RAFAKO Group

PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended June 30th 2017

September 7th 2017

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Appendix

1. Interim condensed financial statements of RAFAKO S.A. for the six months ended June 30 2017

(PLN '000)

Interim condensed consolidated statement of comprehensive income
for the six months ended June 30th 2017

	Note	*Six months ended June 30th 2017 (unaudited)*	*Six months ended June 30th 2016 (unaudited)*	*Three months ended June 30th 2017 (unaudited)*	*Three months ended June 30th 2016 (unaudited)*
Continuing operations					
Revenue	11.1	**871,869**	**740,564**	**432,166**	**406,302**
Revenue from sale of goods and services		869,814	739,283	430,754	405,585
Revenue from sale of materials		2,055	1,281	1,412	717
Cost of sales	11.1	(791,145)	(685,778)	(400,400)	(377,907)
Gross profit/(loss)		**80,724**	**54,786**	**31,766**	**28,395**
Other income	11.1	1,585	1,051	860	594
Distribution costs	11.1	(19,853)	(14,881)	(12,231)	(7,794)
Administrative expenses	11.1	(29,854)	(28,112)	(14,962)	(15,631)
Other expenses	11.1	(3,129)	(2,192)	(1,652)	(1,627)
Operating profit/(loss)		**29,473**	**10,652**	**3,781**	**3,937**
Finance income	11.1	1,163	2,597	545	1,756
Finance costs	11.1	(8,293)	(3,313)	(2,881)	(1,455)
Pre-tax profit/(loss)		**22,343**	**9,936**	**1,445**	**4,238**
Income tax expense	11.2	(12,898)	(2,777)	(2,650)	(1,280)
Net profit/(loss) from continuing operations	11.23	**9,445**	**7,159**	**(1,205)**	**2,958**

Racibórz, September 7th 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 six months ended June 30th 2017

	Note	*Six months ended June 30th 2017 (unaudited)*	*Six months ended June 30th 2016 (unaudited)*	*Three months ended June 30th 2017 (unaudited)*	*Three months ended June 30th 2016 (unaudited)*
Other comprehensive income for period		**(115)**	**(78)**	**(46)**	**(319)**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		(189)	177	5	184
Exchange differences on translating foreign operations attributable to non-controlling interests		(8)	25	11	25
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(197)**	**202**	**16**	**209**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income due to actuarial gains/(losses)		100	(344)	(77)	(651)
Tax on other comprehensive income	11.2	(18)	64	15	123
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**82**	**(280)**	**(62)**	**(528)**
Total comprehensive income for the period		**9,330**	**7,081**	**(1,251)**	**2,639**
Net profit/(loss) attributable to:		**9,445**	**7,159**	**(1,205)**	**2,958**
Owners of the parent	11.23	9,340	7,528	(1,354)	3,174
Non-controlling interests		105	(369)	149	(216)
Comprehensive income attributable to:		**9,330**	**7,081**	**(1,251)**	**2,639**
Owners of the parent		9,233	7,425	(1,411)	2,830
Non-controlling interests		97	(344)	160	(191)
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	0.11	0.09	(0.02)	0.04

Racibórz, September 7th 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 keeping accounting books

(PLN '000)

Interim condensed consolidated statement of financial position

as at June 30th 2017

	Note	*June 30th 2017 (unaudited)*	*December 31st 2016*
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	11.4, 11.5	175,834	178,585
Intangible assets	11.5	18,400	18,782
Long-term trade receivables, other receivables and prepayments		45,196	34,007
Trade receivables	11.9, 13	44,950	33,817
Other receivables and prepayments	11.9	246	190
Non-current financial assets		25,550	24,911
Shares in other entities	11.8	281	840
Long-term bonds	11.9	25,269	–
Other non-current financial assets	11.10, 13	–	24,071
Deferred tax assets	11.2	46,263	51,387
		311,243	**307,672**
Current (short-term) assets			
Inventories	11.11	14,191	13,983
Short-term trade receivables, other receivables and prepayments	11.15, 13	344,538	750,365
Trade receivables		211,405	587,263
Income tax receivable		5,110	19,583
Other receivables and prepayments		128,023	143,519
Gross amount due from customers for construction contract work	10	143,256	235,351
Current financial assets		210,340	118,763
Short-term deposits	13	500	74
Short-term loans advanced	13	19	35
Short-term bonds	11.12	5,903	–
Other current financial assets	11.12, 13	67	11,130
Cash and cash equivalents	11.14, 13	203,851	107,524
		712,325	**1,118,462**
Non-current assets held for sale		57	935
TOTAL ASSETS		**1,023,625**	**1,427,069**

Racibórz, September 7th 2017

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(PLN '000)

Interim condensed consolidated statement of financial position

as at June 30th 2017

	Note	June 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		(286)	(97)
Retained earnings / Accumulated losses	11.22	(3,072)	(5,617)
		444,088	**434,855**
Equity (attributable to non-controlling interests)		9,583	8,996
Total equity		**453,671**	**443,851**
Non-current liabilities			
Finance lease liabilities	11.25, 13	2,793	3,540
Deferred tax liabilities	11.2	773	384
Employee benefit obligations	11.24, 17.2	22,476	21,855
Long-term trade and other payables		49,237	48,070
Trade payables	11.25, 13	41,863	40,213
Amounts payable for tangible and intangible assets	11.25, 13, 20	92	149
Other liabilities	11.25	7,282	7,708
		75,279	**73,849**
Current liabilities			
Short-term trade and other payables		347,784	577,013
Trade payables	11.26, 13	245,318	473,476
Amounts payable for tangible and intangible assets	13, 20	1,331	1,610
Income tax payable		19	123
Other liabilities	11.26	101,116	101,804
Current portion of interest-bearing borrowings	13, 14, 16	49,122	147,107
Other financial liabilities and finance lease liabilities	13	2,380	2,045
Employee benefit obligations	11.24, 17.2	2,387	2,022
Gross amount due to customers for contract work, provisions for contract work and deferred income	10	93,002	181,182
Amounts due to customers for construction contract work	10	77,138	156,644
Provisions for construction contract work	10, 17	15,304	24,017
Grants		560	521
		494,675	**909,369**
Total liabilities		**569,954**	**983,218**
TOTAL EQUITY AND LIABILITIES		**1,023,625**	**1,427,069**

Racibórz, September 7th 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 six months ended June 30th 2017

	Note	*Six months ended June 30th 2017 (unaudited)*	*Six months ended June 30th 2016 (unaudited)*
Cash flows from operating activities			
Profit/(loss) before tax		22,343	9,936
Adjustments for:		172,371	7,898
Depreciation and amortisation		7,035	7,146
Foreign exchange gains/(losses)		(87)	87
Interest and dividends, net		1,949	1,911
(Gain)/loss from investing activities		(484)	(681)
(Increase)/decrease in receivables	11.3	380,000	110,683
Change in inventories		(208)	3,700
Increase/(decrease) in employee benefit obligations, excluding borrowings	11.3	(214,679)	(90,077)
Change in prepayments and accruals for construction contracts	11.3	3,876	(8,577)
Income tax (paid)/received		(4,895)	(16,292)
Other		(136)	(2)
Net cash from operating activities		**194,714**	**17,834**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		1,331	707
Purchase of property, plant and equipment and intangible assets	11.3	(2,585)	(3,440)
Sale of financial assets		–	171
Proceeds from debt instruments held		3,685	–
Purchase of financial assets		(500)	(202)
Dividends and interest received		18	25
Net cash from investing activities		**1,949**	**(2,739)**
Cash flows from financing activities			
Payment of finance lease liabilities		(1,369)	(1,404)
Proceeds from borrowings		–	40,016
Repayment of borrowings	11.3	(98,282)	–
Interest paid	11.3	(1,532)	(1,113)
Bank fees		(51)	(169)
Other		1,049	(164)
Net cash from financing activities		**(100,185)**	**37,166**
Net increase/(decrease) in cash and cash equivalents		**96,478**	**52,261**
Net foreign exchange differences		(151)	197
Cash at beginning of period	11.14	107,524	197,261
Cash at end of period	11.14	203,851	249,719

Racibórz, September 7th 2017

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(PLN ’000)

Interim condensed consolidated statement of changes in equity

for the six months ended June 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 Jan 1 2017	**169,864**	**95,340**	**175,365**	**(97)**	**(5,617)**	**434,855**	**8,996**	**443,851**
Profit/(loss) from continuing operations	–	–	–	–	9,340	9,340	105	9,445
Other comprehensive income	–	–	–	(189)	82	(107)	(8)	(115)
Distribution of retained earnings	–	–	6,877	–	(6,877)	–	–	–
Change in Group structure	–	–	–	–	–	–	490	490
As at Jun 30 2017 *(unaudited)*	**169,864**	**95,340**	**182,242**	**(286)**	**(3,072)**	**444,088**	**9,583**	**453,671**
As at Jan 1 2016	**169,864**	**95,340**	**112,715**	**(41)**	**47,213**	**425,091**	**4,675**	**429,766**
Profit/(loss) from continuing operations	–	–	–	–	7,528	7,528	(369)	7,159
Other comprehensive income	–	–	–	177	(280)	(103)	25	(78)
Distribution of retained earnings	–	–	27,868	–	(27,868)	–	–	–
Change in Group structure	–	–	–	–	–	–	3,936	3,936
As at Jun 30 2016 *(unaudited)*	**169,864**	**95,340**	**140,583**	**136**	**26,593**	**432,516**	**8,267**	**440,783**

Racibórz, September 7th 2017

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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 six months ended June 30th 2017 and contain consolidated comparative data for the six months ended June 30th 2016 and as at December 31st 2016. The interim condensed consolidated statement of comprehensive income contains data for the three months ended June 30th 2017 and the comparative data for the three months ended June 30th 2016, and 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 six months ended June 30th 2017 were authorised for issue by the parent's Management Board on September 7th 2017.

The Company's interim financial results may not be indicative of its potential full-year financial results.

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

These interim condensed consolidated financial statements of the Group for the six months ended June 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.

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

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. June 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 Group have been prepared on the assumption that the Group will continue as a going concern for at least 12 months after the reporting date, i.e. June 30th 2017.

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

An analysis of the Group's financial position should take into consideration the following factors: in the six months ended June 30th 2017, the parent recognised revenue of PLN 287m and a net loss of PLN 18m; further, as at June 30th 2017, the parent's net current assets were PLN 86m (including cash of PLN 69m). A year-on-year decrease in the parent's revenue in the six months ended June 30th 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.

In the first half of 2017, as planned, the parent executed the following documents: an annex of June 30th 2017 with PKO BP S.A. to extend 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 for the "Construction of two coal-fired steam units (2x50 MW) on the Lombok Island (Indonesia)" had been selected as the winning bid by PT. PLN (PERSERO). The parent's share in the contract is EUR 70m. 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 June 30th 2017 (and subsequent periods) prepared by its Management Board. The key assumptions of the forecast are as follows:

- Expected revenue increase − the assumption is based on the current value of the order book (which to a significant extent supports the revenue forecast) and acquisition of material new contracts. The 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 current order book, including in particular timely generation of cash flows from the contracts;
- Delivery of budgeted margins on the contracts in the Company's current order book, and the ability to prevent any further increase in losses already recognised on some of the contracts;
- Continued efforts to maintain and expand the Company's order book,
- Flexibility of capital expenditure, which the parent should be able to materially reduce;
- 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 results achieved by RAFAKO S.A. in the six months ended June 30th 2017 were lower than expected. However, having considered 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 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.

Despite the constraints discussed in Notes 10.1.1 and 11.14, RAFAKO’s financial condition is supported by the very sound financial position of E003B7 sp. z o.o., a subsidiary which executes around 88.7% of the Jaworzno 910 MW project with an approximate value of PLN 4.6bn. In H1 2017, the subsidiary delivered revenue of PLN 572m and net profit of PLN 28m, had net current assets of PLN 125m, 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 half 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 commenced work on implementing IFRS 15 *Revenue from Contracts with Customers* by 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 Company has yet not fully quantified the impact of implementation of IFRS 15 on the items of financial statements. The Company expects that the implementation of IFRS 15 may materially affect both the Group’s balance-sheet items and its financial results.

Implementation of IFRS 9

As at the date of these interim condensed consolidated financial statements, the Group commenced work on implementing IFRS 9 and is currently defining a new business model for financial assets management. The Group does not apply hedge accounting and does not carry any derivative or hedging instruments. As at the date of these interim consolidated financial statements, the Group had not completed a full quantitative assessment of the effect of IFRS 9 on its accounts.

Implementation of IFRS 16

As at the date of these interim condensed consolidated financial statements, the Group was analysing the impact of new standard IFRS 16 on its financial statements.

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 a reporting period, the Group companies' management assesses whether any contracts carry 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 in order 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 impairment of assets. The analysis showed that during the six months ended June 30th 2017 there were no indications of impairment.

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 13

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 89.4m.

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

Revenue

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

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

b) Revenue from the provision of construction services is recognised with use of the percentage of completion method. Revenue from construction contracts is recognised and disclosed in line with the policies discussed in Note 7.28.6 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 costs in the reporting period are presented in Note 10 to these interim condensed consolidated financial statements.

Provision for costs due to late performance

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

Provisions for warranty repairs

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

Impairment losses on financial assets

At the end of a reporting period, the Group assesses whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of an asset is less than its carrying amount, the Group recognises an allowance to bring down the carrying amount to the present value of projected 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 areas of activity (e.g. customs or foreign exchange control) are subject to inspection by bodies authorised to impose high penalties and fines, and any additional tax liabilities arising from such inspections must be paid with high interest. Consequently, tax risk in Poland is higher than in countries with more mature tax systems.

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

On July 15th 2016, the Tax Legislation was amended to reflect the provisions of the General Anti-Abuse Rule ("GAAR"). GAAR is intended to prevent creation and use of 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 a scheme if such scheme was artificially contrived. 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 artificial scheme subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

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

(PLN '000)

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

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

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:

	June 30th 2017	*December 31st 2016*	*June 30th 2016*
USD	3.7062	4.1793	3.9803
EUR	4.2265	4.4240	4.4255
GBP	4.8132	5.1445	5.3655
CHF	3.8667	4.1173	4.0677
SEK	0.4379	0.4619	0.4696
TRY	1.0535	1.1867	1.3791

5. Change in estimates

In the six months ended June 30th 2017 and as at June 30th 2017, there were no changes of estimates in significant areas of the Group's operations, 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; NOx reduction technologies; dust extraction equipment, including electrostatic precipitators and bag filters, as well as industrial and municipal waste incineration systems. The company is a supplier to both commercial and industrial power plants.

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

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

(PLN '000)

For the six months ended June 30th 2017 or as at June 30th 2017	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	854,793	18,700	873,493	(1,624)	871,869
Inter-segment sales	975	7,790	8,765	(8,765)	–
Segment's total revenue	855,768	26,490	882,258	(10,389)	871,869
Cost of sales	(782,332)	(22,333)	(804,665)	13,520	(791,145)
Total					
Gross profit/(loss)	73,436	4,157	77,593	3,131	80,724
Other income/(expenses)	(45,843)	(2,804)	(48,647)	(2,604)	(51,251)
Operating profit (loss)	27,593	1,353	28,946	527	29,473
Finance income/(costs)	(6,840)	(18)	(6,858)	(272)	(7,130)
Profit (loss) before tax	20,753	1,335	22,088	255	22,343
Income tax expense	(13,311)	(144)	(13,455)	557	(12,898)
Segment's net profit/(loss)	7,442	1,191	8,633	812	9,445
Total					
Depreciation and amortisation	6,246	861	7,107	(72)	7,035
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at June 30th 2017					
Segment's assets	1,146,813	72,848	1,219,661	(196,036)	1,023,625
Segment's liabilities	708,086	18,213	726,299	(156,345)	569,954
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	2,312	1,014	3,326	(3)	3,323

(PLN ’000)

For the six months ended June 30th 2016 or as at June 30th 2016 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	730,621	9,677	740,298	266	740,564
Inter-segment sales	502	10,093	10,595	(10,595)	–
Total revenue	731,123	19,770	750,893	(10,329)	740,564
Cost of sales	(684,545)	(17,306)	(701,851)	16,073	(685,778)
Total					
Gross profit/(loss)	46,578	2,464	49,042	5,744	54,786
Other income/(expenses)	(38,651)	(2,895)	(41,546)	(2,588)	(44,134)
Operating profit (loss)	7,927	(431)	7,496	3,156	10,652
Finance income/(costs)	(491)	24	(467)	(249)	(716)
Profit (loss) before tax	7,436	(407)	7,029	2,907	9,936
Income tax expense	(2,832)	(102)	(2,934)	157	(2,777)
Segment’s net profit/(loss)	4,604	(509)	4,095	3,064	7,159
Depreciation and amortisation	6,464	719	7,183	(37)	7,146
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at June 30 2016 (unaudited)					
Assets	1,313,662	67,485	1,381,147	(222,491)	1,158,656
Liabilities	880,851	17,398	898,249	(180,376)	717,873
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	3,985	5,059	9,044	–	9,044

(PLN '000)

For the three months ended June 30th 2017 or as at June 30th 2017 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	422,563	10,736	433,299	(1,133)	432,166
Inter-segment sales	117	3,882	3,999	(3,999)	–
Total revenue	422,680	14,618	437,298	(5,132)	432,166
Cost of sales	(393,535)	(12,724)	(406,259)	5,859	(400,400)
Total					
Gross profit/(loss)	29,145	1,894	31,039	727	31,766
Other income/(expenses)	(25,428)	(1,330)	(26,758)	(1,227)	(27,985)
Operating profit (loss)	3,717	564	4,281	(500)	3,781
Finance income/(costs)	(2,152)	(38)	(2,190)	(146)	(2,336)
Profit (loss) before tax	1,565	526	2,091	(646)	1,445
Income tax expense	(2,689)	(65)	(2,754)	104	(2,650)
Segment's net profit/(loss)	(1,124)	461	(663)	(542)	(1,205)
Depreciation and amortisation	3,078	458	3,536	(36)	3,500
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at June 30th 2017 (unaudited)					
Assets	1,146,813	72,848	1,219,661	(196,036)	1,023,625
Liabilities	708,086	18,213	726,299	(156,345)	569,954
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	784	775	1,559	(4)	1,555

(PLN ’000)

For the six months ended June 30th 2016 or as at June 30th 2016 (unaudited)	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	401,094	5,051	406,145	157	406,302
Inter-segment sales	309	6,296	6,605	(6,605)	–
Total revenue	401,403	11,347	412,750	(6,448)	406,302
Cost of sales	(378,799)	(10,142)	(388,941)	11,034	(377,907)
Total					
Gross profit/(loss)	22,604	1,205	23,809	4,586	28,395
Other income/(expenses)	(21,291)	(1,763)	(23,054)	(1,404)	(24,458)
Operating profit (loss)	1,313	(558)	755	3,182	3,937
Finance income/(costs)	429	10	439	(138)	301
Profit (loss) before tax	1,742	(548)	1,194	3,044	4,238
Income tax expense	(868)	144	(724)	(556)	(1,280)
Segment’s net profit/(loss)	874	(404)	470	2,488	2,958
Depreciation and amortisation	3,268	399	3,667	(19)	3,648
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at June 30 2016 (unaudited)					
Assets	1,313,662	67,485	1,381,147	(222,491)	1,158,656
Liabilities	880,851	17,398	898,249	(180,376)	717,873
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	2,142	4,943	7,085	(1)	7,084

(PLN ’000)

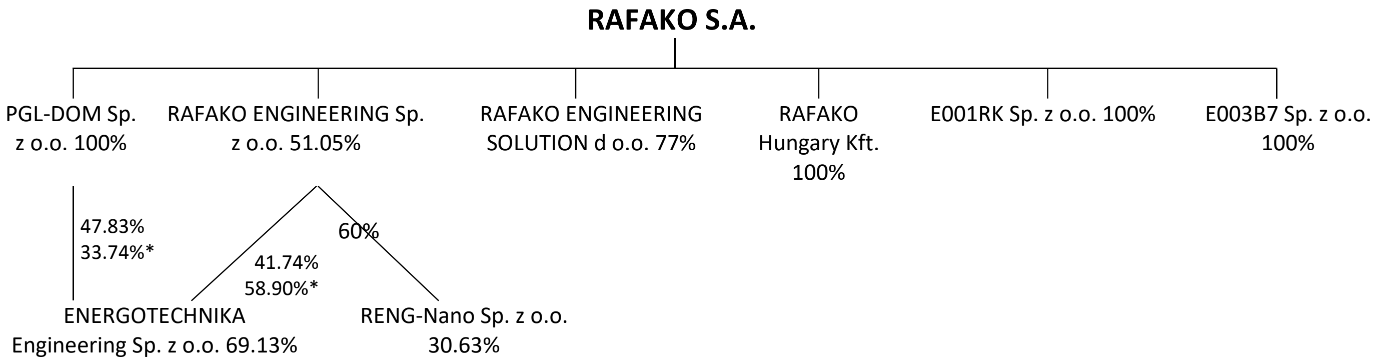
7. Scope of consolidated financial statements

These interim condensed consolidated financial statements incorporate the financial statements of RAFAKO S.A. and its subsidiaries, except for ELWO S.A. w upadłości (in bankruptcy) as the Group no longer controls its operations.

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

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

As at June 30 2017, the following subsidiaries (“Companies”, “Group Companies”) were included in the Group’s consolidated financial statements:



* % share of voting rights at GM.

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

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

(PLN ’000)

Name and principal place of business	*Principal business activity (PKD)*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design , engineering and technology	District Court of Gliwice KRS 486911	full
RENG – NANO Sp. z o.o. Racibórz	Manufacture of metal structures and parts of structures and 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.

As at June 30 2017 and as at December 31 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 RAFAKO Engineering Sp. z o.o. holds 41.74% of preference shares (conferring 58.90% of the total voting rights); 47.83% of the shares (conferring 33.74% of the total voting rights) are held by PGL-DOM Sp. z o.o.

8. Changes in Group structure

In the three months ended March 31st 2017, a number of changes occurred in the Group’s structure.

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

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.

(PLN '000)

10. Construction contracts

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

The table below presents the effects of accounting for construction contracts, including revenue and costs of running contracts as at June 30 2017, December 31 2016 and June 30 2016, as well as gross amount due to customers for contract work and gross amount due from customers for contract work at the dates stated above.

	June 30th 2017 (unaudited)	*December 31st 2016*	*June 30th 2016 (unaudited)*
Contract costs incurred to date (cumulative)	4,856,536	4,585,053	3,529,707
Recognised profits less recognised losses to date (cumulative)	281,347	328,791	247,242
Contract revenue recognised by reference to the contract stage of completion (cumulative)	5,137,883	4,913,844	3,776,949
Progress billings (cumulative)	4,946,916	4,722,666	3,556,558
Gross amount due to customers for contract work (liability), including:	**(77,138)**	**(156,644)**	**(97,362)**
- advance payments received (liabilities arising from advances received)	(168,253)	(166,642)	(186,229)
- adjustment to advance payments received arising from amounts due from customers	152,626	85,890	153,662
- gross amount due to customers for contract work	(61,511)	(75,892)	(64,795)
Prepayments relating to accounting for construction contracts, including:	**143,256**	**235,351**	**197,377**
- gross amount due from customers for contract work (asset)	115,156	205,197	161,650
- contract acquisition cost and other accrued contract costs	28,100	30,154	35,727
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(4,676)	(4,856)	(12,135)
Provision for construction contract losses	(10,628)	(19,161)	(17,991)

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., as a member of the consortium comprising: RAFAKO S.A. (consortium leader) and 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.

Accounting for the Jaworzno project:

For the purposes of project execution, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO subcontracted approximately 88.7% of the scope of work, with RAFAKO being directly responsible for the remaining 11.3% (with an approximate value of PLN 506m; the scope includes the design of the boiler island, as well as supply of the boiler's HP components and a dust removal unit), scheduled mainly for 2015−2017.

RAFAKO and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/insurance guarantees for an aggregate amount of PLN 648m, required for the project execution; under the agreements, security for the guarantees was established over the assets of RAFAKO and E003B7 Sp. z o.o.

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

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

In its consolidated financial statements, the Group recognises total income and expenses related to the Jaworzno Project, i.e. for both RAFAKO 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 eliminates project-related income, expenses and settlements between RAFAKO 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 the Opole Power Plant. SPV-RAFAKO's remuneration for the performance of the works and services is PLN 3.96bn.

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

Accounting for the Opole project:

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

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

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

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 six months ended June 30 2017, the Group posted revenue of PLN 871,869 thousand, up by PLN 131,305 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.

Cost of sales in the six months ended June 30 2017 amounted to PLN 791,145 thousand, with the Group's gross profit at PLN 80,724 thousand. The change on the comparative period of six months ended June 30 2016 was mainly related to the increase in sales achieved by the Group.

Distribution costs mainly include contract acquisition cost as well as cost of promotion and advertising. This item also includes impairment losses on trade receivables. Distribution costs recognised in the Group's comprehensive income for the six months ended June 30 2017 (PLN 19,853 thousand) were primarily attributable to contract acquisition costs of PLN 5,338 thousand (June 30 2016: PLN 5,762 thousand) and costs of promotion and advertising of PLN 3,247 thousand (June 30 2016: PLN 1,675 thousand).

In the current reporting period, other income chiefly included gain on sale of property, plant and equipment of PLN 845 thousand (June 30 2016: PLN 228 thousand) and income from liquidated damages and compensation payments totalling PLN 224 thousand (June 30 2016: PLN 255 thousand).

Other operating expenses chiefly included donations and subsidies of PLN 1,284 thousand (June 30 2016: PLN 541 thousand) and scrapping cost of PLN 372 thousand (June 30 2016: PLN 64 thousand).

In the six months ended June 30 2017, the Group's finance income was generated mainly from interest on financial instruments of PLN 1,088 thousand (June 30 2016: PLN 587 thousand), including PLN 187 thousand of interest on security deposits provided in respect of contracts (June 30 2016: PLN 541 thousand).

Finance costs in the period chiefly included net foreign exchange losses of PLN 3,835 thousand (June 30 2016: PLN 164 thousand), discount on non-current settlements of PLN 1,910 thousand (June 30 2016: PLN 420 thousand), interest on financial instruments of PLN 1,656 thousand (June 30 2016: PLN 1,383 thousand), and interest on employee benefit obligations of PLN 378 thousand (June 30 2016: PLN 639 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	*Six months ended June 30th 2017 (unaudited)*	*Six months ended June 30th 2016 (unaudited)*	*Three months ended June 30th 2017 (unaudited)*	*Three months ended June 30th 2016 (unaudited)*
Consolidated statement of profit or loss				
Current income tax	(7,403)	(14,030)	(4,117)	1,083
Current income tax expense	(7,539)	(14,031)	(4,253)	1,082
Adjustments to current income tax from previous years	136	1	136	1
Deferred tax	(5,495)	11,253	1,467	(2,363)
Related to recognition and reversal of temporary differences	(5,495)	11,253	1,467	(2,363)
Adjustments to deferred tax from previous years	–	–	–	–
Income tax expense in the consolidated statement of profit or loss	**(12,898)**	**(2,777)**	**(2,650)**	**(1,280)**
Deferred tax on other comprehensive income	(18)	64	15	123
Related to recognition and reversal of temporary differences	(18)	64	15	123
Adjustments to current income tax from previous years	–	–	–	–
Income tax expense recognised in other comprehensive income	**(18)**	**64**	**15**	**123**

(PLN ’000)

Deferred income tax calculated as at June 30 2017

Deferred income tax calculated as at June 30 2017 relates to the following:

	Statement of financial position		*Statement of comprehensive income for six months ended*	
	June 30th 2017 (unaudited)	*December 31st 2016*	*June 30th 2017 (unaudited)*	*June 30th 2016 (unaudited)*
- investment reliefs	(2)	(2)	–	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(16,289)	(16,252)	(37)	2,645
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,697	1,641	56	13
- difference between tax base and carrying amount of loans and receivables	2,152	1,739	413	495
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(41,826)	(42,605)	779	(19,019)
- difference between tax base and carrying amount of inventories	2,265	2,276	(11)	314
- provisions	39,619	39,243	376	9,958
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	–	–	–	(42)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	30,465	38,095	(7,630)	10,587
- tax asset related to tax loss	17,261	17,243	18	16,306
- adjustment to costs of unpaid invoices	6,609	7,763	(1,154)	(7,145)
other	3,539	1,862	1,677	(286)
Deferred tax expense			**(5,513)**	**13,826**
Net deferred tax asset/(liability)	**45,490**	**51,003**		
Deferred tax expense – continuing operations			**(5,513)**	**11,317**
Net deferred tax asset / liability, including:	**45,490**	**51,003**		
Deferred tax assets	46,263	51,387		
Deferred tax liability	773	384		

As at June 30 2017, the Group recognised a deferred tax asset on a tax loss of PLN 90,847 thousand, which will be offset against profits in future reporting periods.

In the first half of 2017, the parent recorded a tax loss of PLN 38,419 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 six months ended June 30th 2017. The total amount of tax loss for 2016 and 2017, which was not recognized in deferred tax, is PLN 73,008 thousand.

(PLN '000)

11.3.Significant items disclosed in the statement of cash flows

The PLN 380,000 thousand decrease in receivables disclosed in the statement of cash flows for the six months ended June 30 2017 resulted mainly from:

− PLN 364,725 thousand	decrease in trade receivables,
- PLN (21,754) thousand	increase in receivables from the state budget (including VAT),
- PLN 5,064 thousand	decrease in prepayments made,
- PLN 19,778 thousand	decrease in security deposits receivable,
- PLN 13,944 thousand	decrease in disputed receivables,
- PLN (1,757) thousand	increase in other receivables.

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

The PLN 214,679 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (226,508) thousand	decrease in trade payables,
- PLN (2,450) thousand	decrease in the provision for warranty repairs,
- PLN (1,489) thousand	decrease in the provision for employee benefits,
- PLN 2,244 thousand	increase in the provisions for delayed cost collection,
- PLN (883) thousand	increase in salaries and wages payable,
- PLN 4,593 thousand	decrease in provision for the voluntary redundancy programme,
- PLN (5,487) thousand	decrease in VAT liabilities,
- PLN 13,513 thousand	increase in other liabilities.

The decrease of PLN 3,876 thousand in accruals and deferrals relating to accounting for construction contracts as disclosed in the statement of cash flows was mainly caused by:

- decrease in gross amount due from customers for contract work and the related accruals and deferrals	by PLN 92,095 thousand,
- PLN (79,506) thousand	decrease in gross amount due to customers for contract work,
- PLN (8,713) thousand	decrease in provisions for contract work, including:
- PLN (65,125) thousand	decrease in prepayments.

The PLN 65,125 thousand decrease in prepayments in the six months ended June 30 2017 (for the six months ended June 30th 2016: PLN 67,700 thousand increase) resulted primarily from recognition of some of received advance payments as revenue, in accordance with the methodology of accounting for construction contracts (IAS 11).

The cash flows of PLN 2,402 thousand relating to acquisition of property, plant and equipment and intangible assets resulted from purchase of property, plant and equipment for PLN 2,100 thousand and purchase of intangible assets for PLN 302 thousand.

Cash flows from financing activities were mainly affected by a decrease in debt outstanding under the overdraft facility and working capital facility advanced to the parent by PKO BP S.A. of PLN 98,282 thousand (six months ended June 30th 2016: increase in outstanding debt by PLN 40,016 thousand).

(PLN '000)

11.4. Property, plant and equipment

For the six months ended June 30 2017 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Motor 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	–	785	1,504	–	–	(2,289)	–
Purchases	–	5	145	553	474	1,735	2,912
Lease agreements	–	–	–	110	–	–	110
Liquidation/sale	(4)	(135)	(1)	(11)	–	–	(151)
Exchange differences on translating foreign operations	–	–	(2)	(2)	(43)	–	(47)
Depreciation for period	–	(1,459)	(3,602)	(1,157)	(134)	–	(6,352)
Impairment loss for period	–	–	–	–	–	–	–
Acquisition of subsidiary	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	59	689	29	–	–	–	777
Net carrying amount as at June 30 2017 *(unaudited)*	**23,809**	**89,229**	**52,195**	**8,654**	**1,092**	**855**	**175,834***

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

For the six months ended June 30 2017 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Motor 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	1,595	218	–	(2,186)	–
Purchases	–	–	199	2,014	38	1,455	3,706
Liquidation/sale	(3)	(49)	(137)	(127)	–	–	(316)
Exchange differences on translating foreign operations	–	–	23	(20)	1	–	4
Depreciation for period	–	(1,419)	(3,639)	(955)	(132)	–	(6,145)
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	–	(35)	107	(33)	–	–	39
Net carrying amount as at June 30 2016 *(unaudited)*	**23,773**	**90,708**	**54,633**	**9,599**	**707**	**1,433**	**180,853**

(PLN '000)

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

	Six months ended June 30th 2017 (unaudited)	*Six months ended June 30th 2016 (unaudited)*
Purchase of property, plant and equipment and intangible assets*	3,323	9,044
Proceeds from sale of property, plant and equipment and intangible assets	1,331	707

*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 on purchases of production plant and equipment, vehicles and computer hardware. The purchases were financed with internally generated funds and through finance leases.

11.6.Goodwill

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

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

	June 30th 2017 (unaudited)	*December 31st 2016*
Trade receivables, including:	44,950	33,817
Trade receivables from related entities	–	–
Trade receivables from other entities	44,950	33,817
Other receivables and prepayments, including:	246	190
Security deposits	106	97
Investment receivables	27	–
Other	113	93
Total receivables (net)	**45,196**	**34,007**
Impairment loss on receivables	–	–
Gross receivables	**45,196**	**34,007**

11.8.Shares in other entities

	June 30th 2017 (unaudited)	*December 31st 2016*
Shares in other listed companies	262	821
Shares in other non-listed companies	19	19
	281	**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 20 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., the Company's parent, with a nominal value of PLN 100 per bond, that is, a total of 388,492 non-interest bearing bonds with a total nominal value of PLN 38,849,200.00 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 the Company's claim against PBG S.A. under the Arrangement concluded by PBG S.A. in the course of arrangement proceedings approved by way of a decision of the District Court for Poznań-Stare Miasto (File No. XI GUp 29/12) dated October 8th 2015, which became final on June 13th 2016. As a result, the Company's claim against PBG S.A. under the arrangement was cancelled. A detailed description of changes in debts was provided in the consolidated financial statements for 2016.

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

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

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

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

(PLN ’000)

During the six months ended June 30 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 June 30 2017, the discounted value of bonds maturing in more than one year was PLN 25,269 thousand.

11.10. Other non-current financial assets

	June 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

	June 30th 2017 (unaudited)	*December 31st 2016*
Materials (at net realisable value)	14,010	13,796
At cost	25,930	25,774
At net realisable value	14,010	13,796
Merchandise	181	187
At cost	181	187
At net realisable value	181	187
Total inventories, at the lower of cost and net realisable value	**14,191**	**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

	Six months ended June 30th 2017 (unaudited)	*Six months ended June 30th 2016 (unaudited)*
At beginning of period	(11,978)	(10,352)
Write-down recognised	(796)	(2,355)
Write-down reversed	854	628
Balance at end of period	**(11,920)**	**(12,079)**

(PLN '000)

11.12. Short-term bonds

As at June 30 2017, the parent held PLN 5,903 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

	June 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	67	–
	67	**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 amount of the advance payment made by the parent under the agreement was PLN 16,176 thousand (of which PLN 5,676 thousand was paid for shares recognised as other non-financial assets and PLN 10,500 thousand was paid for the loan recognised as other financial assets). Bioelektrownia Szarlej sp. z o.o. is a special purpose vehicle established to construct a biogas power plant, to be financed from internally-generated funds, a loan from investors, and a subsidy awarded to the project. Bioelektrownia Szarlej sp. z o.o. terminated its agreement with the contractor, which caused contract delays and led to termination of the project subsidy agreement. Bioelektrownia Szarlej sp. z o.o.'s efforts to resume the project were unsuccessful.

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

(PLN '000)

11.14. Cash and cash equivalents

	June 30th 2017 (unaudited)	December 31st 2016	June 30th 2016 (unaudited)
Cash in hand and at banks	173,214	106,342	225,426
Current deposits for up to 3 months, including:	30,637	1,182	24,293
	203,851	**107,524**	**249,719**

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

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

As at June 30th 2017, cash included restricted cash of PLN 129.2m (December 31st 2016: PLN 36.5m), which comprised cash held by E003B7 Sp. z o.o. earmarked for the Jaworzno contract, which from the RAFAKO Group's perspective is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno project.

Dividend from E003B7 Sp. z o.o. may be paid to the company's sole shareholder, RAFAKO, with no adverse consequences imposed by the financial institutions only after expiry of the guarantee provided by those institutions (for details, see Note 10.1.1).

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

	June 30th 2017 (unaudited)	December 31st 2016
Trade receivables, including:	211,405	587,263
Trade receivables from related entities	1,693	4,613
Trade receivables from other entities	209,712	582,650
Income tax receivable	5,110	19,583
Other receivables and prepayments, including:	128,023	143,519
Receivables under advance payments	21,811	26,875
Receivables from the state budget	51,957	30,203
Settlement of property insurance costs	281	723
Settlements with the Company Social Benefits Fund	1,087	237
Disputed receivables	–	13,944
Prepaid expenses	3,455	2,504
Security deposits	48,429	68,263
Other	1,003	770
Total receivables (net)	**344,538**	**750,365**
Impairment loss on receivables	33,810	32,472
Gross receivables	**378,348**	**782,837**

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

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

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

Short-term trade receivables of PLN 211,405 thousand recognised in the interim condensed consolidated statement of financial position as at June 30th 2017 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 48,429 thousand disclosed in the consolidated statement of financial position as at June 30th 2017 relate mainly to the following projects:

- SCR system – PLN 8,139 thousand,
- manufacture of high-pressure parts – PLN 5,508 thousand.

The change in security deposits in the six months ended June 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 7,050 thousand cash security deposit returned in connection with the replacement of component parts of a combustion chamber,
- a PLN 5,625 thousand cash security deposit provided for the construction of the high-pressure part of a boiler for a waste incineration plant.

A significant item of other receivables were advance payments, which amounted to PLN 21,811 thousand as at June 30th 2017 and included:

- advance payment of PLN 7,467 thousand under a contract for the delivery and assembly of an NOx reduction unit;
- advance payment of PLN 2,620 thousand under a contract for the preparation of a design and as well as delivery and installation of thermal and sound insulation,
- advance payment of PLN 2,545 thousand under a contract for the delivery and assembly of the steel structure of a building housing the turbine house, bunkering room, LUVO and SCR, assembly of coal bunkers, as well as hoisting and laying of steam blowers.

(PLN ’000)

11.16. Impairment losses on consolidated assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Receivables****
1 January 2017	(24,363)	(10,500)	(5,676)	(11,978)	(32,472)
Impairment loss recognised	–	–	–	(796)	(4,391)
Provision reversed/	53	–	–	–	737
Utilisation	–	–	–	854	2,316
June 30th2017 (unaudited)	**(24,310)**	**(10,500)**	**(5,676)**	**(11,920)**	**(33,810)**
1 January 2016	(24,361)	(164,557)	(5,676)	(10,352)	(32,393)
Impairment loss recognised	(12)	–	–	(2,355)	(588)
Provision reversed/	10	154,057	–	–	299
Utilisation	–	–	–	628	4
June 30th2016 (unaudited)	**(24,363)**	**(10,500)**	**(5,676)**	**(12,079)**	**(32,584)**

*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.

(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 June 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 138,615 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 3,135 thousand are pledged as security for liabilities under the credit facility agreements.

	June 30th 2017 (unaudited)	*December 31st 2016*
Mortgaged property, plant and equipment, including:	92,951	90,182
land	9,258	9,258
buildings and structures	83,693	80,924
Property, plant and equipment encumbered with registered pledge, including:	52,073	50,259
plant and equipment	50,883	48,935
motor vehicles	1,190	1,324
	145,024*	**140,441***

*The amounts include property, plant and equipment classified as held for sale, of PLN 12 thousand (December 31st 2016: PLN 7 thousand).

11.17.2. Intangible items pledged as security

As at June 30th 2017, intangible assets worth PLN 10,773 thousand were pledged as security for the parent’s liabilities (December 31st 2016: PLN 10,688 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 June 30th 2017, PLN 29,630 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 June 30th 2017, inventories worth PLN 13,367 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 six months ended June 30th 2017, the parent’s share capital remained unchanged and as at June 30th 2017 was worth PLN 169,864 thousand.

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

11.19. Par value per share

The par value of the shares is PLN 2.00 per share, and 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 six months ended June 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) for the given accounting period attributable to holders of ordinary shares of the parent and the weighted average number of ordinary shares of the parent outstanding in the period.

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

	Six months ended June 30th 2017 (unaudited)	*Six months ended June 30th 2016 (unaudited)*
Net profit/(loss) from continuing operations	9,445	7,159
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	9,340	**7,528**
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	0.11	0.09

In the six months ended June 30th 2017, the parent did not issue new shares.

The Group does not present diluted earnings per share for the six months ended June 30 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:

	June 30th 2017 (unaudited)	*December 31st 2016*
As at Jan 1	23,877	25,556
Interest expense	379	713
Current service costs	255	528
Actuarial (gains)/losses	(100)	854
Benefits paid	(608)	(2,714)
Recognition/reversal of provision for employee benefit obligations	1,060	(1,060)
Closing balance	**24,863**	**23,877**
Long-term provisions	22,476	21,855
Short-term provisions	2,387	2,022

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

	June 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

	June 30th 2017 (unaudited)	*December 31st 2016*
Trade payables		
Payables to related entities	37	5
Payables to other entities	41,826	40,208
	41,863	**40,213**
Financial liabilities		
Finance lease liabilities	2,793	3,540
	2,793	**3,540**
Other liabilities		
Employee benefit obligations	455	530
Amounts payable for tangible and intangible assets	92	149
Provisions for warranty repairs	6,022	5,718
Amounts payable under voluntary redundancy programme	805	1,460
	7,374	**7,857**

11.26. Short-term provisions, trade and other payables

	June 30th 2017 (unaudited)	*December 31st 2016*
Trade payables		
Payables to related entities	1,098	1,400
Payables to other entities	244,220	472,076
	245,318	**473,476**
Capital commitments	1,331	1,610
	1,331	**1,610**

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	June 30th 2017 (unaudited)	December 31st 2016
Other liabilities		
VAT	27,472	21,985
Personal income tax	2,164	2,552
Social security	8,565	9,471
Amounts payable to the Tax Office		6
Other taxes, customs duties and insurance payable	218	238
Salaries and wages payable	8,480	9,363
Accrued holiday entitlements	5,449	4,999
Employee benefit obligations	10,087	11,501
Provisions for warranty repairs	9,755	12,509
Amounts payable under voluntary redundancy programme	1,696	5,634
Provision for uninvoiced services and materials	–	5,120
Audit provision	352	177
Settlements with the Company Social Benefits Fund	218	9
Other current accruals and deferred income	12,627	9,890
Security deposits	289	289
Provision for future costs	12,599	6,644
Other	1,145	1,417
	101,116	**101,804**
Other financial liabilities		
Finance lease liabilities	2,380	2,045
Other financial liabilities	–	–
	2,380	**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.

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13. Financial instruments

The following tables show the carrying amounts of various classes and categories of financial instruments as at June 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 discounts on long-term accounts receivable and payable.

	Carrying amount	
	June 30th 2017 (unaudited)	*December 31st 2016*
Available-for-sale financial assets	**263**	**209**
Long-term shareholdings	263	209
Financial assets held to maturity	**31,172**	–
Long-term bonds	25,269	–
Short-term bonds	5,903	–
Loans and receivables	**305,303**	**738,597**
Trade receivables	256,355	621,080
Other receivables (security deposits)	48,429	82,207
Loans advanced	19	35
Short-term deposits	500	74
Other non-current financial assets*	–	24,071
Other current financial assets*	–	11,130
Cash and cash equivalents	**203,851**	**107,524**
	540,589	**846,330**

* For a detailed description of changes, see Note 11.10

	Carrying amount	
	June 30th 2017 (unaudited)	*December 31st 2016*
Financial liabilities at amortised cost	**337,909**	**662,555**
Borrowings	49,122	147,107
Trade payables (including capital commitments)	288,787	515,448
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**5,173**	**5,585**
Liabilities under leases and rental contracts with purchase option	5,173	5,585
	343,082	**668,140**

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14. Borrowings

As at June 30th 2017, the Group's liabilities under bank and non-bank borrowings were PLN 49,122 thousand.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						June 30th 2017 (unaudited)	*December 31st 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****	36,377	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 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 working capital facility of up to PLN 50m***	PLN	1M WIBOR + margin	30.06.2018****	12,745	47,713
						49,122	**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.

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15. Derivative instruments

As at June 30th 2017, the Group did not carry any open currency forward contracts or any other derivative instruments.

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

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).

	June 30th 2017 (unaudited)	*December 31st 2016*
Share of debt in equity		
Equity (attributable to owners of the parent)	444,088	434,855
External capital (bank credit facility and loan)	49,122	147,107
Total equity and liabilities	1,023,625	1,427,069
Capitalisation ratio	**0.43**	**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 six months ended June 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 six months ended June 30th 2017, the parent reversed/utilised a PLN 4,884 thousand provision for costs of late performance, in connection with an out-of-court settlement with one of the key trading partners. Moreover, using the most recent contract data and based on settlements of completed contracts, the parent decided to recognise a PLN 4,704 thousand provision for costs of late performance.

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

	*Provision for expected losses on contracts**	*Provision for length-of-service awards and retirement gratuity and Company Social Benefits Fund*	*Provision for unused holiday entitlement***	*Provision for warranty repairs***	*Provision for costs of contractual penalties*	*Employee benefit obligations***	*Provision for voluntary redundancy programme*	*Provision for other costs***	*Other provisions*
1 January 2017	19,160	23,877	4,999	18,227	4,856	12,031	7,094	6,644	177
Provision recognised	1,611	986	1,511	4,790	4,704	2,942	–	47	337
Reversal of provision	–	–	–	–	(678)	(4,384)	–	(171)	(6)
Utilised	(10,143)	–	(1,061)	(7,240)	(4,205)	(47)	(4,593)	(1,285)	(156)
***June 30th 2017** (unaudited)*	**10,628**	**24,863**	**5,449**	**15,777**	**4,676**	**10,542**	**2,501**	**5,235**	**352**
1 January 2016	29,885	25,556	3,659	11,925	–	11,548	7,000	–	227
Provision recognised	1,368	338	1,947	5,848	12,135	4,952	917	–	322
Reversal of provision	–	–	–	–	–	(4,293)	–	–	(111)
Utilised	(13,262)	–	(53)	(4,449)	–	(1,441)	(615)		(116)
***June 30th 2016** (unaudited)*	**17,991**	**25,894**	**5,553**	**13,324**	**12,135**	**10,766**	**7,302**	–	**322**

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

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

In the six months ended June 30th 2017 the Group companies did not issue, redeem or repay any debt or equity securities.

19. Dividends paid or declared

In the six months ended June 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 June 30th 2017, the Group companies had commitments to purchase property, plant and equipment of PLN 1,423 thousand. Group companies had not signed agreements envisaging any capital expenditure to be made in 2017 and not disclosed in the accounting books at the end of the reporting period.

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

	June 30th 2017 (unaudited)	*December 31st 2016*
Receivables under financial guarantees received mainly as security for performance of contracts, including:	686,451	667,316
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	11,819	24,865
- from related entities	3,640	9,280
Letters of credit	–	–
	698,270	**692,181**

	June 30th 2017 (unaudited)	*December 31st 2016*
Commitments under financial guarantees issued mainly as security for performance of contracts, including:	270,535	200,609
- to related entities	–	–
Liabilities under sureties, including:	1,394,668	1,394,668
- to related entities	–	–
Promissory notes issued as security, including:	10,022	10,736
- to related entities	–	–
Letters of credit	–	–
	1,675,225	**1,606,013**

In the six months ended June 30th 2017, the RAFAKO Group recorded a PLN 69,212 thousand (December 31st 2016: PLN 1,606,013 thousand) rise in contingent liabilities, which resulted mainly from an increase in liabilities under bank guarantees. In the first six months of 2017, guarantees (mainly performance bonds of PLN 92,813 thousand and advance payment guarantees of PLN 20,140 thousand) were issued by banks and insurance companies to the Group's 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 Jaworzno project (construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant). The largest item among guarantees which expired in the six months ended June 30th 2017 was a performance bond of PLN 2 993 thousand.

In the six months ended June 30th 2017, the Group's contingent receivables (mainly under performance bonds) rose by PLN 6,089 thousand, including an increase of PLN 19,135 thousand in receivables under bank and insurance guarantees and a decrease of PLN 13,046 thousand in receivables under promissory notes. The largest item among the guarantees received in the first six months of 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, the Group was party to pending court proceedings, both as defendant and plaintiff.

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 the Judicial Chamber for business cases of the Supreme Court of Ukraine granting a cassation appeal lodged by RAFAKO S.A. on March 2nd 2010 and upholding the ruling of the Donetsk Commercial Court of Appeals of December 23rd 2008, whereby RAFAKO 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 attorney reported that in July 2012 the Commercial Court for the Donetsk region resumed the examination of the case having received Donetskoblenergo's petition to declare the agreement of May 16th 1994 invalid. According to the attorney, there are no new arguments or evidence to grant the petition. Due to the current situation in Ukraine, no date for the next hearing has been set.

On 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 the second penalty in whole, which reduced the debit note amount by PLN 899,400. On September 20th 2016, the consortium filed an action with the Regional Court of Białystok to determine the non-existence of liabilities towards ENERGA in connection with non-performance or improper performance of the work under the contract. On October 27th 2016, ENERGA sent a letter to RAFAKO and OMIS S.A. in which it notified them of deducting PLN 6,453,698.68, representing part of liquidated damages, from current payments due to the consortium under the contract. The deduction amount attributable to RAFAKO is PLN 4,177,451.83. The consortium does not accept the deduction and considers the amount of liquidated damages unjustified, which is the subject of the court 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 process concluded with the parties signing an out-of-court settlement on May 24th 2017, which was 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 parent filed a claim against Mostostal Warszawa S.A. with the Regional Court of Gliwice, demanding payment of PLN 8,042,475 plus statutory interest accrued from August 3rd 2016 as a refund of 70% of the amounts retained by Mostostal as a performance bond. The grounds for the claim were that the parties terminated their cooperation under the subcontractor agreement for design, delivery and erection of a grid, boiler and flue gas treatment system for two lines of the Thermal Waste Treatment Plant in Szczecin, concluded on December 18th 2012 (eventually, on July 7th 2016, RAFAKO submitted a notice of termination of the subcontractor agreement due to Mostostal Warszawa

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S.A.'s fault). As cooperation on the project had been discontinued, Mostostal Warszawa S.A. was obliged to refund the amounts retained as a performance bond, because the contractual basis for providing a performance bond had ceased to exist. On October 19th 2016, the Regional Court of Gliwice issued a payment order for the full amount claimed by RAFAKO. On November 25th 2016, the Court received an objection against the payment order, lodged by Mostostal Warszawa S.A. On June 30th 2017, the Regional Court of Gliwice awarded the entire sum demanded by the Company. The judgment is not final. The Company expects the defendant to file an appeal against the judgment of the court of first instance.

On March 20th 2017, the Company filed with the Regional Court of Gliwice a joint and several claim against Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów Sp. z o.o. for payment of PLN 13,136,446.57 plus statutory interest accrued from November 18th 2016, based on the invoice issued for the work performed by the Company and not paid by Mostostal Warszawa S.A. or Zakład Unieszkodliwiania Odpadów sp. z o.o. under the subcontract concerning the Thermal Waste Treatment Plant in Szczecin. RAFAKO considers the claim to be well-founded and, to support it, the Company carried out a relevant survey of the work performed and delivered the results to the debtors. 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. The date of the first hearing was set for October 6th 2017.

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. Management Board and Supervisory Board of the parent

In the six months ended June 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.

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In the three six months ended June 30th 2017 and by the date of authorization of these interim condensed consolidated financial statements for issue, no changes took place in the composition of the parent's 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
Dariusz Sarnowski	– Deputy 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, the Group companies did not enter into any transactions with members of their management boards, other then transactions described in Note **Błąd! Nie można odnaleźć źródła odwołania.**.

26. Related-party transactions

In the six months ended June 30th 2017 and June 30th 2016, the parent and its subsidiaries did not enter into any material transactions with related parties on other than arm's length terms.

Aggregate amounts of related-party transactions in the financial periods indicated:

Related party		*Sales to related parties in the six months ended June 30th 2017/ June 30th 2016*	*Purchase from related parties for the six months ended June 30th 2017/ June 30th 2016*	*Receivables from related entities as at June 30th 2017/ December 31st 2016*	*Liabilities to related parties as at June 30th 2017/ December 31st 2016*
Parent:					
PBG S.A.	*2017*	1,205	2,696	31,678	25
	2016	1,090	1,719	35,869	155
PBG Group companies:					
PBG oil and gas Sp. z o.o.	*2017*	1,908	1,381	1,075	198
	2016	4,648	30,974	4,018	1,081
PBG Avatia Sp. z o.o.	*2017*	–	25	–	12
	2016	–	–	–	12
PBG ERIGO Sp. z o.o.	*2017*				
	2016	8	–	–	–
PBG ERIGO Projekt Sp. z o.o.	*2017*				
	2016	38	–	7	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	*2017*	37	–	7	–
	2016			8	–
PBG DOM Sp. z o.o.	*2017*	5	–	5	–

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Related party		*Sales to related parties in the six months ended June 30th 2017/ June 30th 2016*	*Purchase from related parties for the six months ended June 30th 2017/ June 30th 2016*	*Receivables from related entities as at June 30th 2017/ December 31st 2016*	*Liabilities to related parties as at June 30th 2017/ December 31st 2016*
Entities related through personal links:					
SWGK KSIĘGOWOŚĆ Sp. z o.o.	*2017*	–	1,322	–	690
	2016	–	969	–	–
SWGK Consulting Sp. z o.o.	*2017*	–	25	–	14
	2016	–	104	–	7
Dwór w Smólsku	*2017*	–	120	–	25
	2016	–	100	–	25
Mostostal Energomontaż Gliwice S.A.	*2017*	–	–	–	57
	2016	–	–	–	102
PBG Foundation	*2017*	–	241	–	2
	2016	–	142	–	7
Corporate Finance & IT Sp. z o.o.	*2017*	–	–	–	–
	2016	121	–	–	–
Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o.	*2017*	–	–	359	–
BPIL Grzegorz Kiczor	*2017*	–	15	–	–
	2016	–	75	–	–
FCS Business Solutions Sp. z o.o.	*2017*	1	–	–	–
Polimex-Mostostal S.A.	*2017*	–	–	–	117
NDD Sp. z o. o.	*2017*	13	–	16	–
PONER Sp. z o. o.	*2017*	85	15	72	15
Economic Chamber of Energy and Environmental Protection	*2017*	–	–	–	–
	2016	–	–	–	6
NRG Solutions Sp. z o.o.	*2017*	–	–	–	–
	2016	–	–	6	–
MIKO-Tech Sp. z o.o.	*2017*	17	999	2	1,018
	2016	33	15,224	4	8,020

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

The Group did not publish forecasts for 2017.

28. 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 vote at GM*
PBG S.A. * including:	42,466,000	42,466,000	50% plus 1 share	50% plus 1 share
held directly:	7,665,999	7,665,999	9.026%	9.026%
held indirectly through Multaros Trading Company Limited ** (a subsidiary of PBG S.A.):	34,800,001	34,800,001	40.974%	40.974%
Nationale-Nederlanden Pension Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.**	8,048,507	8,048,507	9.480%	9.480%
Other	34,417,491	34,417,491	40.52%	40.52%

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

29. 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

To the best of RAFAKO S.A.’s knowledge, as at the date of these financial statements the holdings of RAFAKO shares by the management and supervisory staff of the consolidated Group companies are as follows:

	Company	*As at May 15 2017*	*Increase*	*Decrease*	*As at Sep 7 2017*
Member of the management staff					
Edward Kasprzak – Vice President of the Management Board	RAFAKO S.A.	2,000	–	–	2,000
Member of the supervisory staff	–	–	–	–	–

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

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

	Base pay	*Awards*	*Remuneration other*
RAFAKO S.A. – parent			
Management Board	1,560	–	57
Supervisory Board	384	–	301
PGL-DOM Sp. z o.o. – subsidiary			
Management Board	54	–	–
Supervisory Board	88	–	–
RAFAKO ENGINEERING Sp. z o.o. – subsidiary			
Management Board	231	–	–
Supervisory Board	63	–	–
ENERGOTECHNIKA ENGINEERING Sp. z o.o. – indirect subsidiary			
Management Board	173	–	–
Supervisory Board	27	–	–
E001RK Sp. z o.o. – subsidiary			
Management Board	84	–	–
Supervisory Board			
E003B7 Sp. z o.o. – subsidiary			
Management Board	798	1,812	–
Supervisory Board	552	960	–
RENG – NANO Sp. z o.o. – subsidiary			
Management Board	216	–	–
Supervisory Board	–	–	–

31. Events after the reporting period

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

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 the parent, the Management Board has decided to analyse possible sources of both debt and equity financing. At this stage all options will be considered, including finding an investor interested in providing the Company with capital in exchange for its shares. The parent's Management Board is of the opinion that additional capital will enable RAFAKO S.A. to continue on a path of sustainable growth and maintain 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 taken in the future. The parent will publish information about the course of the process in accordance with applicable law.

The decision to delay the inside information was taken by the parent's Management Board on June 6th 2017. The Management Board of RAFAKO S.A. decided to keep the inside information secret because its immediate disclosure could have an adverse effect on the outcome of discussions with prospective investors/lenders of the Company and due to the potential threat of the course of talks being influenced by competitors and of the public pressure, which posed a direct risk of infringing the legitimate interests of the parent company.

After, on July 26th 2017, RAFAKO S.A. (the parent) 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"), the risk of infringement of the legitimate interests of the parent ceased to exist. Accordingly, 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 Art. 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 RAFAKO S.A. expressed their willingness to cooperate in order to implement joint strategic projects, with the proviso that the scope and specific aspects of possible cooperation are addressed in separate agreements on specific future potential projects. In addition, FIPP FIZ AN and the Company 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 parent's Management Board further indicates that, at the date of the Letter of Intent, the consummation of the Investment, as well as its scope, purpose and level of FIPP FIZ AN's involvement had not yet been determined between the Parties, and all existing related agreements are general and non-binding.

Signing the Letter of Intent marks another stage of the above-described analysis of possible ways of financing the parent.

On July 26th 2017, the Management Board of RAFAKO S.A. convened the Extraordinary General Meeting of RAFAKO S.A., which commenced at the parent's registered office in Racibórz, ul. Łąkowa 33, at 12.00 noon on August 29th 2017. The agenda and draft resolutions were published in Current Report No. 26/2017 of July 26th 2017. On August 29th 2017, the Extraordinary General Meeting was adjourned until 12.00 noon on September 12th 2017. The content of the Resolutions adopted was published in Current Report No. 29/2017 of August 29th 2017.

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)".

(PLN '000)

The VAT-exclusive value of the parent's bid is EUR 70,290,000.00 (or approximately PLN 295,000,000.00), representing approximately 35% of the total price quoted in the Consortium's bid. 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, RAFAKO S.A., 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 submitted by other bidders, the parent is uncertain as to if and when a contract for the project will be executed. If a contract is signed, the parent will announce it in a current report.

Signatures:

September 7th 2017	Agnieszka Wasilewska-Semail	President of the Management Board	....
September 7th 2017	Krzysztof Burek	Vice President of the Management Board	....
September 7 2017	Jarosław Dusiło	Vice President of the Management Board	....
September 7 2017	Edward Kasprzak	Vice President of the Management Board	....
September 7 2017	Tomasz Tomczak	Vice President of the Management Board	....
September 7 2017	Jolanta Markowicz	Chief Accountant – person responsible for keeping accounting books	....