RAFAKO GROUP

PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the nine months ended September 30th 2017

November 29th 2017

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Appendix:

1. Interim condensed financial statements of RAFAKO S.A. for the nine months ended September 30th 2017

PLN '000

Interim condensed consolidated statement of comprehensive income
for the nine months ended September 30th 2017

	Note	*9 months ended September 30th 2017 (unaudited)*	*9 months ended September 30th 2016 (unaudited)*	*3 months ended September 30th 2017 (unaudited)*	*3 months ended September 30th 2016 (unaudited)*
Continuing operations					
Revenue	11.1	**1,328,667**	**1,236,112**	**456,798**	**495,548**
Revenue from sale of goods and services		1,326,745	1,234,258	456,931	494,975
Revenue from sale of materials		1,922	1,854	(133)	573
Cost of sales	11.1	(1,194,941)	(1,140,666)	(403,796)	(454,888)
Gross profit/(loss)		**133,726**	**95,446**	**53,002**	**40,660**
Other income	11.1	2,245	2,030	660	979
Distribution costs	11.1	(28,079)	(22,769)	(8,226)	(7,888)
Administrative expenses	11.1	(45,065)	(40,569)	(15,211)	(12,457)
Other expenses	11.1	(4,164)	(4,209)	(1,035)	(2,017)
Operating profit/(loss)		**58,663**	**29,929**	**29,190**	**19,277**
Finance income	11.1	1,554	3,229	391	632
Finance costs	11.1	(8,264)	(4,683)	29	(1,370)
Profit/(loss) before tax		**51,953**	**28,475**	**29,610**	**18,539**
Income tax expense	11.2	(25,556)	(5,846)	(12,658)	(3,069)
Net profit/(loss) from continuing operations	11.23	**26,397**	**22,629**	**16,952**	**15,470**

Racibórz, November 29th 2017

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

PLN '000

Interim condensed consolidated statement of comprehensive income

for the nine months ended September 30th 2017

	Note	*9 months ended September 30th 2017 (unaudited)*	*9 months ended September 30th 2016 (unaudited)*	*3 months ended September 30th 2017 (unaudited)*	*3 months ended September 30th 2016 (unaudited)*
Other comprehensive income for period		**(997)**	**(1,398)**	**(882)**	**(1,320)**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		(194)	(27)	(5)	(204)
Exchange differences on translating foreign operations attributable to non-controlling interests		(1)	(9)	7	(34)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(195)**	**(36)**	**2**	**(238)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income due to actuarial gains/(losses)	(991)	(1,680)	(1,091)	(1,336)	
Tax on other comprehensive income	11.2	189	318	207	254
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(802)**	**(1,362)**	**(884)**	**(1,082)**
Total comprehensive income for period		**25,400**	**21,231**	**16,070**	**14,150**
Net profit/(loss) attributable to:		**26,397**	**22,629**	**16,952**	**15,470**
Owners of the parent	11.23	26,010	22,127	16,670	14,599
Non-controlling interests		387	502	282	871
Comprehensive income attributable to:		**25,400**	**21,231**	**16,070**	**14,150**
Owners of the parent		25,014	20,738	15,781	13,313
Non-controlling interests		386	493	289	837
Weighted average number of shares		84,931,998	84,931,998	84,931,998	84,931,998
Basic/diluted earnings/(loss) per share, PLN	11.23	0.31	0.26	0.20	0.17

Racibórz, November 29th 2017

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President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant – person responsible for bookkeeping

PLN '000

Interim condensed consolidated statement of financial position

as at September 30th 2017

	Note	*September 30th 2017 (unaudited)*	*December 31st 2016*
ASSETS			
Non-current assets			
Property, plant and equipment	11.4	172,923	178,585
Intangible assets		18,337	18,782
Long-term trade receivables, other receivables and prepayments		45,229	34,007
Trade receivables	11.9, 14	45,037	33,817
Other receivables and prepayments	11.9	192	190
Non-current financial assets		25,893	24,911
Shares in other entities	11.8	293	840
Long-term bonds	11.9	25,600	–
Other non-current financial assets	11.10, 14	–	24,071
Deferred tax assets	11.2	35,909	51,387
		298,291	**307,672**
Current (short-term) assets			
Inventories	11.11	15,364	13,983
Short-term trade receivables, other receivables and prepayments	11.15, 14	328,833	750,365
Trade receivables		168,178	587,263
Income tax receivable		2,391	19,583
Other receivables and prepayments		158,264	143,519
Gross amount due from customers for construction contract work and related prepayments and accrued income	10	364,786	235,351
Current financial assets		146,193	118,763
Current deposits	14	–	74
Derivative instruments		13	–
Short-term loans advanced	14	–	35
Short-term bonds	11.12	6,112	–
Other current financial assets	11.12, 14	–	11,130
Cash and cash equivalents	11.14, 14	140,068	107,524
		855,176	**1,118,462**
Non-current assets held for sale		35	935
TOTAL ASSETS		**1,153,502**	**1,427,069**

Racibórz, November 29th 2017

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President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant – person responsible for bookkeeping

PLN '000

Interim condensed consolidated statement of financial position

as at September 30th 2017

	Note	*September 30th 2017 (unaudited)*	*December 31st 2016*
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	11.18	169,864	169,864
Share premium	11.21	95,340	95,340
Reserve funds		182,242	175,365
Exchange differences on translating foreign operations		(291)	(97)
Retained earnings / (Accumulated losses)	11.22	12,714	(5,617)
		459,869	**434,855**
Equity (attributable to non-controlling interests)		9,296	8,996
Total equity		**469,165**	**443,851**
Non-current liabilities			
Finance lease liabilities	11.25, 14	2,352	3,540
Deferred tax liabilities	11.2	59	384
Employee benefit obligations	11.24, 17.2	22,641	21,855
Long-term trade and other payables		49,647	48,070
Trade payables	11.25, 14	43,048	40,213
Amounts payable for tangible and intangible assets	11.25, 14, 20	71	149
Other liabilities	11.25	6,528	7,708
		74,699	**73,849**
Current liabilities			
Short-term trade and other payables		339,644	577,013
Trade payables	11.26, 14	240,901	473,476
Amounts payable for tangible and intangible assets	14, 20	995	1,610
Income tax payable		41	123
Other liabilities	11.26	97,707	101,804
Current portion of interest-bearing borrowings	14, 15, 16	81,976	147,107
Other financial liabilities and finance lease liabilities	14	2,588	2,045
Employee benefit obligations	11.24, 17.2	2,440	2,022
Amounts due to customers and provisions for construction contract work and deferred income	10	182,990	181,182
Amounts due to customers for construction contract work	10	167,259	156,644
Provisions for construction contract work	10, 17	14,568	24,017
Grants		1,163	521
		609,638	**909,369**
Total liabilities		**684,337**	**983,218**
TOTAL EQUITY AND LIABILITIES		**1,153,502**	**1,427,069**

Racibórz, November 29th 2017

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

Interim condensed consolidated statement of cash flows

for the nine months ended September 30th 2017

	Note	*9 months ended September 30th 2017 (unaudited)*	*9 months ended September 30th 2016 (unaudited)*
Cash flows from operating activities			
Profit/(loss) before tax		51,953	28,475
Adjustments for:		46,000	**(15,814)**
Depreciation and amortisation		10,513	10,923
Foreign exchange gains/(losses)		(1,012)	14
Interest and dividends, net		1,611	3,280
(Gain)/loss from investing activities		(685)	(1,424)
Increase/(decrease) in liabilities/assets from valuation of derivative instruments		163	–
(Increase)/decrease in receivables	11.3	392,926	(17,511)
Change in inventories		(1,381)	7,513
Increase/(decrease) in employee benefit provisions and obligations, excluding borrowings	11.3	(222,894)	(19,408)
Change in accruals and deferrals under construction contracts	11.3	(128,269)	20,741
Income tax (paid)/received		(4,930)	(19,245)
Other		(42)	(698)
Net cash from operating activities		**97,953**	**12,660**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		1,641	1,374
Purchase of property, plant and equipment and intangible assets	11.3	(3,293)	(4,892)
Sale of financial assets		–	–
Purchase of financial assets		(243)	(202)
Proceeds from debt instruments held		3,685	–
Purchase of financial assets		–	–
Dividends and interest received		25	34
Other		–	169
Net cash from investing activities		**1,815**	**(3,517)**
Cash flows from financing activities			
Payment of finance lease liabilities		(2,032)	(2,193)
Proceeds from borrowings		–	32,295
Repayment of borrowings	11.3	(64,573)	–
Interest paid	11.3	(1,990)	(2,146)
Bank fees		(90)	(827)
Other		1,654	112
Net cash from financing activities		**(67,031)**	**27,241**
Net increase/(decrease) in cash and cash equivalents		**32,737**	**36,384**
Net foreign exchange differences		(193)	(32)
Cash at beginning of period	11.14	107,524	197,261
Cash at end of period	11.14	140,068	233,613

Racibórz, November 29th 2017

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PLN '000

Interim condensed consolidated statement of changes in equity

for the nine months ended September 30th 2017

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at January 1st 2017	**169,864**	**95,340**	**175,365**	**(97)**	**(5,617)**	**434,855**	**8,996**	**443,851**
Profit/(loss) from continuing operations	–	–	–	–	26,010	26,010	387	26,397
Other comprehensive income	–	–	–	(194)	(802)	(996)	(1)	(997)
Distribution of retained earnings	–	–	6,877	–	(6,877)	–	–	–
Change in Group structure	–	–	–	–	–	–	(86)	(86)
As at September 30th 2017 *(unaudited)*	**169,864**	**95,340**	**182,242**	**(291)**	**12,714**	**459,869**	**9,296**	**469,165**
As at January 1st 2016	**169,864**	**95,340**	**112,715**	**(41)**	**47,213**	**425,091**	**4,675**	**429,766**
Profit/(loss) from continuing operations	–	–	–	–	22,127	22,127	502	22,629
Other comprehensive income	–	–	–	(27)	(1,392)	(1,389)	(9)	(1,398)
Distribution of retained earnings	–	–	58,335	–	(58,335)	–	–	–
Change in Group structure	–	–	–	–	–	–	3,936	3,936
As at September 30th 2016 *(unaudited)*	**169,864**	**95,340**	**140,583**	**(68)**	**9,643**	**445,829**	**9,102**	**454,931**

Racibórz, November 29th 2017

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Notes to the interim condensed consolidated financial statements form an integral part thereof.

NOTES

1. General Information

The RAFAKO Group (the "Group") comprises RAFAKO S.A. (the "parent", the "Company") and its subsidiaries presented in Note 7.

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

The parent and other Group companies were established for an indefinite period.

These interim condensed consolidated financial statements of the Group cover the nine months ended September 30th 2017 and contain consolidated comparative data for the nine months ended September 30th 2016 and as at December 31st 2016. The interim condensed consolidated statement of comprehensive income contains data for the three months ended September 30th 2017 and the comparative data for the three months ended September 30th 2016, which have not been audited or reviewed by an auditor.

The Group's principal business activity includes:

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

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

These interim condensed consolidated financial statements for the nine months ended September 30th 2017 were authorised for issue by the parent's Management Board on November 29th 2017.

The Group's interim consolidated financial performance may not be indicative of its potential full-year financial performance.

2. Basis of preparation of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements of the Group for the nine months ended September 30th 2017 have been prepared in accordance with EU-endorsed International Accounting Standard 34 Interim Financial Reporting ("IAS 34").

These interim condensed consolidated financial statements do not include all the information and disclosures required in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the RAFAKO Group for the year ended December 31st 2016, which were authorised for issue on March 21st 2017.

The currency of these interim condensed consolidated financial statements is the Polish złoty ("PLN"), and all amounts are stated in thousands of złotys unless otherwise indicated.

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

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

These interim condensed financial statements of the Group have been prepared on the assumption that the Group companies will continue as going concerns for at least 12 months after the reporting date, i.e. September 30th 2017.

The most material factor affecting the RAFAKO Group's ability to continue as a going concern is the financial condition of the parent. These interim condensed consolidated financial statements of the RAFAKO Group have been prepared on the assumption that the Group will continue as a going concern for at least 12 months after the reporting period, i.e. September 30th 2017.

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

An analysis of the Group's financial position should take into consideration the following factors: in the nine months ended September 30th 2017, the parent recognised revenue of PLN 450m and a net loss of PLN 20m; further, as at September 30th 2017, RAFAKO S.A.'s net current assets were PLN 87m (including cash of PLN 51m). A year-on-year decrease in revenue in the first nine months of 2017 was primarily a consequence of lower revenue from nearly completed contracts combined with an early stage of work under two new major contracts, awarded to the Company in the six months ended December 31st 2016 (the EUR 150m contract to construct a biomass-fired co-generation unit and the PLN 289m contract to deliver and install an SCR system and upgrade electrostatic precipitators).

Despite the year-on-year decline in revenue, the parent managed to post a lower gross loss mainly as a result of revaluation of contracts based on a periodic analysis of costs incurred and assumptions concerning future costs.

As previously assumed, in the first nine months of 2017 the parent executed the following documents: an annex of June 30th 2017 with PKO BP S.A. to postpone the repayment of a PLN 150m facility until June 30th 2018 and an annex of March 1st 2017 with TAURON Wytwarzanie S.A. to increase the contract price for the Jaworzno project by PLN 71m and to extend the contract term by eight months. In addition, on August 16th 2017 the parent was notified that the bid submitted by a consortium of which it was a member had been selected as the winning bid by PT. PLN (PERSERO). The contract is to construct two coal-fired steam units (2x50 MW) on Lombok Island, Indonesia. RAFAKO S.A.'s share in the contract is EUR 70m. In 2017, the parent has secured from insurance companies new guarantee limits totalling PLN 138.9m. Guarantees provided under those limits can be used to secure contracts both in Poland and abroad. Work is under way to secure further guarantee limits, including bank limits, mainly for the financing of contracts performed abroad given the parent's participation in tenders organised outside Poland. In line with the Management Board's assumptions, these measures have a positive effect on the Group's liquidity.

An important part of the analysis of the parent's financial condition is a forecast of profit or loss and cash flows for the 12 months following September 30th 2017 (and for subsequent periods), prepared by its 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 RAFAKO 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 parent will acquire new contracts to fully deliver the budgeted revenue;
- Timely delivery and execution of the contracts in RAFAKO S.A.'s current order book, including in particular timely generation of cash flows from the contracts;
- Delivery of budgeted margins on the contracts in RAFAKO S.A'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 limitations of RAFAKO S.A.'s access to necessary financial guarantees imposed by financial institutions (such guarantees are necessary to acquire and execute contracts), and feasibility of extending financing of the parent's operations with a bank borrowing after June 30th 2018.

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

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

RAFAKO S.A.'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 Q1–Q3 2017, the subsidiary delivered revenue of PLN 852m and net profit of PLN 43m, had net current assets of PLN 145m, and identified no material risks to the execution of the project.

3. Significant accounting policies

The accounting policies applied in preparing these interim condensed consolidated financial statements are consistent with the policies applied in preparing the Group's full-year consolidated financial statements for the year ended December 31st 2016. After January 1st 2016, no new or revised standards or interpretations have been published which would be effective for annual periods beginning after January 1st 2016. Standards and interpretations published but not yet effective as they have not yet been endorsed by the European Union or have been endorsed by the European Union and have not been early applied by the Group are presented in the full-year financial statements for 2016. In the first nine months of 2017, only IFRS 17 Insurance Contracts and IFRIC 23 Uncertainty over Income Tax Treatments were published.

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

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

Implementation of IFRS 15

As at the date of these interim condensed consolidated financial statements, the Group was well advanced with work on implementing IFRS 15 *Revenue from Contracts with Customers,* analysing all running contracts in terms of their recognition in accordance with the amended revenue recognition criteria. Given the extent of amendments and required analysis, as at the date of these interim condensed consolidated financial statements the Group had yet not fully quantified the impact of implementation of IFRS 15 on the items of financial statements.

The Group has already performed the required analysis of most of its significant contracts in terms of meeting the recognition criteria in accordance with the five-step model, and at this stage it did not identify any major differences compared to its current approach to revenue recognition. The Group performs long-term contracts for the construction of assets tailored to individual customer needs, for which there is no alternative use. Given the nature of its services, the Group in general treats them as one performance obligation. The analysis of running contracts revealed also other obligations whose share in the value of a given contract is negligible or whose performance will coincide with the date of final settlement of the contract. In such cases, the Group will take advantage of the simplification permitted under this standard and account for such obligations as part of contract valuation without separating them. The Group passes control of an asset or service over time and thus satisfies its performance obligation and recognises revenue over time measuring progress towards complete satisfaction of a performance obligation based on the expenditure incurred.
Under the contracts, the Group is obliged to provide its customers with warranty services for completed projects. The Group is in the process of estimating the amount of provisions to reflect the expected cost of fulfilling contract warranties.
At the current stage of standard implementation, the Group is yet to decide whether the full or modified retrospective application of IFRS 15 will be used upon initial application of the standard.

Implementation of IFRS 9

As at the date of these interim condensed consolidated financial statements, the Group companies analysed their business models of financial asset management, whose main objective is to provide financing for the Group companies’ operations by maintaining financial assets to collect contractual cash flows or cash flows for repayments of principal and payments of interest.
The Group uses derivative instruments at fair value through profit or loss only to a limited extent. The parent holds shares in subsidiaries which are not listed on the Warsaw Stock Exchange, recognized in accordance with IFRS 10 *Consolidated Financial Statements*.
Except for introducing the expected credit losses model as the method of recognising impairment losses on receivables, the Group did not change the valuation methods for its financial assets.
As at the date of these interim condensed consolidated financial statements, the Group estimates that the effect of IFRS 9 will necessitate the recognition of additional impairment losses on trade receivables, whose amount will not be material.

4. Material judgements and estimates

4.1. Professional judgement

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

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

Classification of leases where the Group is the lessee

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

Embedded derivatives

At the end of each reporting period, the Group companies' management makes an assessment to determine whether any contracts that have been signed have the economic characteristics and risks of an embedded derivative in a foreign currency which would be closely related to the economic characteristics and risks of the host contract.

Consortium agreements

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

4.2. Uncertainty of estimates

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

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

Impairment of assets

At the end of a reporting period, the Group conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the 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 Group made an assessment of whether there are any indications of asset impairment. The analysis showed that during the nine months ended September 30th 2017 there were no such indications.

For further information on asset impairment as at the end of the reporting period, see Notes 11.11, 11.15 and 11.16 to these interim condensed consolidated financial statements.

Measurement of employee benefit obligations

Employee benefit obligations were estimated with actuarial methods.

The underlying assumptions are presented in Note 11.24. The change in employee benefit obligations in the reporting period resulted from the recognition of current service costs, interest expense and benefits paid.

Deferred tax asset

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

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 14

Depreciation and amortisation rates

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

Revenue recognition

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

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

Revenue

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

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

b) revenue from the provision of construction services is recognised with use of the percentage of completion method. Revenue from construction contracts is recognised and disclosed in line with the policies discussed in Note 7.28.6 to the financial statements for 2016;

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

Provision for expected contract losses

At the end of each reporting period the Group remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss is recognised as cost of core activities in accordance with IFRS. Details of accounting for construction contract revenue and expenses in the reporting period are presented in Note 10 to these interim condensed consolidated financial statements.

Provision for costs due to late performance of contracts

The Group recognises a provision for liquidated damages arising from late completion if the probability of being charged for late contract completion is significant and the delay is due to the fault of the Group companies as contractors. The amount of the provision reflects the amount of liquidated damages that may be charged for the delay. For details of provisions estimated in accordance with this policy, see Note 10 to these interim condensed consolidated financial statements.

Provision for warranty repairs

Provisions for warranty repairs are recognised based on estimates of expected and measurable costs of internal and external oversight, repairs and warranty works related to the company's contractual obligations arising from the completion of a long-term contract (including the cost of removal of non-critical faults and other costs of a completed master project which cannot be allocated to the master project being completed 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 Group makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the entity recognises an impairment loss to bring down the carrying amount to the present value of expected cash flows.

Uncertainty related to tax settlements

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

Tax settlements and other 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 the 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 restructuring.

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

Whenever it is uncertain whether and to what extent a tax authority would accept accounting for individual transactions, the Group accounts for such transactions taking into consideration an uncertainty assessment.

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Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	September 30th 2017	*December 31st 2016*	*September 30th 2016*
USD	3.6519	4.1793	3.8558
EUR	4.3091	4.4240	4.3120
GBP	4.8842	5.1445	4.9962
CHF	3.7619	4.1173	3.9802
SEK	0.4492	0.4619	0.4487
TRY	1.0269	1.1867	1.2822

5. Change in estimates

In the nine months ended September 30th 2017 and as at September 30th 2017, there were no changes of estimates in significant areas of the Group's operations, as discussed in Note 4.2.

6. Operating segments

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

The Group identifies the following operating segments:

Operating segments	Segment companies
Power and environmental protection facilities	RAFAKO S.A.
	E001RK Sp. z o.o.
	E003B7 Sp. z o.o.
Other segments	PGL – DOM Sp. z o.o.
	RAFAKO ENGINEERING Sp. z o.o.
	ENERGOTECHNIKA ENGINEERING Sp. z o.o.
	RAFAKO ENGINEERING SOLUTION doo.
	RAFAKO Hungary Kft.
	RENG – NANO Sp. z o.o.

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

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

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

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For the nine months ended September 30th 2017 or as at September 30th 2017	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	1,298,437	32,397	1,330,834	(2,167)	1,328,667
Inter-segment sales	4,714	12,604	17,318	(17,318)	–
Total segment revenue	1,303,151	45,001	1,348,152	(19,485)	1,328,667
Cost of sales	(1,181,225)	(38,151)	(1,219,376)	24,435	(1,194,941)
Total					
Gross profit/(loss)	121,926	6,850	128,776	4,950	133,726
Other income/(expenses)	(67,229)	(4,213)	(71,442)	(3,621)	(75,063)
Operating profit/(loss)	54,697	2,637	57,334	1,329	58,663
Finance income/(costs)	(6,242)	(34)	(6,276)	(434)	(6,710)
Profit/(loss) before tax	48,455	2,603	51,058	895	51,953
Income tax expense	(24,973)	(316)	(25,289)	(267)	(25,556)
Segment's net profit/(loss)	23,482	2,287	25,769	628	26,397
Results					
Depreciation and amortisation	9,305	1,317	10,622	(109)	10,513
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at September 30th 2017 (unaudited)					
Segment assets	1,142,494	79,739	1,222,233	(68,731)	1,153,502
Segment liabilities	692,660	23,972	716,632	(32,295)	684,337
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	2,713	1,247	3,960	(3)	3,957

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For the nine months ended September 30th 2016 or as at September 30th 2016 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	1,210,954	24,089	1,235,043	1,069	1,236,112
Inter-segment sales	1,110	14,934	16,044	(16,044)	–
Total revenue	1,212,064	39,023	1,251,087	(14,975)	1,236,112
Cost of sales	(1,130,808)	(32,365)	(1,163,173)	22,507	(1,140,666)
Result					
Gross profit/(loss)	81,256	6,658	87,914	7,532	95,446
Other income/(expenses)	(57,428)	(4,072)	(61,500)	(4,017)	(65,517)
Operating profit/(loss)	23,828	2,586	26,414	3,515	29,929
Finance income/(costs)	(1,074)	31	(1,043)	(411)	(1,454)
Profit/(loss) before tax	22,754	2,617	25,371	3,104	28,475
Income tax expense	(5,888)	(164)	(6,052)	206	(5,846)
Segment's net profit/(loss)	16,866	2,453	19,319	3,310	22,629
Depreciation and amortisation	9,893	1,128	11,021	(98)	10,923
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at September 30th 2016 (unaudited)					
Segment assets	1,337,815	71,314	1,409,129	(146,729)	1,262,400
Segment liabilities	894,906	18,412	913,318	(105,849)	807,469
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	6,769	5,317	12,086	(354)	11,732

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For the three months ended September 30th 2017 or as at September 30th 2017 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	443,644	13,697	457,341	(543)	456,798
Inter-segment sales	3,739	4,814	8,553	(8,553)	–
Total revenue	447,383	18,511	465,894	(9,096)	456,798
Cost of sales	(398,893)	(15,818)	(414,711)	10,915	(403,796)
Result					
Gross profit/(loss)	48,490	2,693	51,183	1,819	53,002
Other income/(expenses)	(21,386)	(1,409)	(22,795)	(1,017)	(23,812)
Operating profit/(loss)	27,104	1,284	28,388	802	29,190
Finance income/(costs)	598	(16)	582	(162)	420
Profit/(loss) before tax	27,702	1,268	28,970	640	29,610
Income tax expense	(11,662)	(172)	(11,834)	(824)	(12,658)
Segment's net profit/(loss)	16,040	1,096	17,136	(184)	16,952
Depreciation and amortisation	3,059	456	3,515	(37)	3,478
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at September 30th 2017 (unaudited)					
Segment assets	1,142,494	79,739	1,222,233	(68,731)	1,153,502
Segment liabilities	692,660	23,972	716,632	(32,295)	684,337
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	401	233	634	–	634

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For the three months ended September 30th 2016 or as at September 30th 2016 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	480,333	14,412	494,745	803	495,548
Inter-segment sales	608	4,841	5,449	(5,449)	–
Total revenue	480,941	19,253	500,194	(4,646)	495,548
Cost of sales	(446,263)	(15,059)	(461,322)	6,434	(454,888)
Result					
Gross profit/(loss)	34,678	4,194	38,872	1,788	40,660
Other income/(expenses)	(18,777)	(1,177)	(19,954)	(1,429)	(21,383)
Operating profit/(loss)	15,901	3,017	18,918	359	19,277
Finance income/(costs)	(583)	7	(576)	(162)	(738)
Profit/(loss) before tax	15,318	3,024	18,342	197	18,539
Income tax expense	(3,056)	(62)	(3,118)	49	(3,069)
Segment's net profit/(loss)	12,262	2,962	15,224	246	15,470
Depreciation and amortisation	3,429	409	3,838	(61)	3,777
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at September 30th 2016 (unaudited)					
Segment assets	1,337,815	71,314	1,409,129	(146,729)	1,262,400
Segment liabilities	894,906	18,412	913,318	(105,849)	807,469
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	2,785	258	3,043	(355)	2,688

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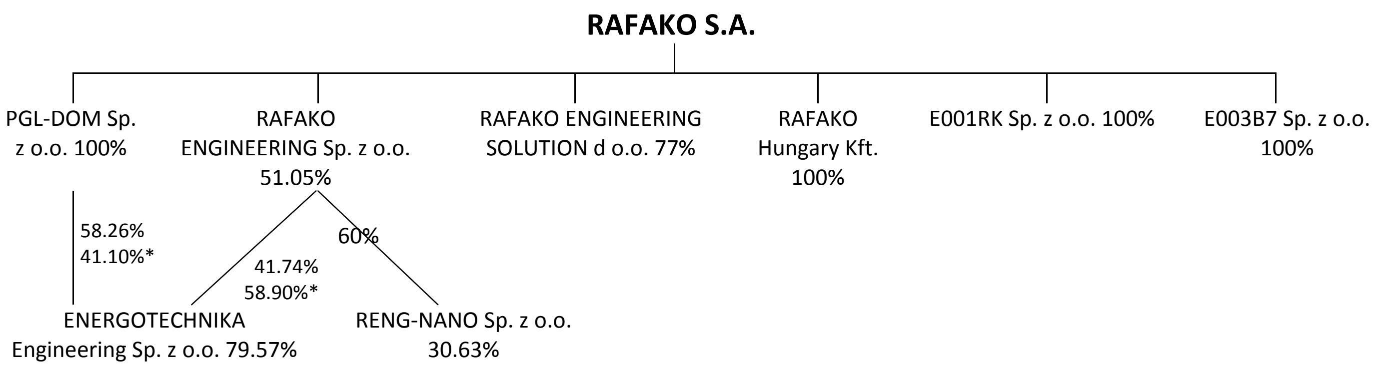
7. Scope of consolidated financial statements

The interim condensed consolidated financial statements include the financial statements of RAFAKO S.A. and the financial statements of its subsidiaries, with the exception of ELWO S.A. w upadłości (in bankruptcy) as the Group lost control over ELWO S.A.'s operations.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, using uniform accounting policies. The consolidated financial statements are prepared in accordance with IAS 27/IFRS 10 *Consolidated and Separate Financial Statements*.

As at September 30th 2017, the RAFAKO Group comprised the parent and eight subsidiaries operating in the power construction, services and trade sectors.

As at September 30th 2017, the following subsidiaries ("Companies", "Group Companies") were included in the Group's consolidated financial statements:



* % share of voting rights.

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

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

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Name and principal place of business	*Principal business activity (according to the Polish Classification of Business Activities)*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
E003B7 Sp. z o.o. of Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology	District Court of Gliwice KRS 486911	full
RENG-NANO Sp. z o.o.** of Racibórz	Manufacture of metal structures and components, repair and maintenance of finished metal goods	District Court of Gliwice KRS 663393	full

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

As at September 30th 2017 and December 31st 2016, the Company's share in total voting rights the Group held in the subsidiaries was equal to the parent's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which, as at the date of these interim condensed consolidated financial statements, RAFAKO Engineering Sp. z o.o. held 41.74% of preference shares (representing 58.90% of the total voting rights); 58.26% of the shares (representing 41.10% of the total voting rights) are held by PGL-DOM Sp. z o.o.

8. Changes in Group structure

In the nine months ended September 30th 2017, no changes occurred in the Group's structure.

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

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).

On July 24th 2017, the District Court for Katowice-Wschód closed the bankruptcy proceedings concerning Fabryka Elektrofiltrów ELWO S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) of Pszczyna, whose bankruptcy (including the liquidation of assets) was declared on February 26th 2009 by decision of the District Court for Katowice-Wschód in Katowice.

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

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

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10. 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 running contracts as at September 30th 2017, December 31st 2016 and September 30th 2016, as well as gross amount due to customers and gross amount due from customers for contract work at the dates stated above.

	September 30th 2017 (unaudited)	*December 31st 2016*	*September 30th 2016 (unaudited)*
Contract costs incurred to date (cumulative)	5,263,264	4,585,053	3,986,326
Recognised profits less recognised losses to date (cumulative)	334,085	328,791	290,550
Contract revenue recognised by reference to the contract stage of completion (cumulative)	5,597,349	4,913,844	4,276,876
Progress billings (cumulative)	5,265,129	4,722,666	4,109,895
Gross amount due to customers for contract work (liability), including:	**(167,259)**	**(156,644)**	**(134,537)**
- advance payments received (liabilities arising from advances received)	(174,287)	(166,642)	(158,977)
- adjustment to advances related to amounts due from customers	49,141	85,890	95,362
- gross amount due to customers for contract work	(42,113)	(75,892)	(70,922)
Prepayments relating to accounting for construction contracts, including:	**364,786**	**235,351**	**192,387**
- gross amount due from customers for contract work (asset)	339,760	205,197	159,820
- contract acquisition cost and other accrued contract costs	25,026	30,154	32,567
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(4,795)	(4,856)	(3,762)
Provision for construction contract losses	(9,773)	(19,161)	(13,517)

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

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

10.1 Key contracts executed by the Group

10.1.1 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 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The value of the contract is approximately PLN 5.5bn (VAT included). On August 4th 2013, the Jaworzno Project consortium agreement was amended, with RAFAKO taking over 99.99% of the project deliveries (with Mostostal Warszawa taking the remaining 0.01%); consequently, the distribution of consideration due to the consortium members changed to reflect the members' actual shares in the project.

Rules of 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 pressurised parts and a dust removal unit), scheduled mainly for 2015–2017.

For the purposes of execution of the Project, RAFAKO S.A. and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/insurance guarantees with an aggregate initial amount of PLN 645m, required for the Project execution; under the same agreements, security for the guarantees was established over the assets of RAFAKO SA and E003B7 Sp. z o.o. On November 20th 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 34 to these interim condensed consolidated financial statements.

Given the arrangements with the credit and guarantee providers, the parent does not plan for E003B7 sp. z o.o. to pay any dividend before the expiry of the guarantee agreements (April 2020) as this could result in an adverse response from the guarantee issuers.

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

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

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

10.1.2 Opole Project

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

Rules of accounting for the Opole Project:

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

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

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

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

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

For the nine months ended September 30th 2017, the Group posted revenue of PLN 1,328,667 thousand, up by PLN 92,555 thousand on the corresponding period of 2016. The increase was mainly attributable to further progress in the performance of the Jaworzno contract (construction of a 910 MW power generating unit at the Jaworzno III Power Plant). The revenue increase was recorded in both domestic and foreign markets.

In the nine months ended September 30th 2017, cost of sales amounted to PLN 1,194,941 thousand, with the Group's gross profit at PLN 133,726 thousand. The change versus the comparative period of nine months ended September 30th 2016 was mainly related to the sales increase achieved by the Group.

Distribution costs disclosed by the Group mainly include contract acquisition cost as well as cost of promotion and advertising. This item also includes impairment losses on trade receivables. Distribution costs recognised in the Group's comprehensive income for the nine months ended September 30th 2017 (PLN 28,079 thousand) were primarily attributable to contract acquisition costs of PLN 8,940 thousand (September 30th 2016: PLN 19,446 thousand) and costs of promotion and advertising of PLN 4,029 thousand (September 30th 2016: PLN 3,216 thousand), as well as the recognition of an impairment loss on receivables of PLN 3,112 thousand.

In the current reporting period, other income chiefly included gain on sale of property, plant and equipment of PLN 1,126 thousand (September 30th 2016: PLN 671 thousand) and income from liquidated damages and compensation payments totalling PLN 193 thousand (September 30th 2016: PLN 483 thousand).

Other expenses chiefly included donations and subsidies of PLN 1,896 thousand (September 30th 2016: PLN 807 thousand) and scrapping cost of PLN 375 thousand (September 30th 2016: PLN 499 thousand).

In the nine months ended September 30th 2017, the Group's finance income was generated mainly from interest on financial instruments of PLN 1,478 thousand (September 30th 2016: PLN 1,834 thousand), including PLN 318 thousand of interest on security deposits provided in respect of contracts (September 30th 2016: PLN 677 thousand).

Finance costs in the period chiefly included net foreign exchange losses of PLN 3,513 thousand (September 30th 2016: PLN 650 thousand), discount on non-current settlements of PLN 1,137 thousand, interest on financial instruments of PLN 2,047 thousand (September 30th 2016: PLN 2,428 thousand), and interest on employee benefit obligations of PLN 573 thousand (September 30th 2016: PLN 637 thousand).

PLN '000

11.2.Income tax expense

Income tax expense

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

Continuing operations	*9 months ended September 30th 2017 (unaudited)*	*9 months ended September 30th 2016 (unaudited)*	*3 months ended September 30th 2017 (unaudited)*	*3 months ended September 30th 2016 (unaudited)*
Consolidated statement of profit or loss				
Current income tax	(10,214)	(12,508)	(2,811)	1,522
Current income tax expense	(10,346)	(12,509)	(2,807)	1,522
Adjustments to current income tax from previous years	132	1	(4)	–
Deferred tax	(15,342)	6,662	(9,847)	(4,591)
Related to recognition and reversal of temporary differences	(15,342)	6,662	(9,847)	(4,591)
Adjustments to deferred tax from previous years	–	–	–	–
Income tax expense in the consolidated statement of profit or loss	**(25,556)**	**(5,846)**	**(12,658)**	**(3,069)**
Deferred tax on other comprehensive income	189	318	207	254
Related to recognition and reversal of temporary differences	189	318	207	254
Adjustments to current income tax from previous years	–	–	–	–
Income tax expense recognised in other comprehensive income	**189**	**318**	**207**	**254**

PLN '000

Deferred income tax calculated as at September 30th 2017

Deferred income tax calculated as at September 30th 2017 relates to:

	Statement of financial position		*Statement of comprehensive income for the nine months ended*	
	September 30th 2017 (unaudited)	*December 31st 2016*	*September 30th 2017 (unaudited)*	*September 30th 2016 (unaudited)*
- investment reliefs	(2)	(2)	–	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(16,241)	(16,252)	11	2,567
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,592	1,641	(49)	(44)
- difference between tax base and carrying amount of loans and receivables	2,123	1,739	384	493
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(67,503)	(42,605)	(24,898)	840
- difference between tax base and carrying amount of inventories	2,200	2,276	(76)	5
- provisions	49,376	39,243	10,133	1,611
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	–	–	(44)
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	34	–	34	–
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	37,480	38,095	(615)	(3,374)
- tax asset related to tax loss	17,170	17,243	(73)	16,198
- adjustment to costs of unpaid invoices	6,318	7,763	(1,445)	(8,211)
- other	3,303	1,862	1,441	(552)
Deferred tax expense			**(15,153)**	**9,489**
Net deferred tax asset/(liability)	**35,850**	**51,003**		
Deferred tax expense – continuing operations			**(15,153)**	**6,980**
Net deferred tax asset/(liability) including:	**35,850**	**51,003**		
Deferred tax assets	35,909	51,387		
Deferred tax liability	59	384		

As at September 30th 2017, the Group recognised a deferred tax asset on a tax loss of PLN 90,368 thousand, which will be offset against profits in future reporting periods.

In the nine months ended September 30th 2017, the parent recorded a tax loss of PLN 73,239 thousand. The parent assessed its ability to realise a deferred tax asset on account of the tax loss based on tax forecasts. In line with the prudent valuation principle, the Management Board of RAFAKO S.A. decided not to recognise a deferred tax asset on the tax loss recorded in the nine months ended September 30th 2017. The total amount of tax loss for 2016 and 2017 which was not recognized in deferred tax is PLN 107,828 thousand.

11.3.Significant items disclosed in the statement of cash flows

The PLN 392,926 thousand decrease in receivables disclosed in the interim condensed consolidated statement of cash flows for the nine months ended September 30th 2017 resulted mainly from:

- PLN 407,865 thousand decrease in trade receivables,
- PLN (29,500) increase in receivables from the state budget (including VAT),
- PLN 5,778 thousand decrease in advance payments made,
- PLN 15,502 thousand decrease in security deposits receivable,
- PLN (6,234) thousand increase in disputed receivables,
- PLN (485) thousand increase in other receivables.

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

The PLN 222,894 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (229,740) thousand decrease in trade payables,
- PLN (3,448) thousand decrease in the provision for warranty repairs,
- PLN (1,672) thousand decrease in the provision for employee benefits,
- PLN 16,685 thousand increase in the provision for delayed cost collection,
- PLN (4,980) thousand decrease in the provision for the voluntary redundancy programme,
- PLN (14,021) thousand decrease in VAT liabilities,
- PLN 11,910 thousand set-off of income tax liabilities,
- PLN 2,372 thousand increase in other liabilities.

The PLN (128,269) thousand change in accruals and deferrals relating to accounting for construction contracts as disclosed in the statement of cash flows was mainly caused by:

- PLN (129,435) thousand increase in gross amount due from customers for construction contract work and related prepayments and accrued income,
- PLN 10,615 thousand increase in gross amount due to customers for contract work,
- PLN (9,449) thousand decrease in provisions for contract work, including:
  PLN 44,394 thousand decrease in advances.

The PLN 44,394 thousand decrease in advances in the nine months ended September 30th 2017 (for the nine months ended September 30th 2016: PLN 36,652 thousand increase) resulted primarily from recognising a portion of advances received as revenue, in accordance with the methodology of accounting for construction contracts (IAS 11).

The cash flows of PLN 3,293 thousand relating to acquisition of property, plant and equipment and intangible assets resulted from purchase of property, plant and equipment for PLN 2,721 thousand and purchase of intangible assets for PLN 572 thousand.

Cash flows from financing activities were mainly affected by a decrease of PLN 64,573 thousand in debt outstanding under the overdraft facility and working capital facility advanced to the parent by PKO BP S.A. (nine months ended September 30th 2016: increase in outstanding debt by PLN 32,295 thousand).

PLN '000

11.4. Property, plant and equipment

For the nine months ended September 30th 2017 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2017	**23,754**	**89,344**	**54,122**	**9,161**	**795**	**1,409**	**178,585**
Transfers from property, plant and equipment under construction	–	821	2,273	–	–	(3,094)	–
Acquisitions	–	5	173	763	474	1,863	3,278
Lease agreements	–	–	–	110	–	–	110
Liquidation/sale	(4)	(135)	(1)	(169)	–	–	(309)
Exchange differences on translating foreign operations	–	–	(2)	(1)	(6)	–	(9)
Depreciation for period	–	(2,186)	(5,354)	(1,733)	(226)	–	(9,499)
Impairment loss for period	–	–	–	–	–	–	–
Acquisition of subsidiary	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	59	680	31	(3)	–	–	767
Net carrying amount as at Sep 30 2017 (unaudited)	**23,809**	**88,529**	**51,242**	**8,128**	**1,037**	**178**	**172,923***

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

For the nine months ended September 30th 2016 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2016	**23,776**	**91,838**	**56,485**	**8,389**	**787**	**2,164**	**183,439**
Transfers from property, plant and equipment under construction	–	373	2,158	219	–	(2,749)	–
Acquisitions	–	–	311	2,454	223	3,412	6,400
Liquidation/sale	(4)	(68)	(160)	(165)	–	–	(397)
Exchange differences on translating foreign operations	–	–	(1)	–	(16)	–	(15)
Depreciation for period	–	(2,129)	(5,486)	(1,624)	(189)	–	(9,428)
Impairment loss for period	–	–	–	27	–	–	27
Acquisition of subsidiary	–	–	–	86	13	–	99
Other, including reclassification of property, plant and equipment to/from assets held for sale	(2)	(54)	97	(33)	–	–	8
Net carrying amount as at Sep 30 2016 *(unaudited)*	**23,770**	**89,960**	**53,404**	**9,353**	**818**	**2,827**	**180,133**

PLN '000

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

	9 months ended September 30th 2017 (unaudited)	*9 months ended September 30th 2016 (unaudited)*
Purchase of property, plant and equipment and intangible assets*	3,957	11,732
Proceeds from sale of property, plant and equipment and intangible assets	1,641	1,374

* Capital expenditure incurred in the period to purchase property, plant and equipment, as shown in the table of changes in property, plant and equipment, and capital expenditure incurred to purchase intangible assets.

The Group's capital expenditure on property, plant and equipment involved chiefly expenditure to purchase production plant and equipment, vehicles and computer hardware. The expenditure was financed with internally generated funds and finance leases.

11.6. Goodwill

In the nine months ended September 30th 2017, goodwill did not change and amounted to PLN 9,165 thousand as at as at September 30th 2017.

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

	September 30th 2017 (unaudited)	*December 31st 2016*
Trade receivables, including:	45,037	33,817
Trade receivables from related entities	–	–
Trade receivables from other entities	45,037	33,817
Other receivables and prepayments, including:	192	190
Security deposits	108	97
Investment receivables	–	–
Other	84	93
Total receivables (net)	**45,229**	**34,007**
Impairment loss on receivables	–	–
Gross receivables	**45,229**	**34,007**

11.8. Shares in other entities

	September 30th 2017 (unaudited)	*December 31st 2016*
Shares in other listed companies	274	821
Shares in other non-listed companies	19	19
	293	**840**

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

PLN '000

11.9.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 consolidated 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	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 parent in Q1 2017.

2. In accordance with the terms of issue, the bonds issued by PGB S.A. are secured bonds within the meaning of the Bonds Act of January 15 2015. The bonds are secured primarily with a registered pledge over 42,466,000 RAFAKO shares in a book-entry form (which represents 50% plus 1 share in RAFAKO's share capital), mortgages over PBG Group's properties (including one mortgage securing another financial liability of PBG S.A.), registered pledges over other assets of the PBG Group, sureties and declarations of voluntary submission to enforcement up to the amount of PLN 1,065,000,000.00, pursuant to Art. 777 of the Code of Civil Procedure. In the opinion of the Management Board, the provided collateral corresponding to the total amount payable under the bonds as at the date of these condensed quarterly financial statements is sufficient to consider the receivables as recoverable.

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 dated March 9th 2017, the first listing of Series B, C, D, E, F, G, H and I bearer bonds of PGB S.A. in the Catalyst alternative trading system took place on March 10th 2017.

PLN '000

During the nine months ended September 30th 2017, the higher-tier parent PBG S.A. redeemed Series B and C bonds worth in aggregate PLN 3,685,400.

Taking into consideration the successful completion of the voluntary arrangement process and performance of the arrangement by PBG S.A., the Management Board believes that the parent's acquisition of bonds secured by a registered pledge on RAFAKO S.A. shares and mortgages significantly changes the circumstances and prospects for recovery of the receivables, compared with December 31 2015 (described in the respective financial statements). Given the current circumstances, as at the date of these condensed interim financial statements, the Management Board deems the risk of non-recovery of the receivables as minimal.

As at September 30th 2017, the discounted value of bonds maturing in more than one year was PLN 25,600 thousand.

11.10. Other non-current financial assets

	September 30th 2017 (unaudited)	*December 31st 2016*
Other non-current financial assets, including:	–	24,071
Arrangement receivables from related entity	–	24,071
	–	**24,071**

In 2017, the parent converted arrangement receivables from a related entity, PBG S.A., into bonds, as described in detail in Note 11.9 to these interim condensed consolidated financial statements.

11.11. Inventories

	September 30th 2017 (unaudited)	*December 31st 2016*
Materials (at net realisable value)	15,043	13,796
At cost	26,623	25,774
At net realisable value	15,043	13,796
Merchandise	321	187
At cost	321	187
At net realisable value	321	187
Total inventories, at the lower of cost and net realisable value	**15,364**	**13,983**

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

Inventory write-downs

	9 months ended September 30th 2017 (unaudited)	*9 months ended September 30th 2016 (unaudited)*
At beginning of period	(11,978)	(10,353)
Write-down recognised	(796)	(4,052)
Write-down used	1,194	3,951
Write-down reversed	–	–
At end of period	**(11,580)**	**(10,454)**

PLN '000

11.12. Short-term bonds

As at September 30th 2017, the parent held PLN 6,112 thousand worth of bonds with maturity of less than one year, as described in detail in Note 11.9 to these interim condensed consolidated financial statements.

11.13. Other current financial assets

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

In 2017, the parent converted arrangement receivables from a related entity into bonds, as described in detail in Note 11.9 to these interim condensed consolidated financial statements.

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

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

11.14. Cash and cash equivalents

	September 30th 2017 (unaudited)	*December 31st 2016*	*September 30th 2016 (unaudited)*
Cash at bank and in hand	139,123	106,342	233,516
Short-term deposits for up to 3 months, including:	945	1,182	97
	140,068	**107,524**	**233,613**

Cash at banks earns interest at variable rates linked to the reference rates prevailing on the interbank market. Short-term deposits, classified as cash, are placed for various periods, usually of one day to one month, depending on the Group's current cash requirement, and earn interest at rates agreed with the bank.

The Group companies hold restricted cash, including cash from grants (held in separate bank accounts), which may be used to pay amounts due under current projects.

PLN ‘000

As at September 30th 2017, cash included restricted cash of PLN 82.2m (December 31st 2016: PLN 36.5m), being cash held by the subsidiary E003B7 Sp. z o.o. and earmarked for the Jaworzno contract. From the RAFAKO Group’s perspective, this cash is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno project.

Dividend may be paid by E003B7 Sp. z o.o. to its sole shareholder, RAFAKO S.A., without triggering an adverse response from the financial institutions only after the expiry of the guarantee provided by those institutions (for details, see Note 10.1.1).

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

	September 30th 2017 (unaudited)	*December 31st 2016*
Trade receivables, including:	168,178	587,263
Trade receivables from related entities	2,959	4,613
Trade receivables from other entities	165,219	582,650
Income tax receivable	2,391	19,583
Other receivables and prepayments, including:	158,264	143,519
Receivables under advance payments	21,097	26,875
Receivables from the state budget	59,703	30,203
Settlement of property insurance costs	188	723
Settlements with the Company Social Benefits Fund	773	237
Disputed receivables*	20,178	13,944
Prepaid expenses	3,212	2,504
Security deposits	52,759	68,263
Other	354	770
Total receivables (net)	**328,833**	**750,365**
Impairment loss on receivables	33,786	32,472
Gross receivables	**362,619**	**782,837**

*The parent recognised an impairment loss on the receivables in an amount corresponding to the risk of their non-recoverability. For a detailed description of disputed receivables, see Note 22 to these interim condensed consolidated financial statements.

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

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

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

Short-term trade receivables of PLN 168,178 thousand recognised in the interim condensed consolidated statement of financial position as at September 30th 2017 relate to trading contracts with domestic and foreign trading partners.

PLN '000

Security deposits of PLN 52,759 thousand disclosed in the consolidated statement of financial position as at September 30th 2017 relate mainly to projects implemented in the following areas:

- construction of a coal-fired steam unit – PLN 14,608 thousand,
- SCR system – PLN 8,139 thousand,
- manufacture of high-pressure parts of a boiler – PLN 5,616 thousand.

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

- a PLN 14,024 thousand cash security deposit returned in connection with the construction of a power generation unit,
- a PLN 7,279 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.

A significant item of other receivables were advance payments, which as at September 30th 2017 amounted to PLN 21,097 thousand and included:

- advance payment of PLN 7,613 thousand under a contract for the delivery and assembly of an NOx reduction unit;
- advance payment of PLN 2,620 thousand under a contract to design, deliver and install thermal and sound insulation,
- advance payment of PLN 2,100 thousand under a contract for the design, delivery and assembly of high-pressure pipelines together with valves and auxiliary systems, as well as selection and assembly of primary fixings, as part of a power generation unit construction.

11.16. Impairment losses on consolidated assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Receivables****
January 1st 2017	(24,363)	(10,500)	(5,676)	(11,978)	(32,472)
Recognised	–	–	–	(796)	(4,551)
Reversed	66	–	–	–	806
Used	19,375	–	–	1,194	2,431
September 30th 2017 *(unaudited)*	**(4,922)**	**(10,500)**	**(5,676)**	**(11,580)**	**(33,786)**
January 1st 2016	(24,361)	(164,557)	(5,676)	(10,352)	(32,393)
Recognised	(30)	–	–	(4,052)	(664)
Reversed	10	–	–		576
Used	–	154,057	–	3,951	4
September 30th2016 *(unaudited)*	**(24,381)**	**(10,500)**	**(5,676)**	**(10,454)**	**(32,477)**

* Impairment losses on shares in companies are recognised for shares in companies declared bankrupt and in connection with remeasurement of shares in companies which are in a company voluntary arrangement process.
** Inventory write-downs and write-down reversals are charged to cost of products and services sold.
*** Impairment losses on long- and short-term trade and other receivables, including contractual penalties.

In connection with the decision of the District Court for Katowice-Wschód of July 24th 2017 to close the insolvency proceedings in respect of Fabryka Elektrofiltrów ELWO S.A. w upadłości likwidacyjnej (in liquidation bankruptcy) of Pszczyna, the parent used the impairment loss on the shares held in the subsidiary in a total amount of PLN 19,375 thousand.

PLN '000

11.17. Assets pledged as security for the Group's liabilities

11.17.1. Property, plant and equipment pledged as security

As at September 30th 2017, property, plant and equipment pledged as security for the Group's liabilities amounted to PLN 145,024 thousand. The parent's property, plant and equipment of PLN 137,367 thousand are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights). In addition, a subsidiary's buildings and structures worth PLN 3,274 thousand, as well as IT equipment and office containers worth PLN 2,815 thousand are pledged as security for liabilities under credit facility agreements.

	September 30th 2017 (unaudited)	*December 31st 2016*
Mortgaged property, plant and equipment, including:	92,342	90,182
land	9,258	9,258
buildings and structures	83,084	80,924
Property, plant and equipment encumbered with registered pledge, including:	51,114	50,259
plant and equipment	50,004	48,935
vehicles	1,110	1,324
	143,456*	**140,441***

*The disclosed amounts include property, plant and equipment of PLN 35 thousand classified as held for sale (December 31st 2016: PLN 7 thousand).

11.17.2. Intangible items pledged as security

As at September 30th 2017, intangible assets worth PLN 10,752 thousand were pledged as security for the parent's liabilities (December 31st 2016: PLN 11,058 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.17.3. Shares pledged as security

As at September 30th 2017, PLN 29,642 thousand (December 31st 2016: PLN 29,576 thousand) worth of shares in companies were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over the shares held in E003B7 Sp. z o.o.).

11.17.4. Inventories pledged as security

As at September 30th 2017, inventories worth PLN 13,411 thousand were pledged as security for the parent’s liabilities (December 31st 2016: PLN 13,039 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.’s, PKO BP S.A.’s, mBank S.A.’s and PZU S.A.’s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.18. Share capital

In the nine months ended September 30th 2017, the parent’s share capital remained unchanged and as at September 30th 2017 was worth PLN 169,864 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
	84,931,998	**169,864**

11.19. Par value per share

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

11.20. Shareholders’ rights

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

11.21. Share premium

The share premium comprises the excess of issue price over the par value of the shares, amounting to PLN 77,947 thousand. On May 15th 2000, RAFAKO S.A.’s General Meeting resolved to allocate PLN 41,169 thousand to cover accumulated loss brought forward from previous years. In 2015, following the recognition of share premium of PLN 58,562 thousand on sale of Series J shares, less issue costs, the share premium totalled PLN 95,340 thousand (December 31st 2016: PLN 95,340 thousand).

11.22. Dividends paid

In the nine months ended September 30th 2017 and by the date of these interim condensed consolidated financial statements, Group companies did not pay any dividends.

PLN '000

11.23. Earnings /(loss) per share

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

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

	9 months ended September 30th 2017 (unaudited)	*9 months ended September 30th 2016 (unaudited)*
Net profit/(loss) from continuing operations	26,397	22,629
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	**26,010**	**22,127**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	84,931,998	84,931,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings/(loss) per share	**84,931,998**	**84,931,998**
Earnings/(loss) per share, PLN		
– basic/diluted earnings from profit/(loss) attributable to holders of ordinary shares for period	0.31	0.26

In the nine months ended September 30th 2017, the parent did not issue new shares.

The Group does not present diluted earnings per share for the nine months ended September 30th 2017 as it does not have any dilutive financial instruments.

11.24. Post-employment and other benefits

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

	September 30th 2017 (unaudited)	*December 31st 2016*
As at January 1st	23,877	25,556
Interest expense	573	713
Current service costs	385	528
Actuarial (gains)/losses	991	854
Benefits paid	(1,805)	(2,714)
Recognition/reversal of provision for employee benefit obligations	1,060	(1,060)
Closing balance	**25,081**	**23,877**
Long-term provisions	22,641	21,855
Short-term provisions	2,440	2,022

PLN '000

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

	September 30th 2017 (unaudited)	*December 31st 2016*
Discount rate (%)	3.3	3.1
Expected inflation rate (%)*	–	–
Employee turnover rate	6	5
Expected growth of salaries and wages (%)**	2.81	2.81

* No data provided in the actuary's report.
** 2.81% in 2017 and 2% in 2018 and subsequent years.

11.25. Long-term trade and other payables

	September 30th 2017 (unaudited)	*December 31st 2016*
Trade payables		
Payables to related entities	–	5
Payables to other entities	43,048	40,208
	43,048	**40,213**
Financial liabilities		
Finance lease liabilities	2,352	3,540
	2,352	**3,540**
Other liabilities		
Employee benefit obligations	495	530
Amounts payable for tangible and intangible assets	71	149
Provisions for warranty repairs	5,555	5,718
Amounts payable under voluntary redundancy programme	478	1,460
	6,599	**7,857**

11.26. Short-term provisions, trade and other payables

	September 30th 2017 (unaudited)	*December 31st 2016*
Trade payables		
Payables to related entities	1,557	1,400
Payables to other entities	239,344	472,076
	240,901	**473,476**
Capital commitments	995	1,610
	995	**1,610**

PLN '000

	September 30th 2017 (unaudited)	December 31st 2016
Other liabilities		
VAT	7,964	21,985
Personal income tax	2,742	2,552
Social security	8,713	9,471
Amounts payable to the Tax Office	–	6
Other taxes, customs duties and insurance payable	294	238
Salaries and wages payable	9,161	9,363
Accrued holiday entitlements	4,062	4,999
Employee benefit obligations	9,864	11,501
Provisions for warranty repairs	9,224	12,509
Amounts payable under voluntary redundancy programme	1,636	5,634
Provision for uninvoiced services and materials	21,805	5,120
Audit provision	407	177
Settlements with the Company Social Benefits Fund	201	9
Prepaid deliveries	1,679	–
Other current accruals and deferred income	14,257	9,890
Security deposits	274	289
Provision for future costs	4,565	6,644
Other	859	1,417
	97,707	**101,804**
Other financial liabilities		
Finance lease liabilities	2,412	2,045
Measurement of derivative instruments	176	–
	2,588	**2,045**

12. Objectives and policies of financial risk management

The objectives and policies of financial risk management have not changed relative to those published in the most recent consolidated full-year financial statements for 2016.

13. Derivative instruments

As at September 30th 2017, the Group 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 September 30th 2017, the Group did not carry any other types of open derivative instruments.

The Group companies do not apply hedge accounting, but the transactions are not speculative and their purpose is to effectively hedge purchase/sale contracts in foreign currencies.

PLN '000

14. Financial instruments

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

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

	Carrying amount	
	September 30th 2017 (unaudited)	*December 31st 2016*
Available-for-sale financial assets	**275**	**209**
Long-term shareholdings	275	209
Assets at fair value through profit or loss	**13**	–
Derivative instruments	13	–
Financial assets held to maturity	**31,712**	–
Long-term bonds	25,600	–
Short-term bonds	6,112	–
Loans and receivables	**286,152**	**738,597**
Trade receivables	213,215	621,080
Other receivables (security deposits)	72,937	82,207
Loans advanced	–	35
Current deposits	–	74
Other non-current financial assets*	–	24,071
Other current financial assets*	–	11,130
Cash and cash equivalents	**140,068**	**107,524**
	458,220	**846,330**

* For a detailed description of changes, see Note 11.10

	Carrying amount	
	September 30th 2017 (unaudited)	*December 31st 2016*
Financial liabilities at amortised cost	**366,991**	**662,555**
Borrowings	81,976	147,107
Trade payables (including capital commitments)	285,015	515,448
Financial liabilities at fair value through profit or loss	**176**	–
Derivative instruments	176	–
Liabilities under guarantees and factoring and liabilities excluded from the scope of IAS 39	**4,764**	**5,585**
Liabilities under leases and rental contracts with purchase option	4,764	5,585
	371,931	**668,140**

PLN '000

15. Borrowings

As at September 30th 2017, the Group's liabilities under bank and non-bank borrowings were PLN 81,976 thousand.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						Sep 30 2017 (unaudited)	*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 cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising the entire business of the Company, a revolving overdraft facility of up to PLN 100m***		PLN	1M WIBOR + margin	30/06/2018****	53,457	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	a revolving working capital facility of up to PLN 50m***	PLN	1M WIBOR + margin	30/06/2018****	28,519	47,713
						81,976	**147,107**

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

** As at the date of these interim condensed consolidated financial statements, the parent had established mortgages on RAFAKO S.A.'s properties (other than flats and residential buildings) for a total amount of up to PLN 300m, serving as additional security for the PKO BP credit facilities.

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

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

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

The RAFAKO Group's credit standing should be analysed taking into account the information included in Note 2, relating to continuation of the Group's operations.

PLN '000

16. Capital management

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

	September 30th 2017 (unaudited)	*December 31st 2016*
Share of debt in equity		
Equity attributable to owners of the parent	459,869	434,855
External capital (bank credit facility)	81,976	147,107
Total equity and liabilities	1,153,502	1,427,069
Capitalisation ratio	**0.40**	**0.30**

17. Provisions for costs

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

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

During the nine months ended September 30th 2017, the parent reversed/utilised a provision of PLN 4,884 thousand for costs of late performance, in connection with an out-of-court settlement with a key customer. Moreover, using the most recent contract data and based on settlements of completed contracts, the parent decided to recognise a PLN 4,823 thousand provision for costs of late performance.

PLN '000

17.2. Change in provisions, liabilities and accruals and deferred income disclosed in the Group's consolidated statement of financial position

	*Provision for expected contract losses**	*Provision for jubilee benefits, retirement gratuity and Company Social Benefits Fund*	*Provision for holiday entitlements***	*Provisions for warranty repairs***	*Provision for contractual penalties*	*Employee benefit obligations***	*Provision for voluntary redundancy programme*	*Provision for other costs***	*Other provisions*
January 1st 2017	19,160	23,877	4,999	18,227	4,856	12,031	7,094	6,644	177
Provision recognised	2,805	3,009	287	7,271	4,823	3,373	–	6,480	407
Reversal of provision	–	–	–	–	(678)	(4,533)	–	(6,574)	(6)
Utilised	(12,192)	(1,805)	(1,224)	(10,719)	(4,206)	(512)	(4,980)	(1,985)	(171)
September 30th 2017 *(unaudited)*	**9,773**	**25,081**	**4,062**	**14,779**	**4,795**	**10,359**	**2,114**	**4,565**	**407**
January 1st 2016	29,885	25,556	3,659	11,925	–	11,548	–	7,000	227
Provision recognised	2,729	542	805	10,206	12,415	4,823	–	938	352
Reversal of provision	–	–	–	–	(8,653)	(4,189)	–	–	(146)
Utilised	(19,097)	–	(317)	(7,154)	–	(1,441)	–	(744)	(205)
September 30th 2016 *(unaudited)*	**13,517**	**26,098**	**4,147**	**14,977**	**3,762**	**10,741**	–	**7,194**	**228**

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

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

On September 12th 2017, the parent's Extraordinary General Meeting passed Resolution No. 4 on increasing the parent'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, public offering of new shares, setting the record date for pre-emptive rights in respect of new shares for November 6th 2017, conversion into book-entry form and seeking admission of pre-emptive rights, allotment certificates and new shares to trading on a regulated market of the Warsaw Stock Exchange, amendment of the parent's articles of association, and authorising the Supervisory Board to adopt the consolidated text of RAFAKO S.A.'s Articles of Association.

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 ordinary bearer shares (the "Offer Shares") was set at PLN 4 (four złoty) per Offer Share; ii) 1 (one) individual pre-emptive right entitles to subscribe for 0.50040033204 of one Offer Share, and 1.99839995294 individual pre-emptive rights entitle to subscribe for 1 (one) Offer Share. The parent's Management Board decided not to make use of its authorisation to determine the final amount by which the share capital of RAFAKO S.A is to be increased. Therefore, the final number of the Offer Shares is equal to the maximum number of the Offer Shares provided for in the Resolution, i.e. 42,500,000 (forty-two million, five hundred thousand) Offer Shares.

On November 3rd 2017, the Polish Financial Supervision Authority approved the issue prospectus, which was published in electronic form on RAFAKO S.A.'s website. On November 7th 2017, the Management Board of the Warsaw Stock Exchange („WSE") passed Resolution No. 1305/2017 under which 84,931,998 pre-emptive rights to series K ordinary bearer shares will be listed from November 9th 2017 through November 14th 2017.

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") of the parent RAFAKO S.A., to which the Company and Multaros will be entitled if RAFAKO S.A. carries out the planned public offering of no more than 42,500,000 series K ordinary bearer shares with a par value of PLN 2 per share, with pre-emptive rights in favour of the existing shareholders. FIPP FIZ AN intends 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 ("Transaction"). 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 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. of 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. In particular, as part of the cooperation provided for in the agreement, on condition that Series K Shares representing at least 5% of total voting rights (i.e. 5% + 1 share) acquired by FIPP FIZ AN following the exercise of the Individual Pre-Emptive Rights acquired in the Transaction are registered in FIPP FIZ AN's investment account, PBG agreed to ensure that, at FIPP FIZ AN's request, a person designated by FIPP FIZ AN would be appointed to the Supervisory Board of RAFAKO S.A. (in particular, by ensuring that the General Meeting of RAFAKO S.A. is convened and that all RAFAKO S.A. shares held by the Company and Multaros are voted in favour of a resolution to appoint a person designated by FIPP FIZ AN to the Supervisory Board of RAFAKO). If FIPP FIZ AN's share in the total voting rights at the General Meeting of RAFAKO falls below 5% (i.e. 5% + 1 share) of the total voting rights and this situation continues for at least 30 days, PBG will not be required to ensure that a person designated by FIPP FIZ AN be appointed to the Supervisory Board of RAFAKO S.A., and will have the right to vote in favour of the removal from the Supervisory Board of RAFAKO S.A. of the person previously designated by FIPP FIZ AN and appointed to the Supervisory Board of RAFAKO S.A.

The parties agreed to pay a financial penalty for breach of the obligations set forth in the agreement.

In addition, the agreement also defines the principles of cooperation in connection with the performance of obligations under Chapter 4 of the Public Offering Act. In the event of a breach by either party (and PBG and Multaros are treated as one party and their liability is joint and several) of the obligations set out in the agreement, relating to the performance of obligations specified in Chapter 4 of the Public Offering Act, the party in breach will be obliged to remedy any damage suffered by the other party to the agreement and to indemnify it as provided for in Art. 392 of the Civil Code, as well as to pay a financial penalty to the other party. Should such breach result in the disapplication of the voting right attached to RAFAKO shares held by the parties to the agreement, the party in breach will be obliged to purchase from the other party, on its written demand, all shares in RAFAKO S.A. held by such party for the price determined in accordance with the agreement. Such obligation will be conditional on the fulfilment of the following conditions: (i) in the case of the obligation of PBG and Multaros – obtaining the consent of the bondholders holding Series D, E, F, G, H, I, D1, E1, F1, G1, H1, I1 bonds issued by PBG; and (ii) in the case of FIPP FIZ AN – obtaining by FIPP FIZ AN the consent of all unit holders of FIPP FIZ AN (as a closed-end private equity fund).

The agreement contains terms and conditions commonly applied in agreements of this type.

The agreement took effect as of its date and was concluded for an indefinite period. However, in the event that: (i) the number of votes represented by RAFAKO S.A. shares held (directly or indirectly) by FIPP FIZ AN in the total voting rights at the general meeting of RAFAKO S.A. falls below 5% (i.e. 5% + 1 share) and this situation continues for at least three months; or (ii) after November 1st 2025 the total number of votes represented by RAFAKO S.A. shares held by PBG and Multaros falls below 33% of the total voting rights at the general meeting of RAFAKO S.A. and this situation continues for at least three months, the agreement will expire.

19. Dividends paid or declared

In the nine months ended September 30th 2017, Group companies did not pay any dividends. In accordance with the applicable laws, dividends may only be distributed from the profit of individual Group companies, and not based on the Group's consolidated net result.

20. Capital commitments

As at September 30th 2017, the RAFAKO Group companies had commitments related to purchase of property, plant and equipment of PLN 1,066 thousand. Group companies had not signed agreements envisaging any capital expenditure to be made in 2017 which was not disclosed in the accounting books at the end of the reporting period.

PLN '000

21. Movements in off-balance sheet items; loan sureties and guarantees granted

	September 30th 2017 (unaudited)	*December 31st 2016*
Receivables under financial guarantees received mainly as security for performance of contracts, including:	673,100	667,316
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	14,772	24,865
- from related entities	3,640	9,280
Letters of credit	–	–
	687,872	**692,181**

	September 30th 2017 (unaudited)	*December 31st 2016*
Commitments under financial guarantees issued mainly as security for performance of contracts, including:	285,829	200,609
- to related entities	–	–
Liabilities under sureties, including:	1,394,668	1,394,668
- to related entities	–	–
Promissory notes issued as security, including:	21,683	10,736
- to related entities	1,884	–
Letters of credit	–	–
	1,702,180	**1,606,013**

In the first nine months ended September 30th 2017, the RAFAKO Group recorded a PLN 96,167 thousand rise in contingent liabilities (December 31st 2016: PLN 1,606,013 thousand), which resulted mainly from an increase in liabilities under bank guarantees. In the first nine months of 2017, guarantees (mainly performance bonds of PLN 108,596 thousand and advance payment guarantees of PLN 20,140 thousand) were issued by banks and insurance companies to trading partners at the request of RAFAKO S.A. In this category of liabilities, the largest item was a performance bond of EUR 11,972 thousand, issued in May 2017. Liabilities under sureties issued, of PLN 1,394,668 thousand, comprise a surety covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the 'Development of 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' project. The largest item among guarantees which expired in the first nine months of 2017 was a USD 2m bid bond.

In the first nine months ended September 30th 2017, the Group's contingent receivables (mainly under performance bonds) fell by PLN 4,309 thousand, including an increase of PLN 5,784 thousand in receivables under bank and insurance guarantees and a decrease of PLN 10,093 thousand in receivables under promissory notes. The largest item among the guarantees received in the first nine months ended September 30th 2017 was a PLN 7,048 thousand performance bond. The largest item among expired guarantees in the period was a performance bond of PLN 4,152 thousand.

22. Litigation and disputes

As at the date of these interim condensed consolidated financial statements, Group companies were involved in litigation both as defendants and plaintiffs.

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 parent received a decision issued by Judicial Chamber for business cases of the Supreme Court of Ukraine granting a cassation appeal lodged by RAFAKO S.A. on March 2nd 2010 and upholding the ruling of the Donetsk Commercial Court of Appeals of December 23rd 2008, whereby RAFAKO S.A. 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. Due to the current situation in Ukraine, no date for the next hearing has been set.

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

The mediation ended with the parties' signing an out-of-court settlement on May 24th 2017, subsequently approved by the court on June 1st 2017. Upon the settlement, the parent reversed/utilised a PLN 4,884 thousand provision for costs of late performance, recognised in previous reporting periods.

On October 11th 2016, the Company filed a claim against Mostostal Warszawa S.A. with the Regional Court of Gliwice, for payment of PLN 8,042,475 plus statutory interest accrued from August 3rd 2016 as a refund of 70% of funds retained 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 S.A. submitted a notice of termination of the subcontractor agreement due to Mostostal Warszawa S.A.'s fault). As cooperation on the project was discontinued, Mostostal Warszawa S.A. is obliged to refund the amounts retained as a performance bond because the contractual reason for providing a performance bond 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, the defendant filed an appeal against the ruling of the court of first instance. In the current state of affairs, after RAFAKO S.A. submitted a response to the appeal on October 5th 2017, the parties have been waiting for the court to schedule the hearing.

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On March 20th 2017, the Company filed with the Regional Court of Gliwice a joint and several claim against Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów Sp. z o.o. for payment of PLN 13,136,446.57 plus statutory interest accrued from November 18th 2016, based on the invoice issued for the work performed by the Company and not paid by Mostostal Warszawa S.A. 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. It should be noted that the final amount of the claim awarded by the Court may ultimately depend on results of the survey carried out by a court expert. On March 29th 2017, the court issued a non-final order for payment of claimed amounts. On April 19th 2017, the defendants lodged with the court an objection against the payment order. On July 27th 2017, RAFAKO S.A. filed a pleading which, in addition to the reply to the defendants' objections, extended the claim by PLN 3,021,268, to a total of PLN 16,157,215. By the date of these interim condensed consolidated financial statements, one preliminary hearing took place 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.

23. Arrangement receivables from related entity

In 2017, the parent converted arrangement receivables from the related entity PBG S.A. into bonds, as described in detail in Note 11.9 to these interim condensed consolidated financial statements.

24. Parent's Management Board and Supervisory Board

In the nine months ended September 30th 2017 and by the date of authorization of these interim condensed consolidated financial statements for issue there were no changes in the composition of the parent's Management Board.

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

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

In the nine months ended September 30th 2017 and by the date of authorization of these interim condensed consolidated financial statements for issue, changes took place in the composition of the parent's Supervisory Board. On November 9th 2017, Mr Dariusz Sarnowski, Deputy Chairman of the RAFAKO Supervisory Board, tendered his resignation from the Supervisory Board.

At the date of these interim condensed consolidated financial statements, the composition of the parent's 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.

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

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

In the reporting and comparable periods, the Group companies did not enter into any transactions with members of their management boards, other than transactions described in Note 26.

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26. RELATED-PARTY TRANSACTIONS

In the nine months ended September 30th 2017 and September 30th 2016, the parent and its subsidiaries did not enter into any material transactions with related parties on non-arm's length terms.

Total amounts of related-party transactions in the reporting period:

Related party		*Sales to related parties in 9 months ended Sep 30 2017/ Sep 30 2016*	*Purchases from related parties in 9 months ended Sep 30 2017/ Sep 30 2016*	*Receivables from related parties as at Sep 30 2017/ Dec 31 2016*	*Liabilities to related parties as at Sep 30 2017/ Dec 31 2016*
Parent:					
PBG S.A.	*2017*	1,859	4,347	32,472	401
	2016	2,202	2,445	35,869	155
PBG Group companies:					
PBG Oil and Gas Sp. z o.o.	*2017*	3,415	1,732	1,749	179
	2016	8,172	41,888	4,018	1,081
PBG Avatia Sp. z o.o.	*2017*	–	25	–	–
	2016	–	–	–	12
PBG Erigo Sp. z o.o.	*2017*	–	–	–	–
	2016	12	–	–	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	*2017*	55	–	15	–
	2016	56	–	8	–
PBG Dom Sp. z o.o.	*2017*	7	–	1	–

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Related party		*Sales to related parties in 9 months ended Sep 30 2017/ Sep 30 2016*	*Purchases from related parties in 9 months ended Sep 30 2017/ Sep 30 2016*	*Receivables from related parties as at Sep 30 2017/ Dec 31 2016*	*Liabilities to related parties as at Sep 30 2017/ Dec 31 2016*
Entities related through personal links:					
SWGK KSIĘGOWOŚĆ Sp. z o.o.	*2017*	–	1,817	–	271
	2016	–	1,479	–	–
SWGK Consulting Sp. z o.o.	*2017*	–	150	–	154
	2016	–	74	–	7
Dwór w Smólsku Sp. z o.o.	*2017*	–	180	–	25
	2016	1	160	–	25
Mostostal Energomontaż Gliwice S.A.	*2017*	–	–	–	57
	2016	–	–	–	102
PBG Foundation	*2017*	–	283	–	–
	2016	–	196	–	7
Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o.	*2017*	–	–	516	–
BPIL Grzegorz Kiczor	*2017*	–	145	–	18
	2016	–	135	–	–
FCS Business Solutions Sp. z o.o.	*2017*	1	–	–	–
Polimex-Mostostal S.A.	*2017*	–	–	–	117
PONER Sp. z o.o.	*2017*	328	27	231	–
	2016	–	17	–	–
Economic Chamber of Energy and Environmental Protection	*2017*	–	23	–	7
	2016			–	6
NRG Solutions Sp. z o.o.	*2017*	18	–	6	–
	2016	–	–	6	–
Miko-Tech Sp. z o.o.	*2017*	24	408	1	3
	2016	38	25,309	4	8,020
SWGK Podatki Sp. z o.o.	*2017*	–	80	–	98

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

The Group has not published any forecasts for 2017.

28. Brief description of the Group's material achievements and failures in Q3 2017

On July 26th 2017, the parent's Management Board made a delayed disclosure of inside information on the analysis of possible sources of co-financing. Considering the development of RAFAKO S.A., the Management Board decided to analyse possible sources of both debt and equity financing. At the present stage, all options will be considered, including finding an investor interested in providing the parent with capital in exchange for its shares. In the Management Board's view, such financial support would ensure continued stable growth of RAFAKO S.A. and improve its competitiveness. No decision has been made on the selection of a particular option or investor, and there is no certainty as to whether and when such a decision will be made in the future. The decision to delay the inside information was made by the RAFAKO S.A. Management Board on June 6th 2017. The Management Board decided not to disclose the inside information in view of the fact that immediate disclosure could adversely affect the outcome of negotiations held with potential investors/lenders in the Company, considering the threat of the negotiation process being influenced by competitors or public pressure, which posed a direct risk of the Company's legitimate interests being prejudiced. On July 26th 2017, RAFAKO S.A. signed a letter of intent with Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych ("FIPP FIZ AN") and Polski Fundusz Rozwoju S.A. ("PFR") (the "Parties") (the "Letter of Intent"), following which the risk of the Company's legitimate interests being prejudiced no longer existed. As a result, the Management Board of RAFAKO S.A. decided to publish the inside information.

At the same time, in reference to the above, the parent's Management Board, acting under Article 17(1) of MAR, published inside information on RAFAKO S.A. and FIPP FIZ and PFR signing the Letter of Intent on July 26th 2017. By signing the Letter of Intent, PFR and the Company expressed their willingness to cooperate in implementing joint strategic projects, with the scope and details of possible cooperation to be defined in separate agreements on potential future projects. In addition, FIPP FIZ AN and RAFAKO S.A. expressed their intent to take steps designed to enable FIPP FIZ AN and RAFAKO S.A. to make decisions, if any, on the nature, structure and method of investment in RAFAKO S.A. (the "Investment"). The Management Board would like to note that as at the date of signing the Letter of Intent, the consummation of the Investment, its scope, purpose and the extent of FIPP FIZ AN's participation, had not yet been determined by the Parties, and all arrangements made so far are general and non-binding in nature. Signing the Letter of Intent marks another stage of the above-described analysis of possible ways of financing the Company.

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

On September 8th 2017 the parent's Management Board made a decision to reduce employment at RAFAKO S.A. by way of collective redundancies in accordance with the Act on Special Rules Governing Termination of Employment for Reasons Not Attributable to Employees of March 13th 2003. The decision to launch a collective redundancy process is part of the next phase of changes aimed at building a flexible, more cost-effective organisation adapted to current market conditions. The analytical process conducted as part of the next stage of the reorganisation project yielded a list of optimisation recommendations covering resources, processes and fixed costs. The expected annual savings to be achieved following the implementation of all of the recommendations are expected to total approximately PLN 25m, starting from the second quarter of 2018.

On September 28th 2017, the consortium comprising RAFAKO S.A., Mostostal Warszawa S.A., and Polimex-Mostostal S.A., as well as GE Power, the general design engineer and Consortium leader managing the contract performance, submitted to Górnictwo i Energetyka Konwencjonalna S.A. a proposal to update the schedule for the construction of Units 5 and 6 in the Opole power plant under the contract announced by the Company in Current Report No. 18/2012. The Consortium proposed to change the project schedule so as to move the commissioning dates for Unit 5 and Unit 6 from July 31st 2018 to December 20th 2018 and from March 31st 2019 to July 31st 2019, respectively. The proposed changes in the project schedule follow from technical and organisational issues.

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29. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO (the parent) as at the date of issue of these interim condensed consolidated financial statements

Shareholder	*Number of shares*	*Number of voting rights*	*Ownership interest*	*% of total voting rights 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 (*) including:	42,466,001	42,466,001	50% and 2 shares	50% and 2 votes
PBG S.A. (*)	7,665,999	7,665,999	9.03%	9.03%
Multaros Trading Company Limited (*) (**)	34,800,001	34,800,001	40.974%	40.974%
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (*)	1	1	less than 0.01%	less than 0.01%
Nationale-Nederlanden Otwarty Fundusz Emerytalny managed by Powszechne Towarzystwo Emerytalne S.A. (***)	8,048,507	8,048,507	9.480%	9.480%
Other	34,417,490	34,417,490	40.52%	40.52%

(*) Number of shares based on notifications from PBG S.A. and Multaros Trading Company Ltd. of October 30th 2017 and a notification from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych of October 31st 2017.
(**) Given the fact that Multaros Trading Company Ltd. is PBG S.A.'s subsidiary, RAFAKO S.A. is indirectly controlled by PBG S.A., which holds, directly and indirectly, 42,466,000 RAFAKO shares, representing 50% of its share capital and conferring the right to 50% of total voting rights plus 1 vote at its General Meeting.
(***) Number of shares based on a notification of July 30th 2015.

As announced in Current Report No. 55/2017 published by PBG on November 9th 2017, PBG, Multaros and FIPP FIZ AN concluded an agreement obligating FIPP FIZ AN to acquire from PBG and Multaros, and PBG to sell to FIPP FIZ AN 7,665,999 Individual Pre-emptive Rights and Multaros to sell to FIPP FIZ AN, 17,545,352 Individual Pre-emptive Rights. As further announced in the same current report, in the performance of the agreement and the parties' respective sell and buy orders for Individual Pre-emptive Rights, on November 9th 2017 PBG and Multaros concluded with FIPP FIZ AN transactions to sell Individual Pre-emptive Rights (IPR). In connection with the conclusion of the IPR Transactions, if FIPP FIZ AN exercises its pre-emptive rights and acquires Series K Shares, then, assuming that 42,500,000 Series K Shares are issued under the Offering, FIPP FIZ AN will, after the Offering is closed, hold approximately 9.90% of the total voting rights at the General Meeting.

Furthermore, as announced in PBG's Current Reports No. 54/2017 of November 8th 2017 and No. 55/2017 of November 9th 2017, on November 8th 2017 Multaros concluded with the Joint Offering Brokers an agreement for the placement of Individual Pre-Emptive Rights whereby the Joint Offering Brokers undertook to find investors and act as intermediaries in Multaros's sale of Individual Pre-emptive Rights by way of private placement. On November 9th 2017, Multaros concluded transactions to sell 17,254,649 Individual Pre-Emptive Rights. Following these transactions and the IPR Transactions, Multaros and PBG sold all of their Individual Pre-Emptive Rights.

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30. Statement of changes in holdings of RAFAKO S.A. shares or RAFAKO S.A. share options by management and supervisory staff of the consolidated Group companies of which RAFAKO S.A. became aware after the issue of the previous financial statements

According to the information available to RAFAKO S.A, as at the date of this report the holdings of RAFAKO S.A. shares by the management and supervisory staff of the consolidated Group companies were as follows:

	Company name	*As at Sep 7 2017*	*Increase*	*Decrease*	*As at Nov 29 2017*
Management staff member					
Edward Kasprzak, Vice President of the Management Board	RAFAKO S.A.	2,000	1,000	–	3,000
Supervisory staff member	–	–	–	–	–

31. Remuneration of members of the Management and Supervisory Boards of the parent and Group companies

The remuneration paid to members of the Management and Supervisory Boards of Group companies for the nine months ended September 30th 2017 was as follows:

	Base pay	*Awards*	*Other*
RAFAKO S.A. – the parent			
Management Board	2,340	–	84
Supervisory Board	766	630	181
PGL-DOM Sp. z o.o. – a subsidiary			
Management Board	81	40	–
Supervisory Board	132	–	–
RAFAKO ENGINEERING Sp. z o.o. – a subsidiary			
Management Board	169	130	–
Supervisory Board	95	–	–
RAFAKO ENGINEERING Sp. z o.o. – an indirect subsidiary			
Management Board	234	–	88
Supervisory Board	41	–	–
E001RK Sp. z o.o. – a subsidiary			
Management Board	126	–	–
Supervisory Board	–	–	–
E003B7 Sp. z o.o. – a subsidiary			
Management Board	1,189	1,812	267
Supervisory Board	830	960	–
RENG-NANO Sp. z o.o. – a subsidiary			
Management Board	216	–	–
Supervisory Board	–	–	–

32. Factors with a material bearing on the Group's performance in Q4 2017

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts executed for the delivery of products and services by subcontractors), which may have a positive or negative effect on the result for the period after September 30th 2017.
- The adequacy of provisions and impairment losses for current contracts;
- The risk that provisions may need to be recognised for contractual penalties for time overruns or failure to meet guaranteed technical specifications of certain contracts;

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- The risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs;
- Currency movements − substantial changes in the PLN/EUR exchange rate may have a material effect on the profitability of EUR-denominated contracts;
- Costs of the ongoing reorganisation of the parent;
- Risk of failure to obtain financial guarantees required to acquire and perform contracts.

33. Order book

As at September 30th 2017, the value of the Group's order book was over PLN 3.05bn. The order book's largest item is the Jaworzno project – the amount outstanding under the contract is PLN 1.77bn, of which PLN 0.15bn is attributable to the parent and PLN 1.62bn to SPV Jaworzno. The order book does not include the Opole contract (the parent's entire share in the project worth PLN 3.2bn was subcontracted outside the RAFAKO Group, of which PLN 0.66bn is still outstanding). At present, the order book comprises only power construction projects.

ORDER BOOK	
September 30th 2017	December 31st 2016
~ PLN 3.05bn	~ PLN 4.0bn

	ORDER BOOK as at September 30th 2017	Due for execution in		
		Oct–Dec 2017	2018	after 2018
TOTAL, including:	~3.05bn	~0.50bn	~1.24bn	~1.31bn
RAFAKO S.A.	~1.43bn	~0.26bn	~0.59bn	~0.58bn
SPV Jaworzno	~1.62bn	~0.24bn	~0.65bn	~0.73bn

As regards the value of the RAFAKO Group's order book, data presented in these interim condensed consolidated financial statements is based on the following assumptions:

a) the order book value is equal to the aggregate amount of the Group's remuneration under individual contracts executed by Group companies by September 30th 2017; the figure does not take into account any planned contracts that have not yet been signed;

b) the order book value is disclosed as at September 30th 2017; actual revenue from contracts and performance periods depend on a number of factors, which may be outside the Group's control.

34. Events after the reporting period

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

On October 16th 2017, National Trading & Transport Group Co. Ltd. of the Sukhbaatar District of Ulaanbaatar, Mongolia, (the "NTT Group") awarded the parent, acting as the leader (90% of the contract value) of the consortium with Gmax Group Sp. z o.o. of Warsaw (the "Consortium"), a contract for the design and construction of a fuel storage depot in Rashaant, Mongolia. Also on October 16th 2017 the NTT Group and the Consortium signed a conditional contract for the design and construction of the fuel storage depot in Rashaant, Mongolia, including the construction of storage tanks and auxiliary infrastructure. The total value of the contract is EUR 46,968,403 (VAT-exclusive). The contract completion deadline is 30 months from the date of handing over the construction site and technical documentation to the Consortium. The construction site and technical documentation are to be made available within seven days of the contract effective date. In accordance with its terms, the contract will become effective provided that:

1. it has been signed by authorised representatives of both parties, i.e. the NTT Group and the Consortium, and is delivered to the other party;
2. the NTT Group makes an advance payment that will be credited to the Consortium's bank account;
3. the work under the contract will be financed by Bank Gospodarstwa Krajowego S.A. or Korporacja Ubezpieczeń Kredytów Eksportowych S.A. on the terms and conditions set out in the contract.

As the NTT Group and the Consortium signed the contract, the only conditions that must be satisfied for the contract to become effective are making the advance payment and the NTT Group obtaining financing for the work from Bank Gospodarstwa Krajowego S.A. or Korporacja Ubezpieczeń Kredytów Eksportowych S.A.

On October 31st 2017, E003B7 Sp. z o.o., a subsidiary, and Polimex Energetyka Sp. z o.o. executed an agreement for the termination of the contract for assembly of the boiler's pressurised section, performance of tests and participation in the start-up, in connection with the project 'Development of 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 agreement will take effect upon E003B7 having obtained relevant consents from the Guarantors (PKO BP S.A., PZU S.A., BGK S.A., and mBank v), RAFAKO S.A., and the Investor, on the first day of the calendar month immediately following the month in which all these consents are obtained. As at the date of this report, E003B7 had secured RAFAKO S.A.'s consent to enter into the agreement. The Management Board believes that the termination of the agreement does not give rise to any negative consequences for E003B7 or the parent as the agreement was terminated at Polimex's request and on the date of its termination agreements providing for replacement of Polimex by E003B7 were signed by Polimex and E003B7 with Polimex's subcontractors (Przedsiębiorstwo Modernizacji Urządzeń Energetycznych REMAK S.A. and JWW Invest S.A.). The agreements with the subcontractors are not significant agreements.

Pursuant to Resolution No. 744/17 of November 2nd 2017, the Management Board of the Central Securities Depository of Poland ("CSDP") decided to register in the depository of securities maintained by the CSDP 84,931,998 individual pre-emptive rights to Series K ordinary bearer shares in RAFAKO S.A., with a par value of PLN 2 per share, issued on the basis of Resolution No. 4 of the RAFAKO S.A. Extraordinary General Meeting of September 12th 2017, whose record date for the pre-emptive rights is November 6th 2017, and to assign them ISIN code PLRAFAK00075.

On November 20th 2017, annexes to the agreements for the financing of the Jaworzno project were signed with the Guarantors, in connection with the annex signed on February 28th 2017 between Tauron Wytwarzanie and the project execution consortium, extending the project's completion date and increasing its value. The annexes extended the validity of performance bonds until December 20th 2020 and of advance payment bonds until March 20th 2020. At the same time, the value of the performance bonds was increased to a total of PLN 514,072.8 thousand, and in connection with the settlement of a portion of the advance payment the value of the advance payment bond fell to PLN 132,172.5 thousand. Due to the reduction of the total amount of the advance payment bonds and performance bonds, the amount of surety for the liabilities of the subsidiary E003B7 Sp. z o.o., granted by RAFAKO S.A. to the Guarantors for a period until April 17th 2028, fell to a total of PLN 1,292,490.7 thousand.

PLN '000

These interim condensed consolidated financial statements of the Group were authorised for issue on November 29th 2017 by way of a resolution of the RAFAKO S.A. Management Board dated November 29th 2017.

Signatures:

November 29th 2017	Agnieszka Wasilewska-Semail	President of the Management Board	....
November 29th 2017	Krzysztof Burek	Vice President of the Management Board	....
November 29th 2017	Jarosław Dusiło	Vice President of the Management Board	....
November 29th 2017	Edward Kasprzak	Vice President of the Management Board	....
November 29th 2017	Tomasz Tomczak	Vice President of the Management Board	....
November 29th 2017	Jolanta Markowicz	Chief Accountant– person responsible for keeping accounting books	....