100.00	4,996,100	Jun 30 2019
Series H1	37,813	PLN 100.00	3,781,300	Dec 31 2019
Series I1	190,450	PLN 100.00	19,045,000	Jun 30 2020
	388,492		**38,849,200**	

   In accordance with the bond programme, as at the date of approval of these consolidated 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 RAFAKO 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 parent's Management Board, the provided collateral and the total amount payable under the bonds as at the date of these consolidated 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 parent's Management Board believes that RAFAKO'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 consolidated financial statements, the parent's Management Board deems the risk of non-recovery of the receivables as minimal.

(PLN '000)

40. Changes in off-balance sheet items

	Dec 31 2016	*Dec 31 2015*
Off-balance sheet items under bank guarantees received mainly as security for performance of contracts, including:	667,316	585,065
- from related entities	–	–
Receivables under sureties received, including:	–	7,600
- from related entities	–	–
Promissory notes received as security, including:	24,865	22,160
- from related entities	9,280	8,134
Letters of credit	–	–
	692,181	**614,825**

	Dec 31 2016	*Dec 31 2015*
Off-balance sheet items 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	–	–
Promissory notes issued as security, including:	10,736	28,798
- to related entities	–	–
Letters of credit	–	–
	1,606,013	**1,275,979**

In 2016, the RAFAKO Group's contingent liabilities increased by PLN 330,034 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 Group's contingent receivables increased by PLN 77,356 thousand (mainly performance bonds), including an increase of PLN 82,251 thousand in receivables under bank and insurance guarantees, and an increase of PLN 2,705 thousand in receivables under promissory notes. 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.

41. Guarantees provided by the Group

As at December 31st 2016, the Group 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	26,996	performance bond, warranty bond, bid bond
10.	KUKE	7,309	performance bond, warranty bond
11.	mBank	624	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 voluntary submissions to enforcement, blank promissory notes with promissory note declarations and cash security deposits.

(PLN '000)

42. Related parties

In 2016 and 2015, the Group 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*	2,918	4,180	35,869	155
	2015	138	75	36,060*	20
PBG Group companies*:					
PBG Oil and Gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.)	*2016*	11,015	54,499	4,018	1,081
	2015	2,124	28,108	1,078	5,739
PBG Avatia Sp. z o.o.	*2016*	–	–	–	12
	2015	–	2,723	–	41
PBG ERIGO Sp. z o.o.	*2016*	14	–	7	–
	2015	3	–	3	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	*2016*	75	–	8	–
	2015	13	–	16	–
Entities related through personal links:					
PBG Foundation	*2016*	–	476	–	7
	2015	–	399	–	113
SWGK CONSULTING Sp. z o.o.	*2016*	–	74	–	7
	2015	–	596	–	100
SWGK KSIĘGOWOŚĆ Sp. z o.o.	*2016*	–	–	–	–
	2015	–	–	–	–
Mostostal Energomontaż Gliwice S.A.	*2016*	–	–	–	102
	2015	–	18	–	372

**The receivables from PBG S.A. described in Note 39*

(PLN '000)

Related party	*12 months ended Dec 31*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related entities*	*Liabilities to related parties*
Dwór w Smólsku Sp. z o.o.	*2016*	–	220	–	25
BPIL Grzegorz Kiczor	*2016*	–	155	–	–
Economic Chamber of Energy and Environmental Protection	*2016*	–	–	–	6
FCS Business Solutions Sp. z o.o.	*2016*	2	–	–	–
NRG Solutions Sp. z o.o.	*2016*	5	–	6	–
PONER Sp. z o.o.	*2016*	–	17	–	–

43. Group's parent

RAFAKO is the parent of the RAFAKO Group.

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

As at December 31st 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).

44. Joint ventures

The Group is not engaged in any joint ventures.

45. Related-party transactions

In 2016, the parent and its subsidiaries did not enter into any material transactions with related parties on non-arm's length terms. All transactions with related parties are executed on terms applied by the Group in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are 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. 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.

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

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

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

(PLN '000)

47. Shares held by members of management and supervisory bodies

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

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

The Group does not operate any employee stock option programme.

49. Remuneration of the Group's senior management staff

	12 months ended Dec 31 2016	*12 months ended Dec 31 2015*
Short-term employee benefits (salaries and overheads)	14,228	12,405
Length-of-service awards	31	37
Termination benefits	92	19
Other employee benefits	–	83
Total cost of remuneration paid to key management staff	**14,351**	**12,544**

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

PLN '000

	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 parent's Management and Supervisory Boards for the year ended December 31st 2015 was as follows:

PLN '000

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

The remuneration paid to members of the management and supervisory boards of PGL-DOM Sp. z o.o. (a subsidiary) for the year ended December 31st 2016 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**107**	**30**	–
Mirosław Dziedzic	107	30	–
Supervisory Board	**169**	–	–
Mariusz Łożyński	51	–	–
Jolanta Markowicz	41	–	–
Adam Górnicki	41	–	–
Wojciech Byczkowski	36	–	–
Total	**276**	**30**	–

The remuneration paid to members of the management and supervisory boards of PGL-DOM Sp. z o.o. (a subsidiary) for the year ended December 31st 2015 was as follows:

PLN '000

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

The remuneration paid to members of the management and supervisory boards of RAFAKO Engineering Sp. z o.o. (a subsidiary) for the year ended December 31st 2016 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**231**	–	–
Albert Kępka	171	–	–
Rafał Damasiewicz	60	–	–
Supervisory Board	**120**	–	–
Małgorzata Wiśniewska	42	–	–
Jarosław Dusiło	42	–	–
Agnieszka Wasilewska-Semail	36	–	–
Total	**351**	–	–

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

PLN '000

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

The remuneration paid to members of the management and supervisory boards of ENERGOTECHNIKA ENGINEERING Sp. z o.o. (a subsidiary) for the year ended December 31st 2016 was as follows:

PLN '000

	Base pay	Awards	Other
Management Board	**489**	**133**	–
Jan Miodek	252	42	–
Justyna Mirek	85	91	–
Norbert Lejeune	152	–	–
Supervisory Board	**52**	–	–
Krzysztof Burek	15	–	–
Tomasz Tomczak	15	–	–
Małgorzata Wiśniewska	22	–	–
Total	**541**	**133**	–

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

PLN '000

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

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

PLN '000

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

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

PLN '000

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

The remuneration paid to members of the management and supervisory boards of E001RK Sp. z o.o. (a subsidiary) for the year ended December 31st 2016 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**168**	**120**	**–**
Jakub Sitek	108	60	–
Rafał Damasiewicz	60	60	–
Supervisory Board	**–**	**–**	**–**
Total	**168**	**120**	**–**

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

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**168**	**67**	**–**
Jakub Sitek	108	43	–
Rafał Damasiewicz	60	24	–
Supervisory Board	**–**	**–**	**–**
Total	**168**	**67**	**–**

The remuneration paid to members of the management and supervisory boards of E003B7 Sp. z o.o. (a subsidiary) for the year ended December 31st 2016 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**1,592**	**894**	–
Jarosław Dusiło	480	278	–
Edward Kasprzak	600	338	–
Alfred Seń	512	278	–
Supervisory Board	**1,080**	**540**	–
Agnieszka Wasilewska-Semail	240	120	–
Tomasz Tomczak	240	120	–
Krzysztof Burek	240	120	–
Jerzy Wiśniewski	360	180	–
Total	**2,672**	**1,434**	–

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

PLN '000

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

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

The Group did not publish forecasts for 2016.

(PLN '000)

51. Agreement with qualified auditor or auditing firm qualified to audit financial statements

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 parent's separate and consolidated financial statements	200	200
Other services	–	235
Total	**200**	**435**

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

52. Objectives and policies of financial risk management

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

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

The Group's key financial risk is liquidity risk, discussed in Note 6

In 2016, the parent was party to a 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 parent in the following periods. However, the exposure to interest rate risk decreased following as the nominal amount of the credit facility was reduced. Moreover, the credit facility's reference interest rate remained relatively low and constant.

Other types of financial risks to which the Group 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 Note 52.2

The accounting policies applied by the Group with respect to derivative instruments are discussed in Note 7.18

52.1. Interest rate risk

As at December 31st 2016, the credit facility agreement discussed above was the source of the Group's interest rate risk. Changes in market interest rates may trigger changes in the amount of interest charged on the credit facility, as well as the amount of interest earned by the Group on its deposits. Sensitivities to such changes are analysed in the table below.

(PLN '000)

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, lease payments). The effect on the Group's equity is not presented.

	Increase/ decrease (percentage points)	***Effect on pre-tax profit/loss***
Period ended Dec 31 2016		
PLN	+ 1%	7,385
EUR	+ 1%	332
HUF	+ 1%	1
RSD	+ 1%	20
PLN	- 1%	(7,385)
EUR	- 1%	(332)
HUF	- 1%	(1)
RSD	- 1%	(20)

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

52.2. Currency risk

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

In the reporting period, more than 17.6% of the Group's invoiced revenue was denominated in foreign currencies, primarily in EUR.

The Group's currency risk management strategy provides for the use of natural hedging to the largest possible extent. The Group 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 Group did not have any open hedge positions.

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

(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 in the EUR, GBP, RSD, and DKK exchange rates, *ceteris paribus*.

	Exchange rate increase/ decrease	*Effect on pre-tax profit/loss*	*Effect on net profit/loss*
Dec 31 2016 – EUR	+10%	3,320	2,689
	-10%	(3,320)	(2,689)
Dec 31 2016 – TRY	+10%	1	1
	-10%	(1)	(1)
Dec 31 2016 – HUF	+10%	7	6
	-10%	(7)	(6)
Dec 31 2016 – RSD	+10%	204	165
	-10%	(204)	(165)

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

52.3. Commodity price risk

The Group is exposed to price risk, particularly the risk of increase in the prices of materials of strategic importance to its operations. The level of this risk is greatly determined by the conditions prevailing in the global 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 Group 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.

52.4. Credit risk

The RAFAKO Group's exposure to credit risk is closely related to the principal business activities of the Group companies. The exposure results from outstanding trade contracts and is related to the risk of occurrence of such credit events as the contractor's insolvency, partial payment of receivables, and significant payment delays. Providing credit to trading partners is an essential part of the Group's business. However, the Group 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 Group − 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 38 and 39.

52.5. Liquidity risk

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

(PLN '000)

The Group's financial liquidity (going concern) in 2016 is discussed at length in Note 6 to the consolidated financial statements.

The table below presents the Group'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	147,107	–	–	–	–	147,107
Lease liabilities	–	522	1,523	3,540	–	5,585
Derivative instruments	–	–	–	–	–	–
Trade and other payables	61,157	372,108	30,159	52,611	243	516,278
	61,157	**372,630**	**31,682**	**56,151**	**243**	**521,863**

Dec 31 2015	*payable on demand*	*up to 3 months*	*from 3 to 12 months*	*from 1 year to 5 years*	*over 5 years*	*Total*
Interest-bearing borrowings	–	–	109,208	–	–	109,208
Lease liabilities	–	377	1,165	3,686	–	5,228
Derivative instruments	–	–	–	–	–	–
Trade and other payables	46,059	300,553	51,887	43,181	598	442,278
	46,059	**300,930**	**162,260**	**46,867**	**598**	**556,714**

(PLN '000)

53. Financial instruments

53.1. 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 Group presents the various 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	**738,597**	**471,839**
Trade receivables	621,080	312,806
Other receivables	82,207	123,037
Loans advanced	35	80
Long-term deposits		–
Short-term deposits	74	70
Other non-current financial assets	24,071	29,900
Other current financial assets	11,130	5,946
Cash and cash equivalents	**107,524**	**197,261**
	846,330	**669,310**

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	**662,555**	**548,409**
Borrowings	147,107	109,208
Trade payables (including capital commitments)	515,448	439,201
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**5,585**	**5,228**
Liabilities under leases and rental contracts with purchase option	5,585	5,228
	668,140	**553,637**

As at December 31st 2016 and December 31st 2015, the Group 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)

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

12 months ended 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	–	–	154,057	(2)	–	–	–	(2)
- shares	Available for sale	–	–	–	(2)	–	–	–	(2)
Other financial assets (non-current), including:		–	–	–	–	–	(481)	–	(481)
- receivables from related entities	Receivables and loans	–	–	154,057	–	–	(481)	–	(481)
Other financial assets (current), including:		10	15	–	–	–	–	–	25
- short-term deposits	Receivables and loans	8	–	–	–	–	–	–	8
– certificates of deposit	At fair value through profit or loss	2	15	–	–	–	–	–	17
Trade and other receivables	Receivables and loans	955	2,395	(78)	–	–	508	–	3 780
Cash and cash equivalents	Receivables and loans	1,459	456	–	–	–	–	–	1 915
Total		**2,424**	**2,866**	**153,979**	**(2)**	–	**27**	–	**5 237**

(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	(3,132)	–	–	–	–	–	(887)	(4,019)
- non-current, bearing interest at variable rates	Other financial liabilities at amortised cost	–	–	–	–	–	–	–	–
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(3,132)	–	–	–	–	–	(887)	(4,019)
Other financial liabilities, including:	Other financial liabilities at amortised cost	(281)	(4)	–	–	–	–	–	(285)
- liabilities under finance leases and rental contracts with purchase option	Other financial liabilities at amortised cost	(281)	(4)	–	–	–	–	–	(285)
Trade and other payables	Other financial liabilities at amortised cost	(847)	(1,485)	(241)	–	–	(110)	–	(2,683)
– trade payables		(134)	(1,459)		–	–	(105)	–	(1,698)
– other liabilities		(713)	(23)	(241)	–	–	(5)	–	(985)
Total		**(4,260)**	**(1,489)**	**(241)**	–	–	**(110)**	**(887)**	**(6 987)**

(PLN ‘000)

12 months ended Dec 31 2015 *Financial assets*	*Category in accordance with IAS 39*	*Interest income/(expense)*	*Foreign exchange gains/(losses)*	*Reversal/ (recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Available-for-sale financial assets (non-current), including:	Available for sale	–	–	–	(159)	–	11	(148)
- shares	Available for sale	–	–	–	(159)	–	11	(148)
Other financial assets (non-current), including:		3	2	–	2 506	–	–	2,511
- receivables from related entities in company voluntary arrangement	Receivables and loans	–	–	–	2 502	–	–	2,502
- long-term loans	Receivables and loans	3	2	–	4	–	–	9
Other financial assets (current), including:		7	84	–	–	–	–	91
- short-term deposits	Receivables and loans	7	84	–	–	–	–	91
Trade and other receivables	Receivables and loans	5,029	99	8,468	(2,399)	–	–	11,197
Cash and cash equivalents	Receivables and loans	861	(248)	–	–	–	–	613
Total		**5,900**	**(63)**	**8,468**	**(52)**	**–**	**11**	**14,264**

(PLN '000)

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

(PLN '000)

53.3. Liquidity risk

The tables below present the carrying amounts of the Group'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	74	–	–	–	–	–	74
Variable interest							
Cash and cash equivalents	107,524	–	–	–	–	–	107,524
Loans advanced	35	–	–	–	–	–	35
Liabilities under finance leases and rental contracts with purchase option	2,045	2,422	894	224	–	–	5,585
Bank overdrafts	149,107	–	–	–	–	–	149,107

(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	70	–	–	–	–	–	70
Variable interest							
Cash and cash equivalents	197,261	–	–	–	–	–	197,261
Loans advanced	80	–	–	–	–	–	80
Liabilities under finance leases and rental contracts with purchase option	1,542	1,532	1,448	654	52	–	5,228
Bank overdrafts	109,208	–	–	–	–	–	109,208

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 Group, not presented in the tables above, earn no interest and are therefore not exposed to the interest rate risk.

54. Employment

In 2016, the average headcount in the Group was 2,413.

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

55. Events after the end of the reporting period

After the end of the reporting period, no events took place that would affect the Group'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 RAFAKO 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 parent, 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 its the RAFAKO 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 RAFAKO 4,163,086 shares and the same number of voting rights at the RAFAKO General Meeting, representing 4.90% of RAFAKO's share capital and the same percentage of total voting rights at its General Meeting.

In the period from the reporting date to the date of issue of these financial statements, the parent'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 38. In the opinion of the RAFAKO Management Board, there is a chance to settle the dispute amicably.

(PLN '000)

These consolidated financial statements of the RAFAKO Group 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	....