RAFAKO S.A.

PBG GROUP

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2017

with the auditor's report on the financial statements

COPY NO. 1

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(PLN '000)

Statement of comprehensive income

for the 12 months ended December 31st 2017

	Note	*12 months ended Dec 31 2017*	*12 months ended Dec 31 2016*
Continuing operations			
Revenue		**616,631**	**738,227**
Revenue from sale of goods and services	13.1	614,071	735,758
Revenue from sale of materials	13.2	2,560	2,469
Cost of sales	13.4	(572,644)	(719,704)
Gross profit/(loss)		**43,987**	**18,523**
Other income	13.7	8,144	7,236
Distribution costs	13.4	(35,383)	(31,578)
Administrative expenses	13.4	(42,893)	(44,285)
Other expenses	13.8	(13,365)	(12,869)
Operating profit/(loss)		**(39,510)**	**(62,973)**
Finance income	13.9	1,156	2,616
Finance costs	13.10	(10,855)	(7,161)
Profit/(loss) before tax		**(49,209)**	**(67,518)**
Income tax expense	14	(16,839)	5,277
Net profit/(loss) from continuing operations	15, 16	**(66,048)**	**(62,241)**
Other comprehensive income for period		**(6)**	**(822)**
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Exchange differences on translating foreign operations		(268)	(129)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(268)**	**(129)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods			
Other comprehensive income due to actuarial gains/(losses)		324	(855)
Tax on other comprehensive income	14.1	(62)	162
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**262**	**(693)**
Total comprehensive income for period		**(66,054)**	**(63,063)**
Weighted average number of shares	16	85,397,751	84,931,998
Basic/diluted loss per share (PLN)	16	(0.77)	(0.73)

Racibórz, April 5th 2018

Agnieszka Wasilewska-Semail	Jarosław Dusiło	Edward Kasprzak	Karol Sawicki	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	Head of Accounting and Tax Department – Chief Accountant

(PLN '000)

Statement of financial position

as at December 31st 2017

	Note	Dec 31 2017	Dec 31 2016
ASSETS			
Non-current assets			
Property, plant and equipment	19	140,364	147,968
Intangible assets	22	10,513	11,058
Long-term trade receivables, other receivables and prepayments	24	7,078	284
Trade receivables		5,294	3
Other receivables and prepayments		1,784	281
Non-current financial assets		76,347	64,570
Shares in subsidiaries	23	35,091	29,349
Shares in other entities	23	242	227
Long-term bonds	26	24,769	–
Other non-current financial assets	25	16,245	34,994
Deferred tax assets	14.3	31,141	48,177
		265,443	**272,057**
Current (short-term) assets			
Inventories	27	12,057	13,039
Short-term trade receivables, other receivables and prepayments	28	303,552	294,144
Trade receivables		192,117	188,754
Income tax receivable		–	10,918
Other receivables and prepayments		111,435	94,472
Gross amount due from customers for construction contract work	12	158,785	172,387
Current financial assets		164,997	77,470
Short-term loans advanced	29.1	396	458
Derivative instruments	48	479	–
Short-term bonds	26	5,201	–
Other current financial assets	29.2	–	11,130
Cash and cash equivalents	29.3	158,921	65,882
		639,391	**557,040**
Non-current assets held for sale	21	108	7
TOTAL ASSETS		**904,942**	**829,104**

Racibórz, April 5th 2018

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(PLN '000)

Statement of financial position

as at December 31st 2017

	Note	Dec 31 2017	Dec 31 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	31.1	254,864	169,864
Share premium	31.4	173,708	95,340
Reserve funds		69,061	131,301
Exchange differences on translating foreign operations		(337)	(69)
Retained earnings / Accumulated losses		(71,222)	(67,676)
		426,074	**328,760**
Non-current liabilities			
Finance lease liabilities	35.1, 39	1,046	2,662
Employee benefit obligations	34	20,448	21,773
Long-term trade and other payables		19,594	19,598
Trade payables	35.1	14,673	11,874
Amounts payable for tangible and intangible assets	35.1	–	16
Other liabilities	35.1	4,921	7,708
		41,088	**44,033**
Current liabilities			
Short-term trade and other payables		276,752	201,981
Trade payables	35.2	185,498	120,449
Amounts payable for tangible and intangible assets	35.2	399	954
Other liabilities	35.2	90,855	80,578
Current portion of interest-bearing borrowings	33	98,568	149,112
Other financial liabilities and finance lease liabilities	35.2, 39	1,696	1,616
Employee benefit obligations	34	2,737	1,994
Gross amount due to customers for contract work, provisions for contract work and deferred income		58,027	101,608
Amounts due to customers for construction contract work	12	33,834	76,992
Provisions for construction contract work	12	23,913	24,095
Grants	36	280	521
		437,780	**456,311**
Total liabilities		**478,868**	**500,344**
TOTAL EQUITY AND LIABILITIES		**904,942**	**829,104**

Racibórz, April 5th 2018

Agnieszka Wasilewska-Semail	Jarosław Dusiło	Edward Kasprzak	Karol Sawicki	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	Head of Accounting and Tax Department – Chief Accountant

(PLN '000)

Statement of cash flows

for the 12 months ended December 31st 2017

	Note	*12 months ended Dec 31 2017*	*12 months ended Dec 31 2016*
Cash flows from operating activities			
Profit/(loss) before tax		(49,209)	(67,518)
Adjustments for:		38,071	13,386
Depreciation and amortisation	13.4, 13.5	10,674	11,674
Foreign exchange gains/(losses)		27	(14)
Interest and dividends, net		3,646	4,267
(Gain)/loss from investing activities		(519)	569
Increase/(decrease) in liabilities under FX contracts		(479)	–
(Increase)/decrease in receivables	17	(32,634)	22,670
Change in inventories		982	5,765
Increase/(decrease) in employee benefit obligations, excluding borrowings	17	86,990	(110,510)
Change in prepayments and accruals for construction contracts	17	(29,738)	85,218
Income tax paid		(857)	(6,444)
Other		(21)	191
Net cash from operating activities		**(11,138)**	**(54,132)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		531	1,089
Purchase of property, plant and equipment and intangible assets	17	(3,359)	(5,200)
Proceeds from debt instruments held	26	5,659	–
Acquisition of shares in subsidiary	23	(5,742)	(4,317)
Dividends and interest received		7	6
Loans advanced		36	43
Net cash from investing activities		**(2,868)**	**(8,379)**
Cash flows from financing activities			
Proceeds from issue of shares	17	163,368	–
Payment of finance lease liabilities		(1,801)	(2,148)
Proceeds from borrowings		–	37,773
Repayment of borrowings	17	(50,331)	–
Interest paid	17	(2,611)	(3,121)
Bank fees		(1,096)	(821)
Other		(222)	(274)
Net cash from financing activities		**107,307**	**31,409**
Net increase/(decrease) in cash and cash equivalents		93,301	(31,102)
Net foreign exchange differences		(262)	(125)
Cash at beginning of period	29.3	**65,882**	**97,109**
Cash at end of period	29.3	**158,921**	**65,882**

Racibórz, April 5th 2018

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

Statement of changes in equity

for the 12 months ended December 31st 2017

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total*
As at Jan 1 2017	**169,864**	**95,340**	**131,301**	**(69)**	**(67,676)**	**328,760**
Loss from continuing operations	–	–	–	–	(66,048)	(66,048)
Other comprehensive income	–	–	–	(268)	262	(6)
Coverage of loss brought forward	–	–	(62,240)	–	62,240	–
Issue of Series K shares	85,000	78,368	–	–	–	163,368
As at Dec 31 2017	**254,864**	**173,708**	**69,061**	**(337)**	**(71,222)**	**426,074**
As at Jan 1 2016	**169,864**	**95,340**	**104,716**	**60**	**21,843**	**391,823**
Loss from continuing operations	–	–	–	–	(62,240)	(62,240)
Other comprehensive income	–	–	–	(129)	(694)	(823)
Distribution of retained earnings	–	–	26,585	–	(26,585)	–
As at Dec 31 2016	**169,864**	**95,340**	**131,301**	**(69)**	**(67,676)**	**328,760**

Racibórz, April 5th 2018

Agnieszka Wasilewska-Semail	Jarosław Dusiło	Edward Kasprzak	Karol Sawicki	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	Head of Accounting and Tax Department – Chief Accountant

ADDITIONAL EXPLANATORY NOTES

1. GENERAL INFORMATION

RAFAKO S.A. (the "Company") is a listed joint-stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland. The Company was established under a notary deed of January 12th 1993. On August 24th 2001, it was entered in the Business Register maintained by the District Court in Gliwice, 10th Commercial Division of the National Court Register, under No. KRS 0000034143. The Company's Industry Identification Number (REGON) is 270217865.

The Company was established for an indefinite term.

The Company's full-year financial statements cover the year ended December 31st 2017 and include comparative data for the year ended December 31st 2016.

The Company's principal business activity includes:

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

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

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

2. Identification of consolidated financial statements

The Company has also prepared the consolidated financial statements of the RAFAKO Group for the year ended December 31st 2017, authorised for issue on April 5th 2018.

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

In the 12 months ended December 31st 2017 and by the date of authorisation of these financial statements for issue, there were changes in the composition of the Company's Management Board. On February 20th 2018, Krzysztof Burek resigned from the position of Vice President of the Company's Management Board. The Supervisory Board appointed Karol Sawicki as Vice President of the Management Board.

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

Agnieszka Wasilewska-Semail – President of the Management Board
Jarosław Dusiło – Vice President of the Management Board
Edward Kasprzak – Vice President of the Management Board
Karol Sawicki – Vice President of the Management Board
Tomasz Tomczak – Vice President of the Management Board.

In the 12 months ended December 31st 2017, there were changes in the composition of the Company's Supervisory Board. On November 9th 2017, Dariusz Sarnowski, Deputy Chairman of the RAFAKO Supervisory Board, tendered his resignation from the Supervisory Board.

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

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

4. Authorisation of the financial statements

These financial statements for the year ended December 31st 2017 were authorised for issue by the Management Board on April 5th 2018.

5. Company's investments

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

Name and principal place of business	*Principal business activity*	*Ownership interest in the share capital (%)*	
		December 31st 2017	*December 31st 2016*
PGL – DOM Sp. z o.o. Racibórz	Real property activities with own property	100%	100%
RAFAKO ENGINEERING Sp. z o.o. Racibórz	Construction and process design, urban planning	51.05%	51.05%
ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice	Construction and process design, urban planning, engineering consultancy	100%	69.13%
RAFAKO ENGINEERING SOLUTION doo of Belgrade, Serbia	Process design, including construction, industry, and environmental protection consultancy and supervision	77%	77%
RAFAKO Hungary Kft. of Budapest, Hungary	Equipment assembly in the power and chemical industries	100%	100%
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	100%	100%
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology	100%	100%
RENG-NANO Sp. z o.o.* Racibórz	Manufacture of metal structures and components, repair and maintenance of finished metal goods	30.63%	–

*A subsidiary of RAFAKO ENGINEERING Sp. z o.o., an indirect subsidiary of RAFAKO S.A.

On December 21st 2017, the subsidiary RAFAKO ENGINEERING Sp. z o.o. sold to RAFAKO S.A. 960 shares in the subsidiary ENERGOTECHNIKA ENGINEERING Sp. z o.o., with a par value of PLN 500 per share and a total par value of PLN 480,000 for PLN 2,372 thousand. Also on December 21st 2017, the subsidiary PGL-DOM Sp. z o.o. sold to RAFAKO S.A. 1,340 shares in the subsidiary ENERGOTECHNIKA ENGINEERING Sp. z o.o., with a par value of PLN 500 per share and a total par value of PLN 670,000, for PLN 3,311 thousand. As a result of the transactions, RAFAKO S.A. holds directly 100% of shares in ENERGOTECHNIKA ENGINEERING Sp. o.o. and all voting rights at the company's General Meeting.

As at December 31st 2017, the Company's share in total voting rights in the subsidiaries was equal to the Company's holdings in the share capital of these entities.

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

On July 4th 2017, PGL DOM Sp. z o.o., a subsidiary, acquired a total of 240 shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o., with a total value of PLN 240 thousand. Following the transaction, PGL DOM Sp. z o.o. holds 58.26% of shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o.'s share capital (41.10% of the total voting rights at its General Meeting).

6. Material judgements and estimates

6.1. Professional judgement

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

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

Classification of leases where the Company is the lessee

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

Embedded derivatives

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

Consortium agreements

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

6.2. Uncertainty of estimates

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

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

Impairment of assets

At the end of a reporting period, the Company conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the recoverable amount of the cash-generating unit to which these assets belong. The recoverable amount is equal to the higher of two – value in use or fair value less costs to sell. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Company made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the 12 months ended December 31st 2017 there were no indications of impairment.

For further information on asset impairment as at the end of the reporting period, see Notes 19, 24, 25, 26, 28 and 29.2 to these financial statements.

Measurement of employee benefit obligations

Employee benefit obligations were estimated with actuarial methods. The underlying assumptions are presented in Note 34.1. The change in employee benefit obligations in the reporting period resulted from the recognition of current service costs, interest expense and benefits paid.

In the year ended December 31st 2016, in connection with the launch of the voluntary redundancy programme for the Company employees (for details, see Note 35.8), the Management Board resolved to recognise a provision of PLN 7,622 thousand to cover the estimated cost of the programme. In the year ended December 31st 2017, in connection with the implementation of the Voluntary Redundancy Programme, a provision of PLN 5,498 thousand was used.

Deferred tax asset

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

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Company relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 49

Depreciation and amortisation rates

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

Revenue recognition

In accounting for its long-term contracts, the Company uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total contract costs increased by 10% in relation to the Company's original estimate, the revenue would decrease by approximately PLN 27.3m.

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

Revenue

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

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

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

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

Provision for expected contract losses

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

Provision for costs due to late performance of contracts

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

Provision for warranty repairs

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

Impairment of financial assets

At the end of a reporting period, the Company makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the Company recognises an allowance to bring down the carrying amount to the present value of the expected cash flows. For a detailed discussion of the fair value/recoverable amount of receivables from related parties, see Note 26 and Note 44.

Uncertainty related to tax settlements

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

Tax settlements and other 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 the creation and use of artificial schemes to avoid paying taxes in Poland. Under GAAR, tax avoidance is an arrangement the main purpose of which is to obtain a tax advantage which is contrary to the objectives and purpose of tax legislation. In accordance with GAAR, no tax advantage can be obtained through an arrangement if the arrangement was artificial. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements operating in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

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

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

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

7. Basis of preparation of the financial statements

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

These financial statements have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the reporting period, i.e. December 31st 2017.

To continue as a going concern, the Company must secure an appropriate order book (including, first of all, securing sufficient financing to perform the contracts in the order book) and maintain financial liquidity.

An analysis of the Company's financial position should take into consideration the following: in the 12 months ended December 31st 2017, the Company recognised revenue of PLN 617m and a net loss of PLN 66m, and as at December 31st 2017 the Company's net current assets were PLN 202m (including cash of PLN 159m). The year-on-year decrease in revenue in 2017 was primarily a consequence of lower revenue from nearly completed contracts combined with an early stage of work under two new major contracts, awarded to the Company in the second half of 2016 (the EUR 150m contract to construct a biomass-fired co-generation unit and the PLN 289m contract to deliver and install an SCR system and upgrade electrostatic precipitators).

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

As previously assumed, in 2017 the Company executed the following documents: an annex of March 1st 2017 with TAURON Wytwarzanie S.A. to increase the contract price for the Jaworzno project by PLN 71m and to extend the contract term by eight months, and an annex of June 30th 2017 with PKO BP S.A. to postpone the repayment of a credit facility of up to PLN 150m until June 30th 2018, as well as issued shares with a total value of PLN 170m. In addition, the following new key contracts were added to the Company's order book:

- A conditional contract signed on October 16th 2017 with National Trading & Transport Group Co Ltd. for the design and construction of a fuel storage depot in Rashaant, Mongolia, including the construction of storage tanks and auxiliary infrastructure. The Company's share in the contract is EUR 42m;
- A contract signed on December 29th 2017 with PT. PLN (PERSERO) for the construction of two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia. The Company's share in the contract is EUR 70m;
- On March 20th 2018, the Company was notified that Elering AS had selected the Company's bid for the turnkey construction of the Paldiski and Puiatu gas compressor stations in Estonia. The value of Company's bid is EUR 50m.

In line with the Management Board's assumptions, these measures have a positive effect on the Company's liquidity.

An important part of the analysis of the Company's financial condition is a forecast of profit or loss and cash flows for the 12 months following December 31st 2017 (and for subsequent periods), prepared by the Management Board. The key assumptions of the forecast are as follows:

- Revenue increase − the assumption is based on the current value of the order book (which to a significant extent supports the revenue forecast) and significant new contract acquisition. The Management Board is taking steps to deliver a net profit in 2018 and to further improve the Company's liquidity position. These plans assume that the existing contracts (which account for a significant portion of the forecast revenue) will be performed in line with original budgets, and that in the coming 12 months the Company will acquire new contracts to fully deliver the budgeted revenue;
- Timely delivery and execution of the contracts in the Company's current order book, including in particular timely generation of cash flows from the contracts;
- Delivery of budgeted margins on the contracts in the Company's current order book, and the ability to prevent any further increase in losses already recognised on some of the contracts;
- Continued efforts to maintain and expand the order book;
- The assumed capital expenditure flexibility allowing for significant capex reduction;
- No material limitation of the Company's access to financial guarantees (necessary to acquire and execute contracts) on the part of financial institutions and feasibility of extending financing of the Company's operations with a bank borrowing after June 30th 2018.

The revenue and financial result achieved by the Company in the 12 months ended December 31st 2017 were lower than expected. However, considering the structure of the Company's net current assets, the available cash balance, the current order book, and cash-flow projections for the coming 12 months, as at the date of these financial statements the Management Board did not identify any material threats to the Company's ability to continue as a going concern in the foreseeable future. Accordingly, these financial statements of RAFAKO S.A. have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

Despite the constraints discussed in Note 12.1.1, the Company's financial condition is supported by the very sound financial position of E003B7 sp. z o.o., a subsidiary which executes around 88.7% of the Jaworzno 910 MW project with an approximate value of PLN 4.6bn. In 2017, the subsidiary delivered revenue of PLN 1.1bn and net profit of PLN 64m, had net current assets of PLN 167m, and identified no material risks to the execution of the project.

7.1. Statement of compliance

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

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

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

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

7.2. Functional currency and presentation currency

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

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

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

8. Significant accounting policies

8.1. Fair value measurement

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

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

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

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

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

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

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

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

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

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

Summary of significant accounting policies concerning fair value measurement

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

(PLN '000)

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

8.2. Foreign currency translation

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

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

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

Exchange rates used to determine carrying amounts:

	Dec 31 2017	*Dec 31 2016*
USD	3.4813	4.1793
EUR	4.1709	4.4240
GBP	4.7001	5.1445
CHF	3.5672	4.1173
SEK	0.4243	0.4619
TRY	0.9235	1.1867

8.3. Property, plant and equipment

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

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

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

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

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

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

8.4. Intangible assets

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

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently.

Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are reflected by changing the amortisation period or amortisation method, as appropriate, and are treated as changes in accounting estimates. Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

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

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

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

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

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

Research and development work

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

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

A summary of the policies applied to the Company's intangible assets is presented below:

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

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

8.5. Goodwill

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

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

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

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

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

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

8.6. Shares in subsidiaries, associates and joint ventures

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

8.7. Leases

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

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

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

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

8.8. Impairment of non-financial non-current assets

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

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

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

8.9. Borrowing costs

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

8.10. Recoverable amount of non-current assets

At the end of a reporting period the Company makes an assessment to determine whether there is any indication that its assets may be impaired. If such indications exist, a formal estimate of the recoverable amounts of such assets is made. If the carrying amount of a given asset or a cash-generating unit exceeds its recoverable amount, an impairment loss is recognised and the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. Goodwill is tested for impairment annually. The test performed as at December 31st 2017 did not reveal any impairment of the goodwill disclosed in the financial statements.

8.11. Financial assets

Financial assets are classified into the following categories:

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

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

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

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

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

a) it is classified as held for trading. Financial assets are classified as held for trading if they:

i. have been acquired principally for the purpose of being sold in the near future,
ii. are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
iii. are derivatives (except for those which are part of hedge accounting or financial guarantee contracts),

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

Financial assets at fair value through profit or loss are measured at fair value, based on their market value as at the end of the reporting period, without reflecting costs to sell. Any changes in the value of such instruments are recognised in the statement of comprehensive income as finance income or costs. If a contract contains one or more embedded derivatives, the entire contract can be designated as a financial asset at fair value through profit or loss. This does not apply where an embedded derivative has no significant impact on the cash flows generated under the contract or where it is clear, with little or no analysis, that if a similar hybrid instrument was first considered, separation of the embedded derivative would be prohibited.

Financial assets may be designated upon initial recognition at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment in the area of measurement or recognition (accounting mismatch), or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at December 31st 2016, the Company classified shares in listed companies as assets measured 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 reporting period. Loans and receivables with a maturity exceeding 12 months from the end of the reporting period are classified as non-current assets.

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

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

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

If the Company:

- holds a valid legal title to set off the recognised amounts, and
- intends to settle on a net basis, or to recover the asset and settle the liability simultaneously,

then financial assets and liabilities are set off against each other and are disclosed on a net basis in the statement of financial position.

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

8.12. Impairment of financial assets

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

8.12.1. Assets carried at amortised cost

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

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

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

8.12.2. Financial assets carried at cost

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

8.12.3. Available-for-sale financial assets

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

8.13. Non-current assets held for sale

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

8.14. Derivative financial instruments and hedges

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

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

8.15. Inventories

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

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

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

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

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

8.16. Trade and other receivables

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

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

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

Other receivables include in particular advance payments made for future purchases of property, plant and equipment, intangible assets and inventories.

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

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

8.17. Cash and cash equivalents

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

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

8.18. Share capital

Share capital is disclosed in the financial statements in the amount specified in the Articles of Association and disclosed in the court register. Declared but outstanding contributions to equity are disclosed under “Called-up share capital not paid”, as a negative value. Treasury shares are disclosed as a separate negative item of equity.

8.19. Provisions

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

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

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

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

8.20. Interest-bearing borrowings and other debt instruments

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

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

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

8.21. Trade and other payables

Short-term trade and other payables are reported at amounts payable.

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

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

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

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

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

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

8.22. Employee benefits

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

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

The Company recognises such costs on an accrual basis.

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

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

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

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

8.23. Revenue

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

8.23.1. Revenue from sale of merchandise and finished goods

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

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

8.23.2. Services

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

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

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

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

8.23.3. Interest

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

8.23.4. Dividends

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

8.23.5. Rental income

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

8.23.6. Construction contracts

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

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

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

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

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

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

8.23.7. Government grants

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

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

8.24. Taxes

8.24.1. Income tax

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

8.24.1.1. Current income tax

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

8.24.1.2. Deferred income tax

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

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

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

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

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

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

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

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

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

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

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

8.24.1.3. Value added tax

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

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

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

8.24.1.4. Assessment of tax uncertainties

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

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

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

8.25. Earnings/(loss) per share:

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

9. Changes in accounting policies (significant accounting policies)

The accounting policies applied in preparing the financial statements are consistent with the policies applied in preparing the Company's full-year financial statements for the year ended December 31st 2016, save for the effect of application of the following new or amended standards and interpretations effective for annual periods beginning on or after January 1st 2017.

- Amendments to IAS 12 *Recognition of deferred tax assets for unrealised losses*

  The amendments clarify issues relating to debt instruments measured at fair value giving rise to deductible temporary differences, estimates of future taxable income, and an assessment of whether the income will allow deductible temporary differences to be realised. The amendments apply retrospectively.
- Amendments to IAS 7 *Disclosure Initiative*

  The amendments require that an entity disclose information which enables users of financial statements to evaluate changes in liabilities arising from financing activities. Presentation of comparative data for previous periods is not required.

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

10. New standards and interpretations issued but not yet effective

The following standards and interpretations have been issued by the International Accounting Standards Board, 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) – 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 – effective for annual periods beginning on or after January 1st 2016,
- IFRS 15 Revenue from Contracts with Customers (published on May 28th 2014), including amendments to IFRS 15 Effective Date of IFRS 15 (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018,

- 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,
- 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,
- 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,
- 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,
- Amendments to Investments in Associates and Joint Ventures, introduced as part of the Annual Improvements to IFRS Standards 2014–2016 Cycle (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018,
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, introduced as part of the Annual Improvements to IFRS Standards 2014–2016 Cycle (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018,
- IFRIC 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,
- IFRS 17 Insurance Contracts (published on May 18th 2017) − effective for annual periods beginning on or after January 1st 2021; as at the date of authorisation of these financial statements, the standard was not adopted by the EU,
- IFRIC 23 Uncertainty over Income Tax Treatments (published on June 7th 2017) − effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the interpretation was not adopted by the EU,
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (published on October 12th 2017) − effective for annual periods beginning on or after January 1st 2019,
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (published on October 12th 2017) − effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments introduced as part of the Annual Improvements to IFRS Standards 2015–2017 Cycle (published on December 12th 2017) − effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (published on February 7th 2018) – effective for annual periods beginning on or after January 1st 2019; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to the Conceptual Framework for Financial Reporting (published on March 29th 2018) − effective for annual periods beginning on or after January 1st 2020; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,

The effective dates are stated in relevant standards issued by the International Accounting Standards Board. The effective dates in the EU may differ from the effective dates stated in the standards and are announced upon their endorsement by the EU.

10.1. Implementation of IFRS 15

International Financial Reporting Standard 15 *Revenue from Contracts with Customers* ("IFRS 15"), issued in May 2014 and amended in April 2016, introduces a five-step model for recognition of revenue from contracts with customers. Under IFRS 15, an entity recognises revenue in an amount of the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer.

The new standard will replace all existing IFRS revenue recognition requirements. The standard applies to annual periods beginning on or after January 1st 2018, with early adoption permitted.

The Company may choose whether it wants to use the full retrospective or modified retrospective method, with the transitional provisions offering certain practical expedients.

The Company plans to apply IFRS 15 as of its effective date, using the modified retrospective method, that is with the cumulative effect of initially applying the standard recognised at the date of initial application, being January 1st 2018.

The Company provides general contracting services for turn-key construction projects and subcontractor services for power generating units, steam generators, air pollution control systems, power equipment, machinery and components, and structures.

a) Revenue from sale of merchandise

Contracts with customers provide for the design, manufacture, delivery, construction, installation, commissioning and maintenance of power generation facilities and equipment. The Company expects IFRS 15 will have no material impact on the recognition of revenue and profit from contracts that have only one performance obligation (sale of goods). Revenue will be recognised when the customer obtains control of the goods.

The Company considered the following aspects in its IFRS 15 impact assessment:

i. Variable consideration

Some contracts with customers provide for variable consideration that reflects inflation adjustments to prices, post-completion settlement of the price depending on the actual weight of delivered components, and penalties.
Under IFRS 15, if the consideration promised in a contract includes a variable amount, an entity estimates the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer; the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

- Right of return
  As the Company performs contracts that mainly comprise the delivery of products installed at the customer's site or the construction of complete assets for the customer, it does not account for the right of return.
- Price adjustments
  The Company performs contracts containing inflation price adjustment clauses.
- Post-completion settlement of the price depending on the actual weight of delivered components
  The Company performs contracts where the final amount of consideration depends on the weight of delivered components. The consideration is typically settled upon completion of deliveries.
- Liquidated damages
  Liquidated damages paid by the Company to customers are recognised as a reduction of revenue. No losses on contracts were identified by the Company that would necessitate the recognition of additional provisions.

ii. Warranties

The Company provides warranties for the goods sold. As a rule, a warranty is an assurance provided to the customer that a product complies with the specifications agreed upon by the parties, and does not constitute an additional service. Accordingly, the majority of existing warranties will continue to be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* No non-standard extended warranties were identified by the Company in contracts with customers, therefore the Company did not recognise any such warranties as a separate service that would have to be accounted for as a performance obligation requiring allocation of part of the transaction price.

b) Sale of bundles of goods or services delivered or rendered in different periods

The Company performs contracts for the sale of bundles of goods and services delivered or rendered in different periods, comprising the delivery of a series of similar process units generating economic benefits consumed by the customer in different periods.

At present, such contracts are combined into a single package, with the total selling price allocated to them.

Under IFRS 15, the transaction price of each performance obligation is allocated on the basis of the relative stand-alone selling price. The Company expects that following the adoption of IFRS 15 the allocation of the transaction price to goods and services within a bundle and the recognition of related revenue may change. The Company believes that the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs. Consequently, the Company transfers control of a good or service and satisfies a performance obligation over time. Considering the above, the Company will continue to recognise revenue from the sale of services over time, in accordance with IFRS 15.

The Company recognises revenue in accordance with the percentage-of-completion method in correspondence with gross amount due from customers for construction contract work with related prepayments and accrued income. In accordance with IFRS 15, if an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity must present the contract as a contract asset, excluding any amounts presented as a receivable.

c) Advance payments received from customers

The Company presents advance payments received from customers as amounts due to customers for construction contract work. In accordance with the applied accounting policies, the Company does not recognise interest expense on advance payments received, including long-term advance payments.

In accordance with IFRS 15, the Company assesses whether a contract includes a significant financing component. The Company chose to use a practical expedient whereby it does not adjust the promised amount of consideration for the effect of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, the Company will not include a significant financing component for short-term advance payments.

The Company did not identify any contracts with customers with respect to which the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service would be more than one year.

d) Presentation and disclosure requirements

IFRS 15 introduces new presentation and disclosure requirements. The Company expects that the impact of the new requirements will be immaterial.

e) Other adjustments

In addition to the adjustments discussed above, changes will be made to other items of the statement of financial position, including deferred tax assets.

The Company expects that following the application of IFRS 15 the Company's retained earnings as at December 31st 2017 will decrease by PLN 6.9m.

The recognition and measurement requirements stipulated by IFRS 15 will also apply to gains or losses from the sale of non-financial assets (such as property, plant and equipment and intangible assets) if the sale transaction is effected in the ordinary course of business. However, the Company expects the impact of IFRS 15 will not be material.

10.2. Implementation of IFRS 9

In July 2014, the International Accounting Standards Board issued International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"). IFRS 9 deals with three aspects of financial instruments: classification and measurement, impairment and hedge accounting. The standard applies for annual periods beginning on or after January 1st 2018, and may be adopted early.

The Company plans to apply IFRS 9 from its effective date, without restating comparative data.

In 2017, the Company carried out a detailed assessment of the impact of IFRS 9 on its accounting policies relating to its operations and profit or loss. The assessment was based on the available information and may be subject to change if the Company obtains reasonable and supportable information in the period when IFRS 9 is applied for the first time.

The Company expects that the implementation of IFRS 9 will not have a material impact on its statement of financial position or equity, but may have an impact on impairment. The Company expects an increase in impairment losses affecting equity, as discussed below. The classification of some financial instruments will also change as a result of application of IFRS 9.

a) Classification and measurement

The Company expects that the application of IFRS 9 with respect to the classification and measurement of financial assets will not have a material impact on its statement of financial position or equity. All financial assets previously measured at fair value are expected to continue to be measured at fair value.

The Company will use the option to recognise movements in the fair value of shares in non-public companies through other comprehensive income, therefore IFRS 9 will have no major impact on the Company's profit or loss.

Debt securities held by the Company (corporate bonds) will be measured at amortised cost through profit or loss as the Company's business objective is to collect cash flows representing payments of principal.

Trade receivables are held to collect contractual cash flows and are not sold under factoring agreements. The Company will continue to measure trade receivables at amortised cost through profit or loss. As a practical expedient, the Company presumes that trade receivables maturing in less than 12 months do not contain a significant financing component.

b) Impairment

In accordance with IFRS 9, the Company measures the impairment loss on expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses over the life of the financial instrument. In the case of trade receivables, the Company will apply a simplified approach and measure the impairment loss on expected credit losses in the amount equal to expected credit losses over the full lifetime.

Therefore, the Company expects that impairment losses will increase with respect to:

- trade and disputed receivables – by approximately PLN 10.8m,
- bonds – by approximately PLN 5.7m,
- assets relating to accounting for construction contracts – by approximately PLN 1.4m,
- other instruments – by approximately PLN 1.9m.

The above adjustments will increase deferred tax assets by PLN 3.8m and reduce the Company's equity by PLN 16m.

c) Hedge accounting

As IFRS 9 does not change the general principles governing the Company's hedge accounting, the application of IFRS 9 will not have a material effect on the Company's financial statements.

d) Other adjustments

External bank ratings and publicly available information from rating agencies' websites were used for the purpose of credit risk assessment.

10.3. Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 Leases ("IFRS 16"), which replaced IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. At the commencement date, the lessee recognises the right-of-use asset and a lease liability that reflects the lessee's obligation to make lease payments.

The lessee separately recognises amortisation/depreciation of the right-of-use asset and interest on lease liabilities.

The lessee remeasures the lease liability after the occurrence of certain events (e.g. changes in the lease term, changes in future lease payments resulting from a change in an index or rate used to determine lease payments). As a rule, the lessee recognises the remeasurements of the lease liability as adjustments to the right-of-use asset.

The Company is a lessee with respect to lease agreements concerning office space, vehicles, and equipment, as described in more detail in Note 20.

Lessor accounting in accordance with IFRS 16 remains substantially unchanged from its predecessor, IAS 17: lessors will continue to classify all leases as operating or finance.

Compared with IAS 17, IFRS 16 requires both the lessee and the lessor to make broader disclosures.

The lessee may choose whether it wants to use the full retrospective or modified retrospective method, with the transitional provisions offering certain practical expedients.

IFRS 16 applies for annual periods beginning on or after January 1st 2019. Earlier application is permitted for entities that applied IFRS 15 on or before the date of first application of IFRS 16. The Group has not elected to early adopt IFRS 16.

11. Operating segments

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

In 2016, the Company commenced its internal reorganisation and plans to complete it in 2018. As at the date of issue of these financial statements, the processes which would enable the Management Board to assess the Company's performance by business units had not yet been fully implemented.

(PLN '000)

12. Construction contracts

Revenue from construction contracts is recognised with the use of the percentage of completion method. The percentage of completion is determined as the ratio 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 2017 and December 31st 2016, as well as gross amount due to customers for contract work and gross amount due from customers for contract work at the dates stated above.

	Dec 31 2017	*Dec 31 2016*
Contract costs incurred to date (cumulative)	3,025,587	2,965,209
Recognised profits less recognised losses to date (cumulative)	114,770	181,203
Contract revenue recognised by reference to the contract stage of completion (cumulative)	3,140,357	3,146,412
Contract revenue recognised based on stage of completion (for the period)	605,745	732,509
Progress billings (cumulative)	3,025,811	3,064,402
Gross amount due to customers for contract work (liability), including:	**(33,834)**	**(76,992)**
- advance payments received (liabilities arising from advances received)	(31,807)	(27,841)
- adjustment to advance payments received arising from amounts due from customers	19,736	26,048
- gross amount due to customers for contract work	(21,763)	(75,199)
Prepayments relating to accounting for construction contracts, including:	**158,785**	**172,387**
- gross amount due from customers for contract work (asset)	140,485	155,257
- contract acquisition cost and other accrued contract costs	18,300	17,130
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(8,069)	(4,856)
Provision for construction contract losses	(15,844)	(19,239)

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

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

12.1. Key contracts executed by the Company

12.1.1. Jaworzno Project

RAFAKO S.A., acting as the Consortium Leader in consortium with MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800 - 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. Following the signing of Annex 5, the value of the contract is approximately PLN 5.5bn (VAT inclusive). On August 4th 2013, the project consortium agreement was amended, with RAFAKO taking over 99.99% of the project deliveries (with Mostostal Warszawa taking the remaining 0.01%); consequently, the distribution of consideration due to the consortium members changed to reflect the members' actual shares in the project.

Accounting for the Jaworzno project:

For the purposes of execution of the Project, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO S.A. subcontracted approximately 88.7% of the Project's scope of work, with RAFAKO S.A. executing directly the remaining 11.3% (with an approximate value of PLN 506m; the scope includes the design of the boiler island and the supply of boiler pressure parts 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 646m, 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. On March 1st 2017, an annex to the contract was signed with the employer. Under the annex, the project completion date was postponed and the contract value was increased, as described in detail in Note III.1 to the Directors' Report on the RAFAKO Group's operations in 2017.

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

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

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

12.1.2. Opole Project

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

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

SPV-Rafako concluded with GE Power Sp. z o.o. (formerly Alstom Power Sp. z o.o.) a subcontract whereby SPV-Rafako appointed GE Power as its subcontractor responsible for 100% of the work and services making up the Company's scope of work under the Opole Project. GE Power assumed full responsibility for the performance of the contract towards the Employer.

(PLN '000)

Rules of accounting for the Opole Project:

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

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

If conditions for payment are fulfilled, payments under the contract are made by the Employer directly to GE Power.

12.2. Provision for construction contract losses

The Company recognises provisions for anticipated contract losses in accordance with the methodology described in Note 8.23.6.8.23.6 If analysis shows that the estimated total contract costs will exceed reliably measured 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 2017	*Dec 31 2016*
Opening balance	19,239	29,807
Provision for the obligation	22,391	10,650
Reversal of provision for the obligation	–	–
Utilisation of provision for liability	(25,786)	(21,218)
Closing balance	**15,844**	**19,239**
Short-term as at	15,844	19,239
Long-term as at	–	–
	15,844	**19,239**

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

The Company recognises provisions for liquidated damages if there is significant probability that such damages will be charged for failure to meet technical specifications provided for in the contract and covered by liquidated damages, or if the performance of a contract has resulted in infringement of third parties' interests. The amount of such provision depends on the amount of 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 12 months ended December 31st 2017, the Company reviewed the amounts of recognised provisions for delay damages (including delays in meeting contractual obligations and the terms of assessing damages) under several current contracts. Using the most recent contract data and based on settlements of completed contracts, the Management Board decided to recognise a PLN 9,027 thousand provision for costs of late performance. Additionally, the Company reversed a PLN 5,814 thousand provision for costs of late performance, mainly in connection with an out-of-court settlement with a key customer.

(PLN '000)

	Dec 31 2017	*Dec 31 2016*
Opening balance	4,856	–
Provision for the obligation	9,027	13,509
Utilisation of provision for liability	(4,205)	–
Reversal of provision for the obligation	(1,609)	(8,653)
Closing balance	**8,069**	**4,856**
Short-term as at	8,069	4,856
Long-term as at	–	–
	8,069	**4,856**

13. Income and expenses

13.1. Revenue from sale of goods and services

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Net revenue from sale of products	553,615	686,869
including: from related entities	4,039	695
Net revenue from sale of services	66,671	44,111
including: from related entities	2,660	2,336
Revenue from sale of other goods	4,352	3,368
Other income	839	–
Liquidated damages*	(9,308)	–
Exchange differences on trade receivables	(2,098)	1,410
Net revenue from sale of goods and services, total	**614,071**	**735,758**
including: from related entities	6,699	3,031

*For a detailed description of the provision for liquidated damages, affecting the Company's revenue, see Note 12.3.

A year-on-year decrease in revenue in 2017 was primarily a consequence of lower revenue from contracts combined with an early stage of work under two new major contracts, awarded to the Company in the second half of 2016 (the contract to construct a biomass-fired co-generation unit and the contract to deliver and install an SCR system and upgrade electrostatic precipitators), and a decline in the value of the order book.

The sales volumes and net profit of RAFAKO S.A. result largely from the fact that RAFAKO S.A. is responsible only for approximately 11.3% of the value of the contract to construct a 910 MW supercritical power generation unit at the Jaworzno III Power Plant and its separate financial statements reflect only that share in the project. The remaining 88.7% of the contract is being performed by E003B7 Sp. z o.o., an SPV. The aggregate value of revenue and profit from the Jaworzno contract is disclosed in the consolidated financial statements only.

(PLN '000)

13.2. Revenue from sale of materials

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Revenue from sale of materials	2,560	2,469
including: from related entities	1	–
Net revenue from sale of merchandise and materials, total	**2,560**	**2,469**
including: from related entities	1	–

Revenue from sales to related entities is presented in detail in Note 44 to these financial statements.

Sales of particular product groups by market are presented in section II.3.2 of the Directors' Report on RAFAKO S.A.'s operations for 2017.

13.3. Revenue by geography

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Revenue from sales to domestic customers	466,877	574,478
including: from related entities	3,376	2,703
Revenue from sales to foreign customers	149,754	163,749
including: from related entities	3,324	328
Net sales revenue, total	**616,631**	**738,227**
including: from related entities	6,700	3,031

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

The following table presents the trading partners accounting for more than 10% of total revenue each:

Trading partner	*% of total sales*	*12 months ended Dec 31 2017*
Enea Wytwarzanie Sp. z o.o.	27%	165,908
Tauron Wytwarzanie S.A.	18%	109,356
Domestic customer	11%	69,846
CNIM (Constructions Industrielles De La Mediterranee)	8%	52,349
Other	36%	219,172
TOTAL	**100%**	**616,631**

(PLN '000)

13.4. Expenses by nature

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Depreciation and amortisation	10,674	11,674
Raw materials and consumables used	282,528	425,660
Services	180,701	218,025
Taxes and duties	6,769	6,504
Salaries and wages	114,764	129,788
Social security and other employee benefits	26,974	30,137
Business travel expenses	5,801	6,842
Advertising expenses	3,552	3,535
Foreign exchange differences	(1,270)	1,140
Cost of insurance	798	997
Recognition of inventory write-down	796	3,409
Other expenses	1,251	1,023
Total expenses by nature	**633,338**	**838,734**
Change in inventories, provisions, prepayments and accruals (including adjustment under IAS 11)	17,932	(45,227)
Work performed by entity and capitalised	(1,777)	(403)
Distribution costs (negative value)	(35,383)	(31,578)
Administrative expenses (negative value)	(42,893)	(44,285)
Cost of products sold	**571,217**	**717,241**
Cost of merchandise and materials sold	1,427	2,463
Cost of sales	**572,644**	**719,704**

The year-on-year decrease in cost of sales in 2017 was caused principally by lower revenue.

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 of PLN 35,383 thousand recognised in the Company's comprehensive income for 2017 comprised chiefly contract acquisition costs (PLN 12,186 thousand), costs of organisational units responsible for bidding for and performing contracts (PLN 15,104 thousand), and costs of promotion and advertising (PLN 4,952 thousand).

Administrative expenses in 2017 totalled PLN 42,893 thousand, having fallen by PLN 1,392 thousand year on year. The decrease was mainly attributable to reversal of an unused provision for bonuses.

(PLN '000)

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

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Items recognised as cost of sales (cost of merchandise and finished goods sold)		
Depreciation of property, plant and equipment	7,135	7,677
Amortisation of intangible assets	1,123	1,398
Warranty provisions	13,488	7,728
Net foreign exchange differences	(1,270)	1,140
Inventory write-downs	(874)	1,625
	19,602	**19,568**
Items recognised as distribution costs		
Depreciation of property, plant and equipment	461	499
Amortisation of intangible assets	72	87
Impairment losses on trade receivables	3,141	217
	3,674	**803**
Items recognised as administrative expenses		
Depreciation of property, plant and equipment	1,768	1,878
Amortisation of intangible assets	115	135
	1,883	**2,013**

13.6. Employee benefits expense

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Salaries and wages, including:	109,356	130,967
- current wages and salaries expense	114,764	129,788
- post-employment benefits	449	501
- provision for bonuses*	(6,179)	201
- provision for holiday entitlements	322	477
Social security	26,974	30,137
	136,330	**161,104**
Items recognised as cost of sales (cost of merchandise and finished goods sold)	104,526	121,987
Items recognised as distribution costs	10,962	11,183
Items recognised as administrative expenses	20,842	27,934
	136,330	**161,104**

*In 2017, the Company reversed the provision for bonuses, as described in detail in Note 35.6.

(PLN '000)

13.7. Other income

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Income from liquidated damages	141	67
Reversal of impairment loss on non-financial assets	12	13
Gain on sale of property, plant and equipment	58	65
Grants	897	486
Income from sureties*	5,272	4,964
Reversal of provision for other costs**	1,237	–
Reversal of impairment loss on other receivables	313	220
Income from sale of profit opportunity	–	355
Materials recovered from liquidation of property, plant and equipment	–	461
Other	214	605
	8,144	**7,236**

*In 2015, the Company executed a surety agreement whereby it provided an irrevocable and unconditional surety for proper performance of all of the subsidiary's contractual obligations; in 2017, income under the surety less discount was PLN 5,272 thousand (2016: PLN 4,964 thousand).

**In 2017, the Company partially reversed the provision for other costs as the statute of limitations had passed on a trading partner's claims.

13.8. Other expenses

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Donations	1,930	895
Scrapping of property, plant and equipment	148	295
Scrapping of materials	377	536
Repairs of property, plant and equipment	225	180
Legal costs	121	263
Power Engineer's Day organisation cost	–	509
Provision for voluntary redundancy programme	–	7,622
Recognition of restructuring provisions*	8,368	–
Recognition of provisions for other costs	403	–
Recognition of provision for cost of litigation and disputed claims	–	1,066
Trade union expenses	–	391
Recognition of impairment loss on other receivables	538	114
Recognition of impairment loss on tangible assets	53	–
Costs of membership fees	268	–
Other	934	998
	13,365	**12,869**

*In 2017, the Company recognised a restructuring provision, as described in detail in Note 35.9.

(PLN '000)

13.9. Finance income

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Interest on financial instruments, including: interest on loans, past due receivables, deposits, and bank accounts	260	33
Interest on security deposits provided	524	782
Foreign exchange gains	–	1,232
Income from measurement of financial instruments	15	–
Income from measurement of long-term accounts receivable and payable	354	567
Other finance income	3	2
	1,156	**2,616**

For details of finance income and finance costs related to financial instruments, see Note 49.2.

13.10. Finance costs

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Interest on financial instruments, including interest on bank and other borrowings, lease, past due liabilities, and bank loan fees	3,736	4,406
Interest on employee benefits	769	713
Other interest	234	38
Foreign exchange losses	5,397	–
Costs on measurement of long-term accounts receivable and payable	–	1,476
Costs on measurement of financial instruments	–	2
Recognition of provision for interest expense	662	522
Other finance costs	57	4
	10,855	**7,161**

For details of finance income and finance costs related to financial instruments, see Note 49.2.

(PLN '000)

14. Income tax

14.1. Income tax expense

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

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Statement of profit or loss		
Current income tax	135	–
Current income tax expense	–	–
Adjustments to current income tax from previous years	135	–
Deferred tax	(16,974)	5,277
Related to recognition and reversal of temporary differences	(16,974)	5,277
Adjustments to deferred tax from previous years	–	–
Income tax expense in the statement of profit or loss	**(16,839)**	**5,277**
Deferred tax on other comprehensive income	(62)	162
Related to recognition and reversal of temporary differences	(62)	162
Income tax expense recognised in other comprehensive income	**(62)**	**162**

In the reporting period, the Company filed with tax authorities corrected corporate tax returns (CIT-8) for 2015 and 2016. In both cases, the incurred tax loss was increased. The returns were corrected following adjustment of both taxable income and deductible costs.

(PLN '000)

14.2. Reconciliation of effective income tax rate

The table below presents reconciliation of corporate income tax on pre-tax profit/(loss) computed at the statutory tax rate with corporate income tax computed at the effective tax rate for the year ended December 31st 2017:

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Profit before tax from continuing operations	(49,209)	(67,518)
	(49,209)	**(67,518)**
Tax at statutory tax rate of 19%	(9,350)	(12,828)
Non-tax-deductible costs (permanent differences), including:	4,586	1,455
provision for liquidated damages	2,974	186
write-off of receivables, classified as non-tax-deductible	23	11
charitable donations	367	170
cost of entertainment	138	–
production costs of foreign branch	29	50
realised foreign exchange losses – non-deductible costs	22	–
other	1,033	1,038
Non-taxable income (permanent differences)	(319)	(390)
Reversal of impairment loss on receivables from related parties	–	(137)
from liquidated damages	(177)	(103)
due to the use of non-taxable provisions	(39)	–
other	(103)	(150)
Other	51	(86)
Tax loss not capitalised	22,006	6,572
Correction of previous years' tax	(135)	–
Tax at the effective tax rate of -34.22% (2016: 7.62%)	**16,839**	**(5,277)**
Income tax (expense) in the statement of comprehensive income	16,839	(5,277)
	16,839	**(5,277)**

(PLN '000)

14.3. Deferred income tax calculated as at December 31st 2017

Deferred income tax calculated as at December 31st 2017 relates to the following items of the financial statements:

	Statement of financial position		*Statement of comprehensive income*	
	December 31st 2017	*December 31st 2016*	*December 31st 2017*	*December 31st 2016*
- investment reliefs	(2)	(2)	–	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,742)	(15,688)	(54)	(474)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,557	1,512	45	79
- difference between tax base and carrying amount of loans and receivables	1,469	1,125	344	521
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(26,745)	(20,504)	(6,241)	22,169
- difference between tax base and carrying amount of inventories	2,110	2,276	(166)	309
- provisions	14,401	17,504	(3,103)	993
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	28	34	(6)	13
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	–	–	(6)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	31,621	37,064	(5,443)	(23,545)
- tax loss	17,418	17,083	335	16,481
- adjustment to costs of unpaid invoices	4,465	7,763	(3,298)	(10,656)
- other	561	10	551	(446)
Deferred tax expense/benefit			**(17,036)**	**5,439**
Net deferred tax asset/(liability) including:	**31,141**	**48,177**		
Deferred tax assets	31,141	48,177		
Deferred tax liability	–	–		

As at December 31st 2017, the Company recognised a deferred tax asset on a tax loss of PLN 91,673 thousand, which will be offset against profits in future reporting periods.

In 2017, the Company recorded a tax loss of PLN 118,297 thousand. The Company assessed its ability to realise a deferred tax asset on account of a tax loss based on tax forecasts. In line with the prudent valuation principle, the Management Board of the Company decided to recognise a deferred tax asset on the tax loss of PLN 1,762 thousand recorded in 2017. The total amount of tax loss for 2015, 2016 and 2017 which was not recognised in deferred tax was PLN 151,124 thousand.

(PLN '000)

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

15. Proposed coverage of 2017 loss

The Management Board recommends that the net loss of PLN 66,048 thousand be covered from the Company's statutory reserve funds.

16. Earnings /(loss) per share

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

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

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Net profit/(loss) from continuing operations	(66,048)	(62,241)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(66,048)	(62,241)
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings per share	**(66,048)**	**(62,241)**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	85,397,751	84,931,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings/(loss) per share	85,397,751	84,931,998
Earnings/(loss) per share		
– basic earnings/(loss) from profit/(loss) for the period	(0.77)	(0.73)

The Company does not present diluted earnings/(loss) per share for the 12 months ended December 31st 2017 as it does not have any dilutive financial instruments.

17. Significant items disclosed in the statement of cash flows

The PLN 32,634 thousand increase in receivables disclosed in the statement of cash flows for the 12 months ended December 31st 2017 resulted mainly from:

- PLN (8,654) thousand increase in trade receivables,
- PLN (2,361) thousand increase in receivables from the state budget (including VAT),
- PLN (15,253) thousand increase in prepayments made,
- PLN 5,865 thousand decrease in security deposits receivable,
- PLN (5,322) thousand increase in receivables under sureties,
- PLN (6,234) thousand increase in disputed receivables,
- PLN (675) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in 2017, see Note 28.

The PLN 86,990 thousand increase in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN 67,848 thousand increase in trade payables,
- PLN 12,460 thousand increase in VAT liabilities,
- PLN (258) thousand decrease in retirement benefit obligations (net of actuarial gains/(losses)),
- PLN (6,178) thousand decrease in the provision for bonuses,
- PLN 4,446 thousand increase in the provision for uninvoiced services and goods,
- PLN (2,164) thousand decrease in the provision for warranty repairs,
- PLN 321 thousand increase in the provision for holiday entitlements,
- PLN (5,498) thousand decrease in the provision for the voluntary redundancy programme,
- PLN 8,368 thousand increase in the restructuring provision,
- PLN 7,645 thousand increase in other liabilities.

The PLN (29,738) thousand change in accruals and deferrals as disclosed in the statement of cash flows resulted mainly from:

- PLN (13,602) thousand decrease in gross amount due from customers for construction contract work and related prepayments and accrued income,
- PLN (43,158) thousand decrease in gross amount due to customers for construction contract work, including:

  PLN 10,278 thousand increase in advance payments,
- PLN (182) thousand decrease in provisions for contract work,

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

The PLN 10,278 thousand change in prepayments in 2017 resulted primarily from recognition of some of received advance payments as revenue, in accordance with IAS 11 *Construction Contracts*.

The amount of PLN 3,359 thousand related to the acquisition of property, plant and equipment and intangible assets comprises capital expenditure on property, plant and equipment of PLN 2,594 thousand and capital expenditure on intangible assets of PLN 765 thousand. The expenditure on property, plant and equipment was primarily related to the modernisation of the Company's buildings and structures as well as purchase and modernisation of computer hardware. Expenditure on intangible assets was mainly incurred to purchase licences and software.

The Company's cash from financing activities was increased by PLN 163,368 thousand, representing proceeds from the issue of Series K shares (cash received less issue costs).

The PLN 50,331 thousand repayment of borrowings disclosed under financing activities in the statement of cash flows resulted from the PLN 48,331 thousand decrease in debt under the credit facility provided by PKO BP S.A. and from the PLN 2,000 thousand repayment of a loan.

(PLN '000)

The Company's cash from financing activities was also affected by interest of PLN 2,578 thousand paid on the PKO BP credit facility (December 31st 2016: PLN 3,063 thousand) and of PLN 33 thousand paid on a loan received.

18. Assets and liabilities of the Company Social Benefits Fund

The Act on Company Social Benefits Fund of March 4th 1994, as amended, stipulates that every employer with more than 50 full-time employees is obliged to create a social benefits fund and make periodic (basic and post-employment) contributions to the fund. The objective of the fund is to finance the Company's social activities, loans advanced to its employees and other social expenditure.

	December 31st 2017	*December 31st 2016*
Assets of Company's social benefits fund:	4,144	4,112
Cash	3,764	3,816
Loans advanced to employees	380	296
Liabilities to Social Benefits Funds	(3,869)	(3,875)
Net balance	**275**	**237**

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Contributions to the Social Benefits Fund during the reporting period	2,371	2,449
	2,371	**2,449**

(PLN '000)

19. Property, plant and equipment

Dec 31 2017	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2017	**9,280**	**81,093**	**49,383**	**6,987**	**–**	**1,225**	**147,968**
Acquisitions	–	–	–	–	–	2,022	2,022
Lease agreements	–	–	–	110	–	–	110
Liquidation/sale	(48)		(29)	(150)	–	–	(227)
Transfers from property, plant and equipment under construction	–	821	2,421	–	–	(3,242)	–
Exchange differences on translating foreign operations	–	–	(2)	–	–	–	(2)
Depreciation for period	–	(2,585)	(5,405)	(1,375)	–	–	(9,365)
Impairment of property, plant and equipment in period	–	–	(53)	12	–	–	(41)
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	(12)	(89)	–	–	(101)
Net carrying amount as at Dec 31 2017	**9,232**	**79,329**	**46,303**	**5,495**	**–**	**5**	**140,364**
As at Jan 1 2017							
Gross carrying amount	9,280	107,521	112,471	11,047	2,471	1,225	244,015
Accumulated amortisation and impairment	–	(26,428)	(63,088)	(4,060)	(2,471)	–	(96,047)
Net carrying amount	**9,280**	**81,093**	**49,383**	**6,987**	**–**	**1,225**	**147,968**
As at Dec 31 2017							
Gross carrying amount	9,232	108,342	113,797	10,560	2,467	5	244,403
Accumulated amortisation and impairment	–	(29,013)	(67,494)	(5,065)	(2,467)	–	(104,039)
Net carrying amount	**9,232**	**79,329**	**46,303**	**5,495**	**–**	**5**	**140,364**

*Tangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 30.1

(PLN '000)

Dec 31 2016	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2016	**9,295**	**83,125**	**52,413**	**7,012**	**–**	**1,982**	**153,827**
Acquisitions	–	–	–	–	–	3,077	3,077
Lease agreements	–	–	–	1,832	–	–	1,832
Liquidation/sale	(15)	–	(349)	(474)	–	–	(838)
Transfers from property, plant and equipment under construction	–	469	3,143	222	–	(3,834)	–
Exchange differences on translating foreign operations	–	–	(2)	–	–	–	(2)
Depreciation for period	–	(2,501)	(5,925)	(1,629)	–	–	(10,055)
Impairment of property, plant and equipment in period	–	–	1	12	–	–	13
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	102	12	–	–	114
Net carrying amount as at Dec 31 2016	**9,280**	**81,093**	**49,383**	**6,987**	**–**	**1,225**	**147,968**
As at Jan 1 2016							
Gross carrying amount	9,295	107,053	112,848	10,240	2,471	1,982	243,889
Accumulated amortisation and impairment	–	(23,928)	(60,435)	(3,228)	(2,471)	–	(90,062)
Net carrying amount	**9,295**	**83,125**	**52,413**	**7,012**	**–**	**1,982**	**153,827**
As at Dec 31 2016							
Gross carrying amount	9,280	107,521	112,471	11,047	2,471	1,225	244,015
Accumulated amortisation and impairment	–	(26,428)	(63,088)	(4,060)	(2,471)	–	(96,047)
Net carrying amount	**9,280**	**81,093**	**49,383**	**6,987**	**–**	**1,225**	**147,968**

(PLN '000)

20. Property, plant and equipment held under leases

As at December 31st 2017, the Company held and used under finance leases vehicles with a VAT-inclusive value of PLN 8,096 thousand as at purchase date.

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

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

21. Non-current assets held for sale

As at December 31st 2017, the Company classified non-current assets worth PLN 108 thousand (December 31st 2016: PLN 7 thousand) as assets held for sale.

	December 31st 2017	*December 31st 2016*
Non-current assets held for sale, including:		
plant and equipment	19	7
motor vehicles	89	–
	108	**7**

22. Intangible assets

Dec 31 2017	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2017	**1,774**	**8,915**	**369**	**11,058**
Acquisitions	–	–	764	764
Transfers from intangible assets under development	–	435	(435)	–
Amortisation for the year	–	(1,309)	–	(1,309)
As at Dec 31 2017	**1,774**	**8,041**	**698**	**10,513**
As at Jan 1 2017				
Gross carrying amount	1,774	25,213	793	27,780
Accumulated amortisation and impairment	–	(16,298)	(424)	(16,722)
Net carrying amount	**1,774**	**8,915**	**369**	**11,058**
As at Dec 31 2017				
Gross carrying amount	1,774	25,757	698	28,229
Accumulated amortisation and impairment	–	(17,716)	–	(17,716)
Net carrying amount	**1,774**	**8,041**	**698**	**10,513**

*Intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 30.2.

(PLN '000)

Dec 31 2016	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2016	**1,774**	**9,714**	**–**	**11,488**
Acquisitions	–	396	793	1,189
Transfers from intangible assets under development	–	424	(424)	–
Amortisation for the year	–	(1,619)	–	(1,619)
As at Dec 31 2016	**1,774**	**8,915**	**369**	**11,058**
As at Jan 1 2016				
Gross carrying amount	1,774	24,393	1,371	27,538
Accumulated amortisation and impairment	–	(14,679)	(1,371)	(16,050)
Net carrying amount	**1,774**	**9,714**	**–**	**11,488**
As at Dec 31 2016				
Gross carrying amount	1,774	25,213	793	27,780
Accumulated amortisation and impairment	–	(16,298)	(424)	(16,722)
Net carrying amount	**1,774**	**8,915**	**369**	**11,058**

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

- Licence for BENSON supercritical boilers, with a carrying amount of PLN 2,953 thousand as at December 31st 2017 (December 31st 2016: PLN 3,222 thousand); the remaining licence amortisation period is 11 years from December 31st 2017;
- Licence for a catalytic NOx reduction technology, with a carrying amount of PLN 365 thousand as at December 31st 2017 (December 31st 2016: PLN 540 thousand); the remaining licence amortisation period is two years from December 31st 2017.

Goodwill

As at December 31st 2017, the Company disclosed goodwill of PLN 1,774 thousand, recognised on:

- - acquisition of control of an organised part of the business of PBG AVATIA Sp. z o.o. by RAFAKO S.A., the Company disclosed goodwill of PLN 1,398 thousand;
- - accounting for a transaction under which, in 2007, RAFAKO S.A. purchased an organised part of business from Wyrskie Zakłady Urządzeń Przemysłowych NOMA INDUSTRY Sp. z o.o. w upadłości (in bankruptcy) – PLN 376 thousand.

Test for goodwill impairment

At the end of the reporting period, goodwill was tested for impairment following acquisition of control of an organised part of the business of PBG AVATIA sp. z o.o. by RAFAKO. The test was carried out by an independent expert based on the present value of estimated five-year cash flows allocated to a separate cash generating unit (IT department) and the estimated residual value. The weighted average cost of capital (WACC) was assumed at 7.32%. The test did not reveal any impairment indicator.

(PLN '000)

Development work

In the 12 months ended December 31st 2017 and December 31st 2016, the Company made no expenditure on development work.

Business combinations

In the 12 months ended December 31st 2017, the Company did not merge with another entity.

23. Shares in subsidiaries and other entities

	Dec 31 2017	*Dec 31 2016*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	35,091	29,349
Shares in other listed companies	223	209
Shares in other non-listed companies	19	18
	35,333	**29,576**

*Shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 30.3.

In the 12 months ended December 31st 2017, following purchase of shares in a subsidiary, the Company recorded an increase of PLN 5,742 thousand in shares held. For details of the transaction, see Note 5 to these financial statements.

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

	Dec 31 2017	*Dec 31 2016*
Trade receivables, including:	5,294	3
Trade receivables from related entities	–	–
Trade receivables from other entities	5,294	3
Other receivables and prepayments, including:	1,784	281
Receivables on sale of property, plant and equipment and intangible assets	–	185
Security deposits	95	96
Other	1,689	–
Total receivables (net)	**7,078**	**284**
Impairment loss on receivables	–	–
Gross receivables	**7,078**	**284**

25. Other non-current financial assets

	Dec 31 2017	*Dec 31 2016*
Other non-current financial assets, including:	16,245	34,994
Arrangement receivables from related entity	–	24,071
Receivables under surety provided to subsidiary	16,245	10,923
	16,245	**34,944**

In 2017, the Company converted arrangement receivables from a related entity into bonds, as described in detail in Note 26

(PLN '000)

26. Long-term bonds

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

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

On February 10th 2017, the bonds were allotted to RAFAKO S.A. The key terms and conditions of the bonds are as follows:

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

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

2. In accordance with the terms of issue, the bonds issued by PGB S.A. are secured bonds within the meaning of the Bonds Act of January 15th 2015. The bonds are secured primarily with a registered pledge over 42,466,000 RAFAKO shares in a book-entry form (which represents 50% plus 1 share in RAFAKO's share capital), mortgages over PBG Group's properties (including one mortgage securing another financial liability of PBG S.A.), registered pledges over other assets of the PBG Group, sureties and declarations of voluntary submission to enforcement up to the amount of PLN 1,065,000,000.00, pursuant to Art. 777 of the Code of Civil Procedure.

3. PBG S.A. agreed to arrange for the Bonds to be converted into 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 Management Board 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.

During the 12 months ended September 30th 2017, the parent PBG S.A. redeemed Series B1, C1 and D1 bonds worth in aggregate PLN 5,658,800 as scheduled.

As at the date of these financial statements, the type and value of collateral securing the repayment of bonds issued by PBG S.A. materially changed, mainly as a result of PBG S.A.'s divestment programme, which aims to facilitate repayment of the individual series of the bonds and performance of obligations under the arrangement made with creditors.

According to information obtained by the Company from PBG S.A., the bonds outstanding as at December 31st 2017 (PLN 404m) were secured with land properties, including developed land properties, shares in RAFAKO S.A. held by PBG S.A. (with the holding having decreased from 50% + 1 share as at the bond issue date to 33.32% as at December 31st 2017), shares in PBG Oil and Gas Sp. z o.o. (100%), and a registered pledge over receivables from a property development project in Ukraine. In the opinion of the Management Board, the provided collateral and the total amount payable under the bonds as at the date of these financial statements are sufficient to consider the receivables as recoverable.

(PLN '000)

The total net value of the bonds as at December 31st 2017 was PLN 30,137 thousand.

27. Inventories

	Dec 31 2017	*Dec 31 2016*
Materials (at net realisable value)	12,057	13,039
At cost	23,162	25,017
At net realisable value	12,057	13,039
Total inventories, at the lower of cost and net realisable value	**12,057**	**13,039**

*Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 30.4.

27.1. Inventory write-downs

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
At beginning of period	(11,978)	(10,353)
- write-down recognised	(796)	(3,409)
- write-down reversed	1,669	1,784
At end of period	(11,105)	**(11,978)**

(PLN '000)

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

	Dec 31 2017	*Dec 31 2016*
Trade receivables, including:	192,117	188,754
Trade receivables from related entities	517	662
Trade receivables from other entities	191,600	188,092
Income tax receivable	–	10,918
Other receivables and prepayments, including:	111,435	94,472
Advance payments to related parties	11,978	–
Advance payments to other entities	6,438	3,163
Receivables from the state budget	7,553	5,192
Settlement of property insurance costs	351	675
Settlements with the Company Social Benefits Fund	275	237
Disputed receivables	20,178	13,944
Prepaid expenses	2,022	2,377
Security deposits	62,203	68,068
Receivables on sale of property, plant and equipment and intangible assets	192	343
Other	245	473
Other receivables from related entities	–	–
Total receivables (net)	**303,552**	**294,144**
Impairment loss on receivables	33,155	31,834
Gross receivables	**336,707**	**325,978**

*Trade receivables pledged as security for the Company's liabilities as at the reporting date are presented in Note 30.5

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

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

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

Short-term trade receivables of PLN 192,117 thousand recognised in the statement of financial position as at December 31st 2017 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 62,203 thousand disclosed in the statement of financial position as at December 31st 2017 relate mainly to the following projects:

- Construction of coal-fired steam units – PLN 21,101 thousand,
- Manufacture of pressure parts of two incineration plant boilers – PLN 5,601 thousand,
- Construction of a biomass tank for a boiler – PLN 2,732 thousand,
- Manufacture of pressure parts of a boiler – PLN 2,155 thousand.

The change in security deposits in the 12 months ended December 31st 2017 was primarily attributable to:

- a PLN 14,024 thousand cash security deposit returned in connection with the construction of a power generation unit,
- a PLN 7,279 thousand cash security deposit returned in connection with the replacement of component parts of a combustion chamber,
- a PLN 4,136 thousand cash security deposit provided for the construction of a fluidized bed boiler.

Advance payments represented a significant portion of other receivables, and amounted to PLN 18,897 thousand as at December 31st 2017. The largest item was an advance payment of PLN 9,015 thousand under a contract for the construction of a biomass island.

(PLN '000)

28.1. Impairment losses on trade and other receivables

	Dec 31 2017	*Dec 31 2016*
At beginning of period, including:	(31,834)	(31,636)
- on receivables from related entities	–	–
Recognition of impairment loss on trade receivables	(4,096)	(539)
Recognition of impairment loss on other receivables	(538)	(205)
Reversal of impairment loss on trade receivables	428	322
Reversal of impairment loss on other receivables	453	220
Use of impairment loss on trade receivables	2,432	4
At end of period	**(33,155)**	**(31,834)**
- on receivables from related entities	–	–

In 2017, the Company did not recognise an impairment loss on accrued liquidated damages.

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

(PLN '000)

29. Current financial assets

29.1. Loans advanced

Loans	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Receivables under advanced loans*	
						Dec 31 2017	*Dec 31 2016*
Short-term loans							
Natural persons*	Representation on submission to enforcement under Art. 777.1.5	Cash loans granted to finance payments for shares in a subsidiary	PLN	1Y WIBOR + margin	31-12-2016	–	35
RAFAKO HUNGARY**	Blank promissory note with a promissory note declaration	EUR 95 thousand cash loan to finance contract performance	EUR	1M LIBOR + margin	20-12-2018	396	423
						396	**458**

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

(PLN '000)

29.2. Other current financial assets

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

In 2017, the Company converted arrangement receivables from a related entity into bonds, as described in detail in Note 26

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

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

29.3. Cash and cash equivalents

	Dec 31 2017	*Dec 31 2016*
Cash at bank and in hand	158,567	65,075
Short-term deposits for up to 3 months, including:	354	807
- deposits pledged as security for contingent liabilities	–	–
	158,921	**65,882**

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

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

(PLN '000)

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

30.1. Property, plant and equipment pledged as security

As at December 31st 2017, property, plant and equipment pledged as security for liabilities amounted to PLN 135,419 thousand. The property, plant and equipment is 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 in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a registered pledge over a set of movables and rights).

	Dec 31 2017	*Dec 31 2016*
Mortgaged property, plant and equipment, including:	88,384	90,182
land	9,208	9,258
buildings and structures	79,176	80,924
Property, plant and equipment encumbered with registered pledge, including:	47,035	50,259
plant and equipment	45,983	48,935
motor vehicles	1,052	1,324
	135,419*	**140,441***

*The disclosed amounts include property, plant and equipment of PLN 108 thousand classified as held for sale (December 31st 2016: PLN 7 thousand).

30.2. Intangible items pledged as security

As at December 31st 2017, intangible assets worth PLN 9,815 thousand were pledged as security for the Company's liabilities (December 31st 2016: PLN 10,688 thousand). The intangible assets were pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A., and BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO under the Surety Agreement executed to secure the liabilities of E003B7 Sp. z o.o. under the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the Jaworzno III 910 MW unit project (a registered pledge over a set of movables and rights).

30.3. Shares pledged as security

As at December 31st 2017, shares for an amount of PLN 35,333 thousand (December 31st 2016: PLN 29,576 thousand) were pledged to secure the 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).

30.4. Inventories pledged as security

As at December 31st 2017, inventories worth PLN 12,057 thousand were pledged as security for the Company's liabilities (December 31st 2016: PLN 13,039 thousand). The inventories were pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A., and BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO under the Surety Agreement executed to secure the liabilities of E003B7 Sp. z o.o. arising under the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the Jaworzno III 910 MW unit project (a registered pledge over a set of movables and rights).

30.5. Trade receivables pledged as security

As at December 31st 2017, trade receivables of PLN 96,482 thousand were pledged as security for guarantees and borrowings received by the Company.

As at December 31st 2016, no trade receivables were pledged as security for guarantees or borrowings received by the Company.

31. Equity

31.1. Share capital

In the 12 months ended December 31st 2017, following the issue of Series K shares, RAFAKO S.A.'s share capital changed and as at December 31st 2017 the share capital was PLN 254,864 thousand.

Equity	*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
Series K Shares	42,500,000	85,000
	127,431,998	**254,864**

*For a detailed description of the share issue, see Note 37.

In connection with the 2016 bond issue carried out by PGB S.A., the Company's main shareholder, a registered pledge was created over RAFAKO S.A. shares held directly by PBG S.A. (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.

31.2. Par value per share

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

31.3. Shareholders' rights

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

31.4. Share premium

In the 12 months ended December 31st 2017, the Company increased the share premium account by PLN 78,368 thousand (the share premium was PLN 85,000 thousand, while the direct costs of the issue were PLN 6,632 thousand). As at December 31st 2017, the share premium account amounted to PLN 173,708 thousand.

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.

31.5. Dividends paid

In 2017 and by the date of issue of these financial statements, the Company did not pay dividends nor did the Management Board declare such payment.

(PLN '000)

31.6. Capital management

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

	Dec 31 2017	*Dec 31 2016*
Share of debt in equity		
Equity	426,074	328,760
Borrowed funds (bank and non-bank borrowings)	98,568	149,112
Total equity and liabilities	904,942	829,104
Capitalisation ratio (equity / total assets)	**0.47**	**0.40**

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

Shareholder	*Number of shares*	*Number of voting rights*	*Ownership interest*	*% of total vote at GM*
PBG S.A., Multaros Trading Company Ltd. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, in accordance with the agreement of October 24th 2017 referred to in Art. 87.1.6) of the Public Offering Act (*), of which:	55,081,769	55,081,769	43.22%	43.22%
PBG S.A.(*)	7,665,999	7,665,999	6.02%	6.02%
Multaros Trading Company Limited (subsidiary of PBG S.A.) (*) (***)	34,800,001	34,800,001	27.31%	27.31%
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (**)	12,615,769	12,615,769	9.90%	9.90%
Nationale-Nederlanden Otwarty Fundusz Emerytalny managed by Powszechne Towarzystwo Emerytalne S.A. (****)	12,582,710	12,582,710	9.87%	9.87%
Other	59,767,519	59,767,519	46.90%	46.90%

(*) Number of shares based on PBG's and Multaros's notifications of December 28th 2017.
(**) Number of shares based on a notification of January 3rd 2018 received from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.
(***) Given the fact that Multaros Trading Company Ltd. is PBG S.A.'s subsidiary, RAFAKO S.A. (the "Company") is indirectly controlled by PBG S.A., which holds, directly and indirectly, 42,466,000 Company shares, representing 33.33% of its share capital and conferring the right to 33.33% of total voting rights at its General Meeting.
(****) Number of shares estimated based on the annual asset structure published by Nationale-Nederlanden Otwarty Fundusz Emerytalny (as at December 29th 2017).

(PLN '000)

33. Interest-bearing borrowings

As at December 31st 2017, the Company carried liabilities under bank borrowings.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings Dec 31 2017*	*Dec 31 2016*
Short-term borrowings:							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	current account overdraft facility of up to PLN 70m***	PLN	1M WIBOR + margin	30.06.2018****	55,137	99,394
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility of up to PLN 80m***	PLN	1M WIBOR + margin	30.06.2018****	43,419	47,713
						98,556	**147,107**
Short-term non-bank borrowings:							
PGL-DOM Sp. z o.o.*****	blank promissory note with a promissory note declaration	cash loan agreement for financing of day-to-day operations	PLN	1M WIBOR + margin	31.12.2017******	12	2,005
						12	**2,005**

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

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

***As at the date of issue of these financial statements, in accordance with the annex of June 30th 2017 to the multi-purpose credit facility agreement, the facility limit was set at PLN 200m, including an overdraft facility of up to PLN 70m and a working capital facility of up to PLN 80m for the period September 30th 2017–June 30th 2018.

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

***** A subsidiary.

****** The loan was timely repaid in 2017; the amount of PLN 12 thousand relates to accrued interest, paid in 2018.

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

34. Employee benefit obligations

34.1. Post-employment and other benefits

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

	Dec 31 2017	*Dec 31 2016*
As at January 1st	23,767	25,473
Interest expense	770	713
Current service costs	450	501
Actuarial (gains)/losses	(324)	854
Benefits paid	(2,538)	(2,714)
Adjustment to the provision, related to the Voluntary Redundancy Programme	1,060	(1,060)
Closing balance	**23,185**	**23,767**
Long-term provisions	20,448	21,773
Short-term provisions	2,737	1,994

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

	Dec 31 2017	*Dec 31 2016*
Discount rate (%)	3.2	3.1
Expected inflation rate (%)*	–	–
Employee turnover rate	7	5
Expected growth of salaries and wages (%)**	2	2.81

* 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 2017		
Effect on the defined benefit obligation	(944)	1,019
Dec 31 2016		
Effect on the defined benefit obligation	(1,087)	1,180

(PLN '000)

35. Trade and other payables

35.1. Long-term trade and other payables

	Dec 31 2017	*Dec 31 2016*
Trade payables, including:		
Payables to related entities	24	100
Payables to other entities	14,649	11,774
	14,673	**11,874**
Amounts payable for tangible and intangible assets	–	16
	–	**16**
Financial liabilities, including:		
Finance lease liabilities	1,046	2,662
	1,046	**2,662**
Other liabilities, including:		
Unpaid bonus accrual	496	531
Provisions for warranty repairs	4,272	5,717
Amounts payable under voluntary redundancy programme	153	1,460
	4,921	**7,708**

35.2. Short-term provisions, trade and other payables

	Dec 31 2017	*Dec 31 2016*
Trade payables, including:		
Payables to related entities	11,162	4,972
Payables to other entities	174,336	115,477
	185,498	**120,449**
Amounts payable for tangible and intangible assets	399	954
	399	**954**

(PLN '000)

	Dec 31 2017	*Dec 31 2016*
Other liabilities		
VAT	33,761	21,301
Personal income tax	1,914	2,104
Social security	6,565	7,320
Other taxes, customs duties and insurance payable	7	5
Salaries and wages payable	6,223	6,987
Amounts payable for unused holiday entitlements	3,874	3,553
Unpaid bonus accrual	622	6,765
Provisions for warranty repairs	13,217	13,936
Accrual for costs of uninvoiced materials and services	9,566	5,120
Accrual for audit fees	75	56
Provisions for other liabilities and disputed claims	3,936	5,802
Amounts payable under voluntary redundancy programme	1,443	5,634
Provision for penalty imposed by the PFSA	–	700
Other amounts payable to employees	143	398
Security deposits	397	289
Restructuring provision*	8,368	–
Other	744	608
	90,855	**80,578**
Other financial liabilities		
Finance lease liabilities	1,696	1,616
	1,696	**1,616**

*For a detailed description of the restructuring provision, see Note 35.9.

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

35.3. Liabilities under financial derivatives

As at December 31st 2017, the Company carried no open FX contracts with a negative fair value.

35.4. Amounts payable for tangible and intangible assets

As at December 31st 2017, the Company had commitments related to purchase of property, plant and equipment of PLN 399 thousand (December 31st 2016: PLN 970 thousand).

As at December 31st 2017, the Company had no signed agreements envisaging capital expenditure to be made and not disclosed in the accounting books at the end of the reporting period.

(PLN '000)

35.5. Amounts payable for unused holiday entitlements

The amount payable for unused 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 2017	*Dec 31 2016*
Opening balance	3,553	3,076
Provision for the obligation	321	477
Cost of benefits paid	–	–
Reversal of provision for the obligation	–	–
Closing balance	**3,874**	**3,553**
Short-term as at	3,874	3,553
Long-term as at	–	–
	3,874	**3,553**

35.6. Unpaid bonus accrual

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

	Dec 31 2017	*Dec 31 2016*
Opening balance	7,296	7,095
Provision for the obligation	418	6,560
Cost of benefits paid	(530)	(5,566)
Reversal of provision for the obligation*	(6,066)	(793)
Closing balance	**1,118**	**7,296**
Short-term as at	622	6,765
Long-term as at	496	531
	1,118	**7,296**

*In 2017, the Company reversed an unused provision of PLN 5,948 thousand for the 2016 performance bonuses. The Company's Management Board resolved not to use the provision having analysed the current situation of the Company and the ongoing restructuring of operating costs.

(PLN '000)

35.7. Provision for warranty repairs

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

	Dec 31 2017	*Dec 31 2016*
Opening balance	19,653	11,925
Provision for the obligation	13,466	17,996
Costs of warranty repairs incurred	(15,630)	(10,268)
Reversal of provision for the obligation	–	–
Closing balance	**17,489**	**19,653**
Short-term as at	13,217	13,936
Long-term as at	4,272	5,717
	17,489	**19,653**

35.8. Amounts payable under 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 adapt the level, structure and costs of employment at RAFAKO S.A. to the conditions prevailing in the Company's markets so as to avoid the need to initiate a collective redundancy procedure. The programme was to cover up to 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.

176 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) was PLN 7,622 thousand.

	Dec 31 2017	*Dec 31 2016*
Opening balance	7,094	–
Provision for the obligation	–	7,622
Costs incurred	(5,498)	(528)
Reversal of provision for the obligation		
Closing balance	**1,596**	**7,094**
Short-term as at	1,443	5,634
Long-term as at	153	1,460
	1,596	**7,094**

(PLN '000)

35.9. Restructuring provision

In 2017, the Company's Management Board decided to commence the next stage of RAFAKO S.A.'s organisational restructuring. The restructuring is in particular designed to reduce the Company's workforce by 15.6% of the current level. The programme aims to adjust the level and costs of employment to the conditions prevailing in the Company's markets. The total number of employees covered by the collective redundancy programme will not exceed 276. In 2017, the Company recognised a restructuring provision of PLN 8,368 thousand, including severance payments, compensations for lost length-of-service awards, etc.

	Dec 31 2017	*Dec 31 2016*
Opening balance	–	–
Provision for the obligation	8,368	–
Closing balance	**8,368**	–
Short-term as at	8,368	–
Long-term as at	–	–
	8,368	–

35.10. Income tax payable

As at December 31st 2017 and December 31st 2016, the Company carried no income tax payable.

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

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

In the 12 months ended December 31st 2017, no tax inspections were carried out at the Company.

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

36. Grants

Grants recognised as at December 31st 2017 amounted to PLN 280 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 to develop an innovative electrostatic method of reducing emissions of submicron particles in exhaust and flue gases, in particular from biofuel-fired sources (ELAGLOM) funded by the National Centre for Research and Development as part of the Applied Research Programme; the grant was made in cash,
- Research project 'CO2 methanisation unit for storing electricity by producing CO2-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 Atmostat of France; the grant was made in cash,
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to install a hydrocarbons detection system in RAFAKO's paint and varnish storage facility; the grant was made in cash,
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to modernise and extend RAFAKO's CCTV system; the grant was made in cash,

(PLN '000)

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

Grant settlements:

Grant purpose	*As at January 1st 2017*	*Increase*	*Grants recognised as other income*	*Grants returned*	*Other decrease in grants*	*As at Dec 31 2017*
Modernisation of property, plant and equipment	196	–	(19)	–	–	177
Partial performance of research project	325	729	(951)	–	–	103
	521	**729**	**(970)**	**–**	**–**	**280**

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

On September 12th 2017, an Extraordinary General Meeting passed Resolution No. 4 on increasing the Company's share capital through the issue of no fewer than 1 (one) and no more than 42,500,000 (forty-two million, five hundred thousand) new Series K ordinary bearer shares with a par value of PLN 2 (two złoty) per share, with the pre-emptive rights of existing shareholders retained.

In the performance of the resolution of the Extraordinary General Meeting, on October 24th 2017 the RAFAKO S.A. Management Board adopted a resolution under which: i) the issue price of Series K shares was set at PLN 4 (four złoty) per share; ii) 1 (one) individual pre-emptive right entitles to subscribe for 0.50040033204 of one share, and 1.99839995294 individual pre-emptive rights entitle to subscribe for 1 (one) share. The Company's Management Board decided not to make use of its authorisation to determine the final amount by which the share capital of the Company is to be increased. Therefore, the final number of the shares issued was equal to the maximum number of the shares provided for in the Resolution.

On October 24th 2017, PBG S.A. and FUNDUSZ INWESTYCJI POLSKICH PRZEDSIĘBIORSTW FUNDUSZ INWESTYCYJNY ZAMKNIĘTY AKTYWÓW NIEPUBLICZNYCH of Warsaw ("FIPP FIZ AN"), managed and represented by Towarzystwo Funduszy Inwestycyjnych BGK S.A., agreed on the terms of sale by PBG and its subsidiary Multaros Trading Company Limited of Cyprus ("Multaros") to FIPP FIZ AN of individual pre-emptive rights to series K shares ("Individual Pre-Emptive Rights") in RAFAKO S.A., to which PBG and Multaros will be entitled if RAFAKO S.A. carries out the planned public offering. FIPP FIZ AN intended to acquire all the Individual Pre-Emptive Rights to which PBG S.A. will be entitled and a portion of the Individual Pre-Emptive Rights which may be acquired by Multaros. Having agreed on the terms and conditions of the transaction, on October 24th 2017 PBG, Multaros and FIPP FIZ AN entered into a cooperation agreement concerning RAFAKO S.A., which is an agreement within the meaning of Art. 87.1.6 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies, dated July 29th 2005. Pursuant to the agreement, the parties agreed to cooperate with respect to appointing to the Supervisory Board of RAFAKO S.A. a person designated by FIPP FIZ AN as long as FIPP FIZ AN holds RAFAKO S.A. shares representing at least 5% (i.e. 5% + 1 share) of the total voting rights at the General Meeting of RAFAKO S.A.

On November 3rd 2017, the Polish Financial Supervision Authority approved the issue prospectus, which was published in electronic form on the Company's website.

Under the offering, 42,500,000 new shares were duly subscribed and paid for. The shares were allotted as follows: 35,107,416 shares to investors who placed subscription orders in the exercise of their pre-emptive rights and to investors who placed additional subscription orders, and 7,392,584 shares to investors who placed subscription orders in response to the invitation from the Company's Management Board. All of the offered shares were taken up and the value of subscription was PLN 170,000,000 (one hundred and seventy million złoty).

(PLN '000)

On December 27th 2017, the District Court in Gliwice, 10th Commercial Division of the National Court Register, registered the new share capital of the Company in the amount of PLN 254,863,996, and on January 18th 2018 Series K shares were first traded on the Warsaw Stock Exchange. The current shareholding structure is presented in Note 32.

38. Use of proceeds

Proceeds from the issue of Series J shares carried out in 2015, of PLN 89,225 thousand, were used in 2017, of which:

- PLN 22,588 thousand was used as security for new financial instruments,
- PLN 7,914 thousand was used as financing support for new contracts,
- PLN 4,911 thousand was used to finance R&D work.

Proceeds from the Series K share issue carried out in 2017, of PLN 163,368 thousand, have not been used yet.

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

As at December 31st 2017, 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 2017		*Dec 31 2016*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	1,814	1,696	2,499	1,616
from 1 to 5 years	1,221	1,046	2,797	2,662
Total minimum lease payments	**3,035**	**2,742**	**5,296**	**4,278**
Less finance costs	(293)	–	(1,018)	–
Present value of minimum lease payments, including:	**2,742**	**2,742**	**4,278**	**4,278**
short-term	1,696	1,696	1,616	1,616
long-term	1,046	1,046	2,662	2,662

(PLN '000)

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

	Dec 31 2017	*Dec 31 2016*
Receivables under bank guarantees received mainly as security for performance of contracts, including:	182,715	207,835
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	18,823	25,289
- from related entities	11,286	11,536
Letters of credit	46	655
	201,584	**233,779**

	Dec 31 2017	*Dec 31 2016*
Commitments under bank guarantees issued mainly as security for performance of contracts, including:	320,431	200,609
- to related entities	–	–
Liabilities under sureties, including:	1,294,375	1,394,668
- to related entities	1,294,375	1,394,668
Promissory notes issued as security, including:	15,076	6,952
- to related entities	–	2,000
Letters of credit	–	–
	1,629,882	**1,602,229**

In 2017, RAFAKO S.A.'s contingent liabilities rose by PLN 27,653 thousand, mainly due to an increase in guarantees. A number of guarantees were issued by banks and insurance companies to the Group's trading partners upon the parent's instructions, including mainly performance bonds of PLN 142,678 thousand and bid bonds of PLN 47,716 thousand. In this category of liabilities, the largest item was a performance bond of EUR 11,972 thousand, issued in May 2017. As at December 31st 2017, liabilities under sureties issued were PLN 1,294,375 thousand. In this category of liabilities, the largest item was the surety covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to develop new coal-fired generation capacities at TAURON Wytwarzanie S.A. – construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II. The largest item among the guarantees which expired in 2017 was a performance bond of EUR 2,993 thousand.

In 2017, the Company's contingent receivables decreased by PLN 32,195 thousand (mainly performance bonds), including a decrease of PLN 25,120 thousand in receivables under bank and insurance guarantees, a decrease of PLN 6,466 thousand in receivables under promissory notes, and a PLN 609 thousand decrease in receivables under letters of credit opened for the Company. The largest item among the guarantees received in 2017 was a PLN 7,048 thousand performance bond. The largest item among expired guarantees in 2017 was a performance bond of PLN 4,152 thousand.

41. Warranties

As at December 31st 2017, the Company carried contingent liabilities under bank and insurance guarantees with a total amount of PLN 320,431 thousand, including:

No.	*Guarantee provider:*	*Guarantee amount (PLN '000)*	*Type of guarantee*
1.	AXA	808	warranty bond
2.	ALLIANZ	10,282	performance bond, warranty bond, advance payment guarantee, bid bond
3.	Euler HERMES	16,471	performance bond, warranty bond, bid bond
4.	ERGO HESTIA	67,896	performance bond, warranty bond, advance payment guarantee, bid bond
5.	PKO BP	87,782	performance bond, warranty bond, advance payment guarantee, bid bond, retention, payment guarantee
6.	UNIQA	1,221	performance bond, warranty bond, bid bond
7.	WARTA	2,120	warranty bond
8.	Generali	30,316	performance bond, warranty bond, advance payment guarantee, bid bond
9.	InterRisk	22,473	performance bond, warranty bond, bid bond
10.	KUKE	81,062	performance bond, warranty bond
	TOTAL	**320,431**	

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 with security under the MPCF Agreement and cash security deposits.

42. Litigation and disputes

42.1. Court proceedings concerning compensation from Donetskoblenergo of Ukraine

In a material case under litigation, RAFAKO S.A. is seeking compensation from Donetskoblenergo of Ukraine. RAFAKO S.A. demands the compensation following the customer's final decision to abandon a steam-generator construction project. On August 6th 2010, the Company received a decision issued by the Judicial Chamber for business cases of the Supreme Court of Ukraine granting a cassation appeal lodged by RAFAKO on March 2nd 2010 and upholding the ruling of the Donetsk Commercial Court of Appeals of December 23rd 2008, whereby RAFAKO was awarded UAH 56.7m (approximately USD 11.5m) in compensation, default interest, court expenses and legal representation costs. As the enforceability of the decision remains uncertain, RAFAKO S.A. did not recognise the awarded amount in revenue. RAFAKO S.A.'s attorney notified the parent 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 void. According to the attorney, there are no new arguments or evidence to grant the petition. In view of the political situation in Ukraine and the fact that full documentation of the case is missing from one of the courts in the country, all of which makes it impossible to seek protection of RAFAKO S.A.'s rights and interests in court, the Management Board of the Company, having analysed a legal opinion concerning the possibility to further pursuing claims from Donieckobłenergo, decided to abandon the case.

42.2. Court proceedings against Mostostal Warszawa S.A.

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 S.A. On November 25th 2016, the Court received an objection against the payment order, lodged by Mostostal Warszawa S.A. On June 30th 2017, the Regional Court of Gliwice awarded the entire sum demanded by the Company. On August 28th 2017, Mostostal Warszawa S.A. filed an appeal against the ruling of the court of first instance. At the present moment, after RAFAKO S.A. submitted a response to the appeal on October 5th 2017, the parties are waiting for the court to schedule a hearing. As at December 31st 2017, the Company presented the contested contingent receivable, of PLN 8m, under 'Other receivables and prepayments'. In the opinion of the law firm which represents the Company in these proceedings, Mostostal Warszawa S.A. is obligated to return the amounts retained as a performance bond. In view of the current status of the court proceedings and the ruling issued in the first instance, which is favourable to the Company, as well as the position presented by the law firm representing the Company, in the opinion of the Company's Management Board, as at the date of these financial statements, the risk of non-recovery of the receivables is marginal, therefore no impairment loss was recognised for these contingent receivables.

42.3. Court proceedings against Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o.

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 Termicznego Unieszkodliwiania Odpadów Sp. z o.o. for payment of PLN 13,136,446.57 plus statutory interest accrued from November 18th 2016, based on an invoice issued for the work performed by the Company and not paid by Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o. under the subcontract concerning the Thermal Waste Treatment Plant in Szczecin. RAFAKO considers the claim to be well-founded and, to support it, the Company carried out a relevant survey of the work performed and delivered the results to the debtors. On March 29th 2017, the court issued a non-final order for payment of the claimed amounts. On April 19th 2017, the defendants lodged with the court objections against the payment order. On July 27th 2017, RAFAKO S.A. filed a pleading which, in addition to the reply to the defendants' objections, extended the claim by PLN 3,021,268, to a total of PLN 16,157,215. So far, one preliminary hearing was held in this case, on October 6th 2017. The defendants submitted to the court a response to the plaintiff's pleading of July 27th 2017, in which the claim was extended. Since the subject matter of the dispute is very complicated, it is difficult to predict its closing date. In the course of the court proceedings, the Company was given the right to inspect the survey of work performed as part of the project, prepared by a court expert at the request of the court investigating the dispute between Mostostal Warszawa S.A. and Zakład Termicznego Unieszkodliwiania Odpadów sp. z o.o. concerning final settlement of contract performance after termination of the contract. The Company compared the results of that survey against its own survey of work and found no significant discrepancies. In the Company's opinion, the defendants may challenge the amount of RAFAKO's claim (determined by the Company based on the surveyed scope of work and the contractual remuneration agreed for specific work), because the claim will be subject to award by the court and may ultimately be dependent on the results of the survey prepared by a court expert. As at December 31st 2017, the Company presented this disputed receivable, net of a prudentially recognised impairment loss, at PLN 12m in 'Other receivables and prepayments'. In the opinion of the law firm representing the Company in these proceedings, the claim as such is legitimate (the chances that the case will be resolved in favour of the Company are about 90%), whereas any assessment of the legitimacy of its amount depends on the results of the evidentiary proceedings, in particular the opinion of the court expert. In view of the current status of the court proceedings and the position presented by the law firm representing the Company, in the opinion of the Company's Management Board as at the date of these financial statements the risk of non-recovery of the above receivables in the disclosed net amount is marginal.

43. Arrangement receivables from related entity

In 2017, the Company converted its arrangement receivables from PBG S.A., a related entity, into bonds, as described in detail in Note 26 to these financial statements.

(PLN '000)

44. Related parties

In 2017 and 2016, the Company did not enter into any material transactions with related parties on non-arm's length terms.

Total amounts of related-party transactions executed in the 12 months ended December 31st 2017 and December 31st 2016 were as follows:

Related party		*Sales to related parties in twelve months ended Dec 31 2017/Dec 31 2016*	*Purchases from related parties in twelve months ended Dec 31 2017/Dec 31 2016*	*Receivables from related parties as at Dec 31 2017/Dec 31 2016*	*Liabilities to related parties as at Dec 31 2017/Dec 31 2016*
Parent:					
PBG S.A.	2017	821	4,635	30,054*	298
	2016	822	3,713	35,201*	1
PBG Group companies:					
PBG oil and gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.)	2017	82	1,983	10,502	149
	2016	94	37,153	9	1,260
PBG ERIGO Sp. z o.o.	2017	–	–	–	–
	2016	14	–	7	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	2017	72	–	8	–
	2016	74	–	8	–
PBG DOM Sp. z o.o.	2017	8	–	1	–
	2016	–	–	–	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	2017	12	59	–	3
	2016	–	57	–	1
RAFAKO Engineering Sp. z o. o.	2017	959	17,106	2,107	8,778
	2016	1,018	6,638	1,046	2,176
RAFAKO Engineering Solution doo.	2017	–	715	–	61
	2016	–	3,189	–	2
RAFAKO Hungary Sp. z o.o.	2017	3,325	–	834	–
	2016	328	–	310	3

**The bonds from PBG S.A. described in Note 26*

(PLN '000)

Related party		*Sales to related parties in twelve months ended Dec 31 2017/Dec 31 2016*	*Purchases from related parties in twelve months ended Dec 31 2017/Dec 31 2016*	*Receivables from related parties as at Dec 31 2017/Dec 31 2016*	*Liabilities to related parties as at Dec 31 2017/Dec 31 2016*
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	2017	70	8,587	10	1,562
	2016	151	8,768	6	1,364
E001RK Sp. z o.o.	2017	7	260	–	29
	2016	7	240	–	25
E003B7 Sp. z o.o.	2017	2,073	–	17,112	–
	2016	1,019	7	11,109	10
RENG-Nano Sp. z o.o.	2017	11	–	–	–
	2016	3	–	–	–
Entities related through personal links:					
PBG Foundation	2017	–	325	–	30
	2016	–	439	–	–
SWGK CONSULTING Sp. z o.o.	2017	–	138	–	–
	2016	–	59	–	–
Mostostal Energomontaż Gliwice S.A.	2017	–	–	–	–
	2016	–	–	–	102
BPIL Grzegorz Kiczor	2017	–	213	–	41
	2016	–	185	–	37
Dwór w Smólsku Sp. z o.o.	2017	1	243	–	49
	2016	1	201	–	25
Corporate Finance & IT Sp. z o.o.	2017	–	–	–	–
	2016	251	–	27	–
FCS Business Solutions Sp. z o.o.	2017	2	–	–	–
	2016	2	–	–	–
Primesoft Sp. z o.o.	2017	–	–	–	–
	2016	–	–	–	73
SWGK Księgowość Sp. z o.o.	2017	–	500	–	124
	2016	–	–	–	–
MIKO-Tech Sp. z o.o.	2017	–	500	–	–
	2016	7	3,777	–	233
SWGK Podatki Sp. z o.o.	2017	–	80	–	–
	2016	–	–	–	–

Related party	*Sales to related parties in twelve months ended*	*Purchases from related parties in twelve*	*Receivables from related parties*	*Liabilities to related parties as at*

		Dec 31 2017/Dec 31 2016	months ended Dec 31 2017/Dec 31 2016	as at Dec 31 2017/Dec 31 2016	Dec 31 2017/Dec 31 2016
Polimex-Mostostal S.A.	2017	–	–	–	117
	2016	–	39	–	137
Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o.	2017	–	–	516	–
	2016	–	–	–	–
Economic Chamber of Energy and Environmental Protection	2017	–	29	–	7
	2016	–	11	–	6

44.1. Company's parent

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

As at December 31st 2017, PBG S.A. of Wysogotowo held 33.32% of ordinary shares in the Company (6.02% of shares held directly, and 27.31% of shares held indirectly through Multaros Trading Company Ltd.).

44.2. Joint ventures

The Company is not a partner in any joint ventures.

44.3. Related-party transactions

In 2017, the Company did not enter into any material transactions with related parties on non-arm's length terms. All transactions with related parties are executed on terms applied by the Company in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are applied. A related party must ensure that a contract is performed in accordance with the relevant documentation, give a warranty for a specified period, and provide security in the form of a performance bond or a blank promissory note. Related parties are also required to accept standard liquidated damages clauses, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

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

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

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

(PLN '000)

44.5. Shares held by members of management and supervisory bodies

The table below presents the number of shares in the Company or the Company's related parties held by the management and supervisory staff as at December 31st 2017:

	Company name	*Total number of shares*	*Par value per share (PLN)*
Management staff member			
Edward Kasprzak	RAFAKO S.A.	3,000	6,000
Jarosław Dusiło	PBG S.A.	100	2
Tomasz Tomczak	PBG S.A.	3,250	65
Supervisory staff member			
Małgorzata Wiśniewska	PBG S.A.	3,279	65.58
Jerzy Wiśniewski	PBG S.A.	189,902,366	3,798,047.32

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

The Company does not operate any employee stock option plans.

44.7. Remuneration of the Company's senior management staff

	12 months ended Dec 31 2017	*12 months ended Dec 31 2016*
Short-term employee benefits (salaries and overheads)	11,361	10,351
Length-of-service awards	16	31
Post-employment benefits	141	–
Termination benefits	162	–
Total cost of remuneration paid to key management staff	**11,680**	**10,382**

The remuneration paid to members of the Company's Management and Supervisory Boards for the year ended December 31st 2017 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**3,120**	–	**114**
Agnieszka Wasilewska-Semail	720	–	45
Krzysztof Burek	600	–	5
Jarosław Dusiło	600	–	28
Edward Kasprzak	600	–	5
Tomasz Tomczak	600	–	31
Supervisory Board	**993**	–	**1,021**
Jerzy Wiśniewski	240	–	600
Dariusz Sarnowski	195	–	–
Piotr Wawrzynowicz	–	–	181
Małgorzata Wiśniewska	108	–	240
Przemysław Schmidt	126	–	–
Adam Szyszka	108	–	–
Dariusz Szymański	108	–	–
Krzysztof Gerula	108	–	–
TOTAL	**4,113**	–	**1,135**

The remuneration paid to members of the Company'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**

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

The Company did not publish forecasts for 2017.

(PLN '000)

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

The table below presents the remuneration paid or payable to the qualified auditors of financial statements for the years ended December 31st 2017 and December 31st 2016, by type of service:

Type of service	*Year ended Dec 31 2017*	*Year ended Dec 31 2016*
Mandatory audit of the separate and consolidated financial statements	235	200
Other services*	232	–
Total**	**467**	**200**

**Performanceof agreed procedures in accordance with the Polish Standard on Related Services 4400 in connection with secondary issue of shares*

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

47. Objectives and policies of financial risk management

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

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

The Company's key financial risk is liquidity risk, discussed at length in Note 7 and Note 47.5.

47.1. Interest rate risk

As at December 31st 2017, the Company was party to a credit facility agreement which was a source of potential 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 Company 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). The effect on the Company's equity is not presented.

	Increase/ decrease (percentage points)	***Effect on pre-tax profit/loss***
Period ended Dec 31 2017		
PLN	+ 1%	831
EUR	+ 1%	547
USD	+ 1%	210
PLN	- 1%	(831)
EUR	- 1%	(547)
USD	- 1%	(210)
Period ended Dec 31 2016		
PLN	+ 1%	368
EUR	+ 1%	675
GBP	+ 1%	–
PLN	- 1%	(368)
EUR	- 1%	(675)
GBP	- 1%	–

47.2. Currency risk

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

In the reporting period, more than 16.0% of the Company's invoiced revenue was denominated in foreign currencies, primarily in EUR.

The Company's currency risk management strategy provides for the use of natural hedging to the largest possible extent. The Company seeks to achieve the highest possible level of structural matching of income and expenses denominated in the same currency and related to the running contracts. From 30% to 70% of the estimated net exposure to currency risk which is not covered by natural hedging is hedged at the time of contract singing, exclusively with accepted types of derivative instruments. As at December 31st 2017, the Company had open hedging positions for a total amount of USD 4m.

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

(PLN '000)

The table below presents the sensitivity of the pre-tax profit/(loss) (due to changes in the value of monetary assets and liabilities) to reasonable movements mainly in the EUR, GBP, SGD, and USD exchange rates, *ceteris paribus*.

	Exchange rate increase/decrease	*Effect on pre-tax profit/loss*	*Effect on net profit/loss*
Dec 31 2017 – EUR	+10%	2,030	1,644
	-10%	(2,030)	(1,644)
Dec 31 2017 – SGD	+10%	(47)	(38)
	-10%	47	38
Dec 31 2017 – USD	+10%	2,153	1,744
	-10%	(2,153)	(1,744)

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

47.3. Commodity price risk

The Company is exposed to price risk, particularly the risk of increase in the prices of materials of strategic importance to its operations. The level of this risk is greatly determined by the conditions prevailing in the global commodity markets (including steel, precious metals, fuel and energy markets), which are affected by both exchange rate movements and producers' consolidation efforts intended to achieve joint control of prices. The Group manages the commodity price risk by seeking to ensure that its contracts with sub-suppliers are denominated in the currency of the master contract; that employers are responsible for procurement of materials; and that procurement contracts provide for fixed prices of deliveries. The Company does not enter into long-term contracts with sub-suppliers. The scope of supplies is determined and suppliers selected on a case-by-case basis, depending on current needs.

47.4. Credit risk

The Company's exposure to credit risk is closely related to its principal business activities. The exposure results from outstanding trade contracts and is related to the risk of occurrence of such credit events as the contractor's insolvency, partial payment of receivables, and significant payment delays. Providing credit to trading partners is an essential part of the Company's business. However, the Company undertakes a number of measures to mitigate the risk of trading with potentially unreliable customers. Each customer who wishes to trade on credit terms is subject to credit verification procedures.

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

For detailed information on receivables involving higher credit risk, see Note 42.

47.5. Liquidity risk

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

The Company's financial liquidity (going concern) in 2017 is discussed at length in Note 7 to these financial statements.

(PLN '000)

The table below presents the Company's financial liabilities by maturity as at December 31st 2017 and December 31st 2016, based on contract cash flows.

Dec 31 2017	*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	–	–	98,568	–	–	98,568
Lease liabilities	–	413	1,283	1,046	–	2,742
Trade payables and capital commitments	84,270	93,241	8,673	15,284	–	201,468
	84,270	**93,654**	**108,524**	**16,330**	–	**302,778**

Dec 31 2016	*Payable on demand*	*Up to 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total*
Interest-bearing borrowings	–	–	149,112	–	–	149,112
Lease liabilities	–	401	1,264	2,613	–	4,278
Trade payables and capital commitments	20,605	78,631	22,086	12,636	166	134,124
	20,605	**79,032**	**172,462**	**15,249**	**166**	**287,514**

48. Derivative instruments

As at December 31st 2017, the Company carried open currency forward contracts (USD 4m sale transactions).

Currency forward transactions were concluded in connection with USD-denominated tender procedures, based on market terms that do not differ from standard terms used in transactions of this type.

As at December 31st 2017, the Company did not carry any other derivative instruments.

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

(PLN '000)

49. Financial instruments

49.1. 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 2017 and December 31st 2016.

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

Classes and categories of financial assets	*Carrying amount Dec 31 2017*	*Carrying amount Dec 31 2016*
Assets at fair value through profit or loss	**479**	–
Investment fund units	–	–
Derivative instruments	479	–
Available-for-sale financial assets	**223**	**209**
Long-term shareholdings	223	209
Assets held to maturity	**29,970**	–
Long-term bonds	24,769	–
Short-term bonds	5,201	–
Loans and receivables	**296,433**	**317,536**
Trade receivables	197,411	188,757
Receivables on sale of property, plant and equipment and intangible assets	–	185
Other receivables*	82,381	82,012
Loans advanced	396	458
Other non-current financial assets	16,245	34,994
Other current financial assets	–	11,130
Cash and cash equivalents	**158,921**	**65,882**
	486,026	**383,627**

** Including liquidated damages, disputed receivables, and security deposits.*

Classes and categories of financial liabilities	*Carrying amount Dec 31 2017*	*Carrying amount Dec 31 2016*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**299,138**	**282,405**
Borrowings	98,568	149,112
Trade payables (including capital commitments)	200,570	133,293
Other financial liabilities	–	–
Liabilities under guarantees and factoring and liabilities excluded from the scope of IAS 39	**2,742**	**4,278**
Liabilities under leases and rental contracts with purchase option	2,742	4,278
	301,880	**286,683**

(PLN '000)

As at December 31st 2017 and December 31st 2016, the Company held the following financial instruments measured at fair value:

Dec 31 2017	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	**479**	–
Investment fund units	–	–	–
Derivative instruments	–	479	–
Available-for-sale financial assets	**223**	–	–
Long-term shareholdings	223	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivative instruments	–	–	–

Dec 31 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	–	–	–

(PLN '000)

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

12 months ended Dec 31 2017	*IAS 39 category*	*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	–	–	–	15	–	–	–	15
- shares	Available for sale	–	–	–	15	–	–	–	15
Other financial assets (non-current), including:		–	–	–	–	–	12	–	12
- receivables under surety		–	–	–	–	–	(416)	–	(416)
- receivables from related entities	Receivables and loans	–	–	–		–	428	–	428
Other current financial assets including:		3	(24)	–	–	–	–	–	(21)
- short-term loans	Receivables and loans	3	(24)	–	–	–	–	–	(21)
Trade and other receivables	Receivables and loans	530	(6,372)	(1,321)	–	–	(322)	–	(7,485)
- trade receivables		6	(2,098)	(1,236)	–	–	(329)	–	(3,657)
- other receivables		524	(4,274)	(85)	–		7		(3,828)
Currency forwards		–	–	–	479	360	–	–	839
Cash and cash equivalents	Receivables and loans	251	(1,099)	–	–	–	–	–	(848)
TOTAL		**784**	**(7,495)**	**(1,321)**	**494**	**360**	**(310)**	–	**(7,488)**

(PLN '000)

12 months ended Dec 31 2016	*IAS 39 category*	*Interest income/(expense)*	*Foreign exchange gains/(losses)*	*Reversal/(recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Discount*	*Other*	*Total*
Financial assets									
Available-for-sale financial assets (non-current), including:	Available for sale	–	–	–	2	–	–	–	2
- shares	Available for sale	–	–	–	2	–	–	–	2
Other financial assets (non-current), including:		–	–	154,057	–	–	(878)	–	153,179
- receivables under surety		–	–	–	–	–	(396)	–	(396)
- receivables from related entities	Receivables and loans	–	–	154,057	–	–	(482)	–	153,575
Other current financial assets including:		5	15	–	–	–	–	–	20
- short-term loans	Receivables and loans	5	15	–	–	–	–	–	20
Trade and other receivables	Receivables and loans	786	1,978	(198)	–	–	161	–	2,727
- trade receivables		4	1,410	(213)	–	–	142	–	1,343
- other receivables		782	568	15	–	–	19	–	1,384
Cash and cash equivalents	Receivables and loans	24	649	–	–	–	–	–	673
TOTAL		**815**	**2,642**	**153,859**	**2**	–	**(717)**	–	**156,601**

(PLN '000)

12 months ended Dec 31 2017	*IAS 39 category*	*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	(2,578)	–	–	–	–	(916)	(3,494)
- loans bearing interest at variable rates	Other financial liabilities at amortised cost	(56)	–	–	–	–	–	(56)
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(2,522)	–	–	–	–	(916)	(3,438)
Other financial liabilities, including:	Other financial liabilities at amortised cost	(156)	(3)	–	–	–	–	(159)
- liabilities under finance leases and rental contracts with purchase option	Other financial liabilities at amortised cost	(156)	(3)	–	–	–	–	(159)
Trade and other payables	Other financial liabilities at amortised cost	(855)	1,269	–	167	–	–	581
– trade payables		(86)	1,293	–	168	–	–	1,375
– other liabilities		(769)	(24)	–	(1)	–	–	(794)

(PLN ‘000)

TOTAL		**(3,589)**	**1,266**	**–**	**167**	**–**	**(916)**	**(3,072)**	
12 months ended Dec 31 2016	*IAS 39 category*	*Interest income/(expense)*	*Foreign exchange gains/(losses)*	*Reversal/(recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Discount*	*Other*	*Total*
Financial liabilities									
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(3,193)	–	–	–	–	–	(876)	(4,069)
- loans bearing interest at variable rates	Other financial liabilities at amortised cost	(59)	–	–	–	–	–	–	(59)
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(3,134)	–	–	–	–	–	(876)	(4,010)
Other financial liabilities, including:	Other financial liabilities at amortised cost	(204)	(4)	–	–	–	–	–	(208)
- liabilities under finance leases and rental contracts with purchase option	Other financial liabilities at amortised cost	(204)	(4)	–	–	–	–	–	(208)
Trade and other payables	Other financial liabilities at amortised cost	(846)	(1,140)	(241)	–	–	(819)	–	(3,046)
– trade payables		(133)	(1,114)	–	–	–	(814)	–	(2,061)
– other liabilities		(713)	(26)	(241)	–	–	(5)	–	(985)

				–				
TOTAL	**(4,243)**	**(1,144)**	**(241)**	**–**	**–**	**(819)**	**(876)**	**(7,323)**

(PLN '000)

49.3. Interest rate risk

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

Dec 31 2017

Fixed interest rate	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	–	–	–	–	–	–
Short-term deposits	–	–	–	–	–	–	–
Variable interest rate							
Cash and cash equivalents	158,921	–	–	–	–	–	158,921
Loans advanced	396	–	–	–	–	–	396
Liabilities under finance leases and rental contracts with purchase option	1,696	794	249	3	–	–	2,742
Borrowings	98,556	–	–	–	–	–	98,556
Borrowings	12	–	–	–	–	–	12
	259,581	**794**	**249**	**3**	–	–	**260,627**

(PLN '000)

Dec 31 2016

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

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

50. Employment

In 2017, the average headcount in the Company was 1,812.

For a detailed description of changes in the employment structure, see Section III.4 of the Directors' Report on the Operations of RAFAKO S.A. in 2017.

51. Events after the reporting period

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

On January 3rd 2018, the Management Board of RAFAKO S.A. received from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych of Warsaw (the "Fund") a notification to the effect that following registration on December 22nd 2017 by the District Court in Gliwice, 10th Commercial Division of the National Court Register, of an increase in the share capital of the Company effected through the issue of 42,500,000 Series K shares, the Fund holds more than 5% of total voting rights in the Company.

On January 9th 2018, the Polish Financial Supervision Authority approved Supplement No. 2 ("Supplement No. 2") to the Company's prospectus prepared for the public offering of 42,500,000 Series K ordinary bearer shares with a par value of PLN 2 (two zloty) per share (the "New Shares"), offered with pre-emptive rights of the existing shareholders retained, and in connection with the seeking of admission and introduction of 84,931,998 individual pre-emptive rights, up to 42,500,000 allotment certificates for New Shares, and up to 42,500,000 New Shares to trading on the main market of the Warsaw Stock Exchange.

Supplement No. 2 was prepared in connection with the conclusion by the Company as a consortium member, on December 29th 2017, of a conditional agreement to construct two coal-fired steam units (2x50 MW) on the island of Lombok in Indonesia. The Company provided detailed information on the execution and terms and conditions of the agreement in Current Report No. 66/2017 of December 29th 2017.

Supplement No. 2 will be made available to the public in the same manner as the prospectus, i.e. in electronic form on the Company's website at (www.rafako.com.pl) and also, for information purposes, on the websites of Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie (www.dm.pkobp.pl) and Trigon Dom Maklerski S.A. (www.trigon.pl).

On January 9th 2018, the Management Board of RAFAKO S.A. was notified of Statement No. 27/2018 of the Central Securities Depository of Poland ("CSDP"), dated January 9th 2018, whereby the CSDP decided to register with the securities depository maintained by the CSDP 42,500,000 (forty-two million, five hundred thousand) Series K ordinary bearer shares in the Company, with a par value of PLN 2 (two złoty) per share, issued pursuant to Resolution No. 4 of the Company's Extraordinary General Meeting of September 12th 2017, and to assign them ISIN code No. PLRAFAK00018, provided that the company operating the regulated market, i.e. Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange, "WSE"), decides to introduce these shares to trading on the regulated market on which other Company shares assigned the same ISIN code are already listed.

The Series K ordinary bearer shares in the Company will be registered with the securities depository maintained by the CSDP in connection with the closing of accounts maintained for transferable allotment certificates relating to the shares assigned ISIN code PLRAFAK00091, within three days from receipt by the CSDP of the decision to introduce these shares to trading on the regulated market on which other Company shares assigned the same ISIN code are already listed, but in no case earlier than on the date specified in that decision as the date of introducing these shares to trading on that market.

On January 16th 2018, the Management Board of the Warsaw Stock Exchange (the "WSE") passed the following resolutions:

1. Resolution No. 40/2018 setting the last listing date for the allotment certificates on Series K ordinary bearer shares in the Company on the WSE Main Market, whereby the WSE Management Board set January 17th 2018 as the last listing date for 42,500,000 (forty-two million, five hundred thousand) allotment certificates on Series K ordinary bearer shares in the Company with a par value of PLN 2 (two złoty) per share, assigned ISIN code PLRAFAK00091 by the Central Securities Depository of Poland ("CSDP");
2. Resolution No. 41/2018 to admit and introduce to trading on the WSE Main Market Series K ordinary bearer shares in the Company, whereby the WSE Management Board:
   a. stated that 42,500,000 (forty-two million, five hundred thousand) Series K ordinary bearer shares in the Company, with a par value of PLN 2.00 (two złoty) per share ("Series K Shares") were admitted to trading on the main market; and
   b. resolved to introduce Series K Shares to trading on the main market as of January 18th 2018 on the condition that they were registered by the CSDP and assigned ISIN code PLRAFAK00018 on January 18th 2018.

On January 18th 2018, the Company received the following notifications:

1. Notification submitted under Art. 19(1) of the MAR concerning the purchase of Company shares by Agnieszka Wasilewska-Semail, a person discharging managerial responsibilities at RAFAKO as President of the Management Board;
2. Notification submitted under Art. 19(1) of the MAR concerning the purchase of Company shares by Jarosław Dusiło, a person discharging managerial responsibilities at RAFAKO as Vice President of the Management Board;
3. Notification submitted under Art. 19(1) of the MAR concerning the purchase of Company shares by Edward Kasprzak, a person discharging managerial responsibilities at RAFAKO as Vice President of the Management Board.

On January 18th 2018, the Operations Department of the Central Securities Depository of Poland (the "CSDP") published an announcement stating that pursuant to the CSDP Management Board's Resolution No. 27/2018 of January 9th 2018, 42,500,000 (forty-two million, five hundred thousand) Series K ordinary bearer shares with a par value of PLN 2 (two złoty) per share, assigned ISIN code PLRAFAK00018, were registered on January 18th 2018.

On February 16th 2018, the Company announced information about:

1. Total costs classified as costs of issue of Series K shares, itemised as follows:
   a) costs of preparing and carrying out the offering: PLN 6,039 thousand;
   b) costs of preparing the prospectus (including advisory services): PLN 573 thousand;
   c) marketing costs: PLN 20 thousand;

   Total costs: PLN 6,632 thousand.
2. Method of recognition of the costs in the Company's accounting records: the costs of issue of Series K shares were accounted for by reducing the share premium.
3. Method of recognition of the costs in the Company's financial statements: in the financial statements, the costs will be recognised under "Share premium".
4. Average cost of the subscription per share available for subscription: PLN 0.16.

On February 20th 2018, Krzysztof Burek resigned as Vice President of the Company's Management Board, and Karol Sawicki was appointed as Vice President of the Company's Management Board by the Supervisory Board.

On February 21st 2018, one of the two conditions precedent under the conditional agreement entered into between a consortium comprising the Company and PT. Rekayasa Industri of Indonesia, as the Consortium Leader, (the "Consortium") and PT. PLN (PERSERO), JALAN TRUNOJOYO BLOK M I/135, KEBAYORAN BARU, JAKARTA 12160, INDONESIA (the "Employer"), providing for the construction of two steam units (2x50 MW) on Lombok Island (Indonesia) (the "Agreement"), was fulfilled. The condition precedent, i.e. the availability of a financing package, was satisfied through the execution of a financing agreement by the Employer with Bank Gospodarstwa Krajowego (BGK), secured by an insurance policy from Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (KUKE) (both BGK and KUKE S.A. are part of the Polish Development Fund Group). The other condition precedent, i.e. the confirmation of handing over of the Construction Site by the Employer, had not been fulfilled by the date of issue of these financial statements.

(PLN '000)

Elering AS of Tallinn selected RAFAKO as the preferred bidder in a tender procedure for the turnkey construction of the Paldiski and Puiatu gas compressor stations in Estonia. The value of the Company's bid is EUR 50m (approximately PLN 210m) VAT-exclusive. The tender procedure provides for a 14-day period for filing complaints and explanations. After the period expires, RAFAKO will be able to sign a contract for the project. The Group will use its own capabilities and the resources of its local partners to deliver the project. The compressor stations are part of the larger Balticconnector gas pipeline project, which is an important element of Finland's and the EU's energy security strategy. Once completed, Balticconnector will contribute to the fuller integration of the UE gas markets by providing a link between the transmission systems of Finland, Estonia, Latvia, Lithuania and Poland, and it will help to diversify gas sources.

On March 27th 2018, the Management Board of RAFAKO S.A. passed a resolution to close the branch based in Ankara, Turkey.

These financial statements were authorised for issue on April 5th 2018 by virtue of the RAFAKO Management Board's resolution dated April 5th 2018.

Signatures:

April 5th 2018	Agnieszka Wasilewska-Semail	President of the Management Board	....
April 5th 2018	Jarosław Dusiło	Vice President of the Management Board	....
April 5th 2018	Edward Kasprzak	Vice President of the Management Board	....
April 5th 2018	Karol Sawicki	Vice President of the Management Board	....
April 5th 2018	Tomasz Tomczak	Vice President of the Management Board.	....
April 5th 2018	Jolanta Markowicz	Head of Accounting and Tax Department – Chief Accountant	....