RAFAKO S.A.

THE PBG GROUP

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2015

with the auditor's opinion

COPY NO. 1

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(PLN '000)

Statement of comprehensive income

for the 12 months ended December 31st 2015

	Note	*12 months ended Dec 31 2015*	*12 months ended Dec 31 2014*
Continuing operations			
Revenue		**989,296**	**1,143,740**
Revenue from sale of goods and services	15.1	987,274	1,141,720
Revenue from sale of materials	15.2	2,022	2,020
Costs of sales	15.4	(906,829)	(1,040,394)
Gross profit/(loss)		**82,467**	**103,346**
Other income	15.7	8,858	4,402
Distribution costs	15.4	(28,564)	(30,399)
Administrative expenses	15.4	(39,389)	(38,414)
Other expenses	15.8	(7,797)	(10,550)
Operating profit (loss)		**15,575**	**28,385**
Finance income	15.9	13,403	8,643
Finance costs	15.10	(6,916)	(9,727)
Net gain/(loss) on disposal of a subsidiary		11,376	–
Profit/(loss) before tax		**33,438**	**27,301**
Income tax expense	16.1	(6,851)	(3,786)
Net profit/(loss) from continuing operations	18, 19	**26,587**	**23,515**
Other comprehensive income for the period			
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Exchange differences on translating foreign operations	15.11	(233)	89
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(233)**	**89**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods			
Other comprehensive income due to actuarial gains/(losses)	15.11	(314)	(5,005)
Tax on other comprehensive income	15.11, 16	60	950
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(254)**	**(4,055)**
Total comprehensive income for the period		**26,100**	**19,549**
Weighted average number of shares	19	74,472,635	69,600,000
Basic earnings/(loss) per share, PLN	19	0.36	0.34

Racibórz, March 21st 2016

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

(PLN '000)

Statement of financial position

as at Dec 31 2015

	Note	Dec 31 2015	Dec 31 2014
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	22	153,827	142,806
Investment property		–	–
Intangible assets	26	11,488	9,164
Non-current trade receivables, other receivables and prepayments	29	6,392	28,990
Trade receivables		5,660	28,990
Other receivables and prepayments		732	–
Non-current financial assets		60,889	58,802
Shares in subsidiaries	28	25,032	25,032
Shares in other entities	28	229	388
Non-current loans advanced	30,33.4	–	38
Other non-current financial assets	30	35,628	33,344
Deferred tax asset	16.3	42,738	49,570
		275,334	**289,332**
Current (short-term) assets			
Inventories	31	18,804	21,715
Current trade receivables, other receivables and prepayments	32	312,470	437,248
Trade receivables		141,934	237,953
Income tax receivable		7,095	13,666
Other receivables and prepayments		163,441	185,629
Gross amount due from customers for contract work	14	276,703	239,735
Current financial assets		103,541	14,418
Derivative instruments	33.1	–	–
Current deposits	33.3	–	–
Current loans advanced	33.4	486	70
Other current financial assets	33.5	5,946	–
Cash and cash equivalents	33.6	97,109	14,348
Other current non-financial assets		–	–
		711,518	**713,116**
Non-current assets held for sale	24	119	35,450
TOTAL ASSETS		**986,971**	**1,037,898**

Racibórz, March 21st 2016

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

(PLN '000)

Statement of financial position

as at Dec 31 2015

	Note	Dec 31 2015	Dec 31 2014
EQUITY AND LIABILITIES			
Total			
Share capital	35.1	169,864	139,200
Share premium	35.4	95,340	36,778
Reserve funds	35.5	104,716	81,201
Exchange differences on translating foreign operations	35.6	60	293
Retained earnings / Accumulated losses	35.7	21,843	19,025
		391,823	**276,497**
Non-current liabilities			
Interest-bearing borrowings	37	–	–
Finance lease liabilities	39.1, 43	3,111	1,581
Deferred tax liability	16.3	–	–
Provision for employee benefits	38	23,500	24,907
Non-current trade and other payables		25,544	22,869
Trade payables	39.1	20,796	20,504
Capital commitments	39.1	112	172
Other liabilities	39.1	4,636	2,193
		52,155	**49,357**
Current liabilities			
Current trade and other payables		307,537	378,810
Trade payables	39.2	256,803	299,227
Capital commitments	39.2	1,790	4,860
Income tax payable	39.9	–	–
Other liabilities	39.2	48,944	74,723
Current portion of interest-bearing borrowings	37	111,213	130,229
Other financial liabilities and finance lease liabilities	39.2, 43	1,278	559
Provision for employee benefits	38	1,973	1,896
Amounts due to customers and provisions for construction contract work and deferred income		120,992	200,550
Gross amount due to customers for construction contract work	14	90,378	161,446
Provisions for construction contract work	14	29,807	38,033
Grants	40	807	1,071
		542,993	**712,044**
Total liabilities		**595,148**	**761,401**
TOTAL EQUITY AND LIABILITIES		**986,971**	**1,037,898**

Racibórz, March 21st 2016

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

(PLN '000)

Statement of cash flows

for the 12 months ended December 31st 2015

	Note	*12 months ended Dec 31 2015*	*12 months ended Dec 31 2014*
Cash flows from operating activities			
Profit/(loss) before tax		33,438	27,301
Adjustments for:		(38,043)	100,988
Depreciation and amortisation	15.5	10,662	10,388
Foreign exchange gains/(losses)		(4)	2
Interest and dividends, net		4,322	4,290
(Gain)/loss from investing activities	33.5	(13,865)	145
(Increase)/decrease in receivables	20	135,996	49,468
Change in inventories		2,911	(1,841)
Increase/(decrease) in employee benefit provisions and obligations, excluding borrowings	20	(55,732)	131,488
Change in prepayments and accruals for construction contracts	20	(116,262)	(74,731)
Income tax paid		(4,768)	(18,058)
Other		(1,303)	(163)
Net cash from operating activities		**(4,605)**	**128,289**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		323	93
Purchase of property, plant and equipment and intangible assets	20	(24,524)	(4,928)
Sale of financial assets		–	–
Purchase of financial assets		–	–
Sale of subsidiary	5	48,000	–
Acquisition of shares in subsidiary		–	–
Dividends and interest received		16	2,812
Loans advanced		(403)	(190)
Repayment of loans advanced		31	81
Other		(1,440)	–
Net cash from investing activities		**22,003**	**(2,132)**
Cash flows from financing activities			
Proceeds from issue of shares	41	89,225	–
Payment of finance lease liabilities		(1,565)	(1,034)
Proceeds from borrowings		–	–
Repayment of borrowings	20	(18,570)	(128,199)
Interest paid	20	(3,578)	(6,435)
Bank fees		(1,051)	(1,111)
Other		1,135	699
Net cash from financing activities		**65,596**	**(136,080)**
Net increase/(decrease) in cash and cash equivalents		82,994	(9,923)
Net foreign exchange differences		(233)	89
Cash at the beginning of the period	33.6	**14,348**	**24,182**
Cash at the end of the period, of which:	33.6	**97,109**	**14,348**
- restricted cash	33.6	2,153	1,317

Racibórz, March 21st 2016

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

(PLN '000)

Statement of changes in equity

for the 12 months ended December 31st 2015

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total*
As at Jan 1 2015	**139,200**	**36,778**	**81,201**	**293**	**19,025**	**276,497**
Total comprehensive income for the period	–	–	–	(233)	26,333	26,100
Distribution of prior year profits	–	–	23,515	–	(23,515)	–
Series J shares issue	30,664	58,562	–	–	–	89,226
As at Dec 31 2015	**169,864**	**95,340**	**104,716**	**60**	**21,843**	**391,823**
As at Jan 1 2014	**139,200**	**36,778**	**220,982**	**204**	**(140,216)**	**256,948**
Total comprehensive income for the period	–	–	–	89	19,460	19,549
Distribution of prior year profits	–	–	(139,781)	–	139,781	–
Dividend	–	–	–	–	–	–
As at Dec 31 2014	**139,200**	**36,778**	**81,201**	**293**	**19,025**	**276,497**

Racibórz, March 21st 2016

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

NOTES

1. General information

RAFAKO S.A. ("the Company") is a publicly-traded 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 Register of Entrepreneurs maintained by the District Court in Gliwice, 10th Commercial Division of the National Court Register, under No. KRS 34143. The Company's Industry Identification Number (REGON) is 270217865.

The Company has been established for an indefinite term.

The Company's financial statements cover the year ended December 31st 2015 and include comparative data as at and for the year ended on December 31st 2014.

The Company's principal business activities are as follows:

- Production of steam generators, excluding hot water central heating boilers
- Repair and maintenance of finished metal goods;
- Installation of industrial machinery, plant and equipment;
- Manufacture of metal structures and parts thereof;
- Other specialist construction activities n.e.c.;
- Manufacture of industrial cooling and ventilation equipment;
- Manufacture of other metal reservoirs, tanks and containers;
- Machining;
- Metalworking and coating;
- Manufacture of machinery for metalworking;
- Repair and maintenance of machinery;
- Activities in the field of architecture;
- Engineering activities and related technical consultancy;
- Manufacture of ovens, furnaces and furnace burners;
- Wholesale of other machinery and equipment;
- Wholesale of metals and metal ores;
- Manufacture of other general-purpose machinery n.e.c.;
- Manufacture of tools;
- Production of electricity;
- Transmission of electricity;
- Distribution of electricity;
- Trade in electricity;
- Production and supply of steam, hot water and air for air-conditioning systems;
- Wholesale of hardware, plumbing and heating equipment and supplies;
- Rental and management of freehold or leasehold property;
- Other technical testing and analyses;
- Other non-school forms of education n.e.c.;
- Sewage disposal and treatment;
- Hotels and similar accommodation;
- Holiday and other short-stay accommodation;
- Restaurants and other permanent catering facilities;
- Other catering services;
- Activities of cultural facilities;

- Other recreation and entertainment facilities;
- Activities related to organisation of fairs, exhibitions and conventions;
- Scientific research and development work in the field of other natural and technical sciences;
- Forging, pressing, stamping and roll-forming of metal; powder metallurgy;
- Manufacture of instruments and appliances for measuring, testing and navigation;
- Manufacture of electric motors, generators and transformers;
- Manufacture of electricity distribution and control apparatus;
- Manufacture of engines and turbines, except aircraft, vehicle and cycle engines;
- Manufacture of hydraulic and pneumatic drive equipment and accessories;
- Manufacture of other pumps and compressors;
- Manufacture of lifting and handling equipment;
- Repair and maintenance of electrical equipment;
- Treatment and disposal of non-hazardous waste;
- Dismantling of wrecks;
- Remediation activities and other waste management services;
- Construction of residential and non-residential buildings;
- Construction of roads and motorways;
- Construction of railways and underground railways;
- Construction of transmission pipelines and distribution systems;
- Construction of telecommunications lines and power lines;
- Construction of other civil engineering projects n.e.c.;
- Dismantling and demolition of buildings;
- Site preparation;
- Digging, drilling and boring for geological and engineering purposes;
- Installation of electrical wiring and fittings;
- Installation of plumbing, heat, gas and air-conditioning systems;
- Other building installations;
- Erection of roof covering and frames;
- Wholesale of waste and scrap;
- Warehousing and storage of other goods;
- Software related activities;
- Computer consultancy activities;
- IT equipment management activities;
- Other services in the field of information and computer technology;
- Data processing, hosting and related activities;
- Specialist design activities;
- Renting and leasing of cars and vans;
- Renting and leasing of other motor vehicles, except motorcycles;
- Renting and leasing of construction machinery and equipment;
- Renting and leasing of office machinery and equipment, including computers;
- Renting and leasing of other machinery, equipment and tangible goods n.e.c.;
- Repair and maintenance of computers and peripheral equipment;
- Operation of sports facilities;
- Other sports activities;
- Other business and management consultancy activities

(PLN '000)

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

2. Identification of consolidated financial statements

The Company releasing these financial statements has also prepared consolidated financial statements of the RAFAKO Group for the year ended December 31st 2015, approved for issue on March 21st 2016.

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

In the 12 months ended December 31st 2015, there were no changes in the composition of the Company's Management Board.

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

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

In the 12 months ended December 31st 2015, the following changes took place in the composition of the Company's Supervisory Board.

On June 18th 2015, the Annual General Meeting of RAFAKO S.A. made the following decisions:

- set the number of Supervisory Board Members at seven;
- to appoint the Supervisory Board for the eighth term, composed of:

Jerzy Wiśniewski	– Member of the Supervisory Board
Dariusz Sarnowski	– Member of the Supervisory Board
Piotr Wawrzynowicz	– Member of the Supervisory Board
Przemysław Schmidt	– Member of the Supervisory Board
Dariusz Szymański	– Member of the Supervisory Board
Adam Szyszka	– Member of the Supervisory Board
Małgorzata Wiśniewska	– Member of the Supervisory Board.

On June 18th 2015, the Supervisory Board of the new term of office constituted itself as follows:

Jerzy Wiśniewski	– Chairman of the Supervisory Board,
Dariusz Sarnowski	– Deputy Chairman of the Supervisory Board
Piotr Wawrzynowicz	– Secretary of the Supervisory Board.

On November 9th 2015, Mr Piotr Wawrzynowicz, Secretary of the Supervisory Board, resigned from his position on the Supervisory Board of RAFAKO S.A.

On December 21st 2015, the Extraordinary General Meeting of RAFAKO S.A. appointed Mr Krzysztof Gerula to the Company's Supervisory Board.

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

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

(PLN '000)

4. Authorization of the financial statements

These financial statements for the year ended December 31st 2015 were authorised for issue by the Company's Management Board on March 21st 2016.

5. The Company's investments

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

Name and registered office	*Principal business activity*	*The Company's interest in the share capital (%)*	
		Dec 31 2015	*Dec 31 2014*
FPM S.A. Mikołów	Manufacture of ovens, furnaces and furnace burners	–	82.19%
PALSERWIS Sp. z o.o.* Mikołów	Manufacture of ovens, furnaces and furnace burners	–	82.19%
PGL-DOM Sp. z o.o. Racibórz	Real property activities with own property	100%	100%
RAFAKO ENGINEERING Sp. z o.o. of Racibórz	Construction and process design, urban planning	51.05%	100%
ENERGOTECHNIKA ENGINEERING Sp. z o.o.** Gliwice	Construction and process design, urban planning, engineering consultancy	63.90%	83.48%
RAFAKO ENGINEERING SOLUTION doo Belgrade	Process design, construction, industry, and environmental protection consultancy and supervision	77%	77%
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industry	100%	100%
E001RK Sp. z o.o. of Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	100%	100%
E003B7 Sp. z o.o. of Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology	100%	100%

* 100% subsidiary of FPM S.A. and indirect subsidiary of RAFAKO S.A.
**Subsidiary of RAFAKO ENGINEERING Sp. z o.o. and PGL-DOM Sp. z o.o., indirect subsidiary of RAFAKO S.A.

As at December 31st 2015 and December 31st 2014, the Company's share in total voting rights held in the subsidiaries was equal to the Company's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 40% of preference shares (conferring the right to 57.14% of the total vote); the remaining 43.48% of the shares (conferring the right to 31.06% of the total vote) are held by PGL-DOM Sp. z o.o.

On February 23rd 2015, an agreement was signed to sell shares in FPM S.A., for a total amount of PLN 48m, to TDJ S.A. The assets sold represented 82.19% of FPM S.A.'s share capital and conferred 82.19% of total voting rights at the FPM S.A. General Meeting. The carrying amount of the shares in RAFAKO S.A.'s accounting books was PLN 35.2m. Following the transaction, RAFAKO S.A. holds no FPM S.A. shares. There are no links between RAFAKO S.A. or the management or supervisory personnel of RAFAKO S.A. and TDJ S.A. or its management personnel.

On September 1st 2015, a resolution was passed to increase the share capital of subsidiary RAFAKO Engineering Sp. z o.o. from PLN 1,000,000.00 to PLN 1,959,000.00, i.e. by PLN 959,000.00, through the creation of 1,918 new shares with a par value of PLN 500.00 per share. The resolution waives the pre-emptive rights of the existing Shareholder (RAFAKO S.A., the Parent) to acquire the newly created shares in proportion to the shares already held, assuming that the new shares will be acquired by a new shareholder – related entity PBG oil and gas Sp. z o.o., a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement). The shares will be acquired in return for a non-cash contribution in the form of an organised part of business with a total value of PLN 3,878,658.74 and a cash contribution of PLN 1,200,000.00. After the registration of the share capital increase at RAFAKO Engineering Sp. z o.o., the respective interests held in the company by RAFAKO S.A. and PBG oil and gas Sp. z o.o. will be 51.05% and 48.95%. The RAFAKO Engineering Sp. z o.o. share capital increase was registered by the District Court of Gliwice, 10th Commercial Division of the National Court Register, on October 29th 2015.

On October 30th 2015, the Company acquired an organised part of the business of its related entity PBG Avatia Sp. z o.o. (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement)), comprising movables, intangible assets and rights under agreements, for a total amount of PLN 2,500,000.00. The acquisition was made as part of a strategy aimed at standardising the IT processes and services across the PBG Group and locating them within RAFAKO S.A. As the condition precedent to the taking of control of the acquired business has been met, the transaction will be accounted for in accordance with IFRS 3 Business Combinations. For details of the transaction, see Note 26.

6. Basis of preparation of the financial statements

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

These financial statements have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the end of the reporting period, i.e. December 31st 2015.

To be able to continue its business activities, the Company must maintain its financial liquidity, that is the ability to secure sufficient financing for the current contracts. In view of the above, the Management Board of the Company has prepared financial projections for the 12 months subsequent to December 31st 2015 and for the following years, based on a number of assumptions, the most important of which relate to:

- continued financing of the Company's operations with a credit facility subsequent to May 31st 2016 – pursuant to the annex executed on May 29th 2015, the repayment date for the credit facility used by the Company was extended until May 31st 2016,

- timely delivery and execution of the contracts in the Company's current order book, including in particular the timely generation of cash flows from the contracts and renegotiation of selected contracts to optimise cash flows,

- timely delivery and execution of the contracts in the Company's current order book on the assumption that the target margins would be achieved and the loss already recognised on some contracts would not increase,

- release of cash locked in performance bonds against delivery of appropriate bank guarantees to the Company's trading partners. As at the date of these financial statements, the Company had PLN 175m available in open guarantee lines provided by several financial institutions, with approximately 65% of the limit currently used. Availability of the unused portion of the facilities and success in the negotiations with financial institutions concerning further bank / insurance guarantees will enable the Group to perform new contracts it expects to be awarded during the 12 months subsequent to December 31st 2015.

In 2015, the Company signed an amendment to the PLN 150m facility agreement with PKO BP S.A. whereby the payment date of the facility was extended until May 31st 2016. The Parent also sold shares of FPM S.A. for approximately PLN 48m, and issued shares worth approximately PLN 93.5m to finance contract security deposits and similar instruments necessary to build the Company's order book, and to increase research and development expenditure. In 2016, the Parent and mBank executed a contract under which the bank issues guarantees relating to the execution of the Jaworzno Project. All these efforts have significantly improved the Company's liquidity.

The Company's Management Board believes that the above key assumptions underlying the financial projections will materialize, which will significantly improve the Company's liquidity during at least the 12 months subsequent to the reporting date.

Given the above, the Management Board is convinced that the financial forecasts prepared for the coming year will be met, and therefore it drew up these financial statements based on the going concern assumption.

The Company applied the IFRSs applicable to financial statements prepared for the year beginning on January 1st 2015.

7. Significant judgements and estimates

7.1. Professional judgement

When preparing the financial statements of the Company, the Management Board 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 made the following judgements which most significantly affect the presented carrying amounts of assets and liabilities.

Classification of leases where the Company is the lessee

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

Identification of embedded derivatives

At the end of each reporting period the management of the Company makes an assessment of the contracts signed for whether they contain any embedded foreign currency derivatives whose economic characteristics and risks are closely related to those of the host contract.

Syndicated agreements

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

7.2. Uncertainty of estimates

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

Estimates relating to the following items had a critical impact on the net result for the 12 months ended December 31st 2015 and the amounts of assets and liabilities as at December 31st 2015:

- budgeted revenue from and costs of execution of construction contracts, based on which the executed contracts are measured in accordance with IAS 11,
- estimated amount of contractual penalties for late performance of contracts,
- estimated amount of provisions for employee benefits (the Company incurs costs of jubilee bonuses and post-employment benefits),
- impairment of assets, including financial assets (e.g. receivables under arbitration and arrangement proceedings),
- depreciation and amortisation rates applied,
- realisation of a deferred tax asset (including the deferred tax asset on tax loss).

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 the reporting period, the Company conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the value in use of the cash-generating unit to which these assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Company made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the 12 months ended December 31st 2015 there were no indications of impairment.

The amounts of impairment losses on assets at the end of the reporting period are presented in Notes 22, 26, 32.1 and 33.5 to these financial statements.

Revenue recognition

In accounting for its long-term contracts, the Company uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total cost of contract execution increased by 10% in relation to the Company's original estimate, the revenue would decrease by approximately PLN 43.1m.

Measurement of provision for employee benefits

Provisions for employee benefits were estimated with actuarial methods.

The underlying assumptions are presented in Note 38.1. The change in provisions for employee benefits in the period was caused by the recognition of current service costs, interest expense and benefits paid.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Company relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 53.

Depreciation and amortisation rates

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

Deferred tax asset

The Company recognises deferred tax assets based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. Deterioration of future taxable profits might render this assumption unreasonable. 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.

Provision for expected losses on contracts

At the end of each reporting period the Company remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss on the contract is recognised as an expense in accordance with IFRS. Details of accounting for construction contract revenue and costs in the financial year are presented in Notes 11.24.6 and 14 to these financial statements.

Provision for costs due to late performance of contracts

The Company recognises a provision for contractual penalties arising from late performance of contracts if the probability of being charged for delay in the performance of the contract is significant and the delay is due to the fault of the Company as a contractor. The amount of the provision reflects the amount of the contractual penalty that may be charged for a given period of delay. For details of provisions estimated in this manner, see Note 14 to these financial statements.

Impairment of financial assets

At the end of the reporting period, the Company makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the entity recognises an allowance to bring down the carrying amount to the present value of the expected cash flows. For a detailed discussion of fair value/recoverable amount of receivables from related parties in bankruptcy, see Note 47.

Recognition of a financial asset (receivable) due to loss of control of a subsidiary

As a result of loss of control of a subsidiary, as discussed in detail in Note 47, the Company recognised in the statement of financial position for the year 2012 a receivable which was initially recognised at fair value, i.e. the present value of expected inflows. This valuation was performed based on a set of assumptions, such as the estimated discounting period, estimated amount of the inflow, and estimated discount rate. Given the uncertainty as to Company's ability to claim a refund of the price paid for the shares of ENERGOMONTAŻ-POŁUDNIE S.A., the estimation of the parameters for the measurement of the receivable, in particular at its initial recognition, was difficult and subject to uncertainty.

Valuation of receivables from related parties under arrangement proceedings

As described in detail in Note 47, in its decision of October 8th 2015 the Bankruptcy Court approved the PBG Arrangement. However, as at the date of issue of these financial statements the decision is not final. The Company's Management Board remeasured the related receivable as discussed in subsection *'Recognition of a financial asset (receivable) as a result of loss of control over a subsidiary'* based on new assumptions, i.e. the fair value of the receivable was estimated taking into account the expected cash inflows to RAFAKO S.A. in the context of PBG S.A.'s arrangement proposals providing for the repayment of PLN 500 thousand and an 80% reduction of the debt in excess of PLN 500 thousand (for which no deferred tax asset was recognised), and the expected date of the first inflow of cash in the 5-year repayment period, assessed by the Management Board of RAFAKO S.A. to be June 30th 2016.

7.3. Statement of compliance

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

The Company has chosen the option, available in the case of application of the EU-endorsed IFRSs, of applying IFRIC 21 starting from annual periods beginning on or after January 1st 2015, while amendments to IAS 19 and those made as part of the Annual Improvements cycle 2010−2012 will be applied by the Company starting from annual periods beginning on January 1st 2016.

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

The Company applied the IFRSs applicable to financial statements prepared for the year beginning on January 1st 2015.

7.4. Functional currency and presentation currency

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

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

The accounting policies applied in preparing these financial statements are consistent with the policies applied in preparing the Company's financial statements for the year ended December 31st 2014, save for the effect of application of the following amended standards and new interpretations effective for annual periods beginning on or after January 1st 2015.

Amendments to IFRS introduced as part of the 2011-2013 improvements cycle:

- Amendments to IFRS 3 *Business Combinations*

  The amendments clarify that not only joint ventures but also joint arrangements fall outside the scope of IFRS 3. The exception applies solely to the preparation of financial statements of joint arrangements. The amendment is to be applied prospectively.

  The application of these amendments had no effect on the financial standing or performance of the Company.

- Amendments to IFRS 13 *Fair Value Measurement*

  The amendments clarify that the portfolio exception applies not only to financial assets and financial liabilities but also to other agreements that fall within the scope of IAS 39. The amendments are to be applied prospectively.

  The application of these amendments had no effect on the financial standing or performance of the Company.

- Amendments to IAS 40 *Investment Property*

  The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e. property, plant and equipment). The amendment, to be applied prospectively, clarifies that it is IFRS 3 rather than the definition of ancillary services under IAS 40 that should be used to determine whether a transaction is an asset acquisition or a business acquisition.

  The application of these amendments had no effect on the financial standing or performance of the Company.

- IFRIC 21 *Levies*

  The interpretation clarifies that an entity recognises a levy liability on the occurrence of an obligating event or, in other words, the activity that triggers the obligation to pay a levy under relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. IFRIC 21 is applied retrospectively.

  The application of these amendments had no effect on the financial standing or performance of the Company.

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

9. New standards and interpretations issued but not yet effective

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

- IFRS 9 *Financial Instruments* (published on July 24th 2014) − effective for annual periods beginning on or after January 1st 2018 − not adopted by the EU by the date of authorisation of these financial statements.
- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* (published on November 21st 2013) − effective for annual periods beginning on or after July 1st 2014 − in the EU, effective not later than for annual periods beginning on or after February 1st 2015,
- *Improvements to IFRSs 2010−2012* (published on December 12th 2013) − some of the amendments are effective for annual periods beginning on or after July 1st 2014, and some prospectively for transactions occurring on or after July 1st 2014 − in the EU, effective not later than for annual periods beginning on or after February 1st 2015,
- IFRS 14 *Regulatory Deferral Accounts* (published on January 30th 2014) – effective for annual periods beginning on or after January 1st 2016; pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version − not adopted by the EU as at the date of authorisation of these financial statements,
- Amendments to IFRS *11 Accounting for Acquisitions of Interests in Joint Operations* (published on May 6th 2014) − effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* (published on May 12th 2014) − effective for annual periods beginning on or after January 1st 2016,
- IFRS 15 *Revenue from Contracts with Customers* (published on May 28th 2014), including amendments to IFRS 15 *Effective Date of IFRS 15* (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* (published on June 30th 2014) − effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 27 *Equity Method in Separate Financial Statements* (published on August 12th 2014) − effective for annual periods beginning on or after January 1st 2016,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on September 11th 2014) − no decision has been made as to when EFRAG will carry out the individual stages of work leading to approval of the amendments − not adopted by the EU by the date of authorisation of these financial statements; the effective date of the amendments has been postponed by the IASB for an indefinite term,
- *Amendments to the IFRS introduced as part of the 2012-2014 improvements cycle* (published on September 25th 2014) – effective for annual periods beginning on or after January 1st 2016,
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities*: *Applying the Consolidation Exception* (published on December 18th 2014) − effective for annual periods beginning on or after January 2016 − not adopted by the EU by the date of authorisation of these financial statements,
- Amendments to IAS 1 − *Disclosure Initiative* (published on December 18th 2014) – effective for annual periods beginning on or after January 1st 2016,
- IFRS 16 *Leases* (published on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019; no decision has been made as to when EFRAG will carry out the individual stages of work leading to the approval of the amendments; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (published on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU,

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- Amendments to IAS 7 *Disclosure Initiative* (published on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017; as at the date of authorisation of these financial statements, the amendments were not adopted by the EU.

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

As at the date of these financial statements, the introduction of the standards, amendments and interpretations as well as their effect on financial information resulting from first-time application of these standards, amendments or interpretations are being analysed by the Company's Management Board.

10. Change in estimates

In the 12 months ended December 31st 2015 and as at December 31st 2015, the Company reviewed and updated estimates in significant areas, as discussed in Note 7.2.

In accounting for its long-term contracts, the Company uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. A change was made in the method for estimating revenue from contracts in progress where the total contract revenue is from PLN 500 thousand to PLN 5m. The previously applied zero profit margin approach was replaced by an approach where profit margins on the contracts are recognised in proportion to their percentage of completion.

The effect of the change in estimates on the statement of comprehensive income for the 12 months ended December 31st 2015 is presented below.

	Revenue from sale of goods and services	*Profit/(loss) before tax*	*Income tax expense*	*Net profit*
Before change in estimates	987,442	31,584	(6,499)	25,085
Measurement of contracts in accordance with IAS 11	1,854	1,854	(352)	1,502
After change in estimates	**989,296**	**33,438**	**(6,851)**	**26,587**

The effect of the change in estimates on the statement of financial position as at December 31st 2015 is presented below.

	Accruals and deferrals under construction contracts	*Amounts due to customers for construction contract work*	*Deferred tax asset*	*Retained earnings / Accumulated losses*
Before change in estimates	275,610	91,138	43,090	20,342
Measurement of contracts in accordance with IAS 11	1,093	(760)	(352)	1,501
After change in estimates	**276,703**	**90,378**	**42,738**	**21,843**

11. Significant accounting policies

11.1. Fair value measurement

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

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

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

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

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

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

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

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

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

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

The application of IFRS 13 had no effect on the Company's financial standing, performance or the scope of disclosures in the financial statements.

Summary of significant accounting policies concerning fair value measurement

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

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

11.2. Foreign currency translation

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

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

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

Exchange rates used to determine carrying amounts:

	Dec 31 2015	*Dec 31 2014*
USD	3.9011	3.5072
EUR	4.2615	4.2623
GBP	5.7862	5.4648
CHF	3.9394	3.5447
SEK	0.4646	0.4532
TRY	1.3330	1.5070

11.3. Property, plant and equipment

Property, plant and equipment are non-current assets:

- which are not investment property, and which are held by the Group in order to be used in the production process, in supply of goods or provision of services, for administrative purposes, or to be rented to other entities (under contract),
- which are expected to be used for more than one year,
- which may possibly bring future economic benefits to the entity,
- the cost of which can be measured reliably.

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

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

The Company measured a part of the property, plant and equipment at fair value and recognised the fair value as deemed cost as at January 1st 2004, which is the date of transition to IFRSs.

Depreciation is charged on the cost of the fixed asset less its residual value. Depreciation commences when the asset is placed in service. Depreciation is based on the depreciation schedule, which specifies the expected useful life of a given asset. The applied depreciation method reflects the pattern in which the asset's economic benefits are consumed by the enterprise.

(PLN '000)

Depreciation is charged using the straight-line method over the estimated useful life of an asset, as detailed below.

Type	Depreciation rate	Period
Land, perpetual usufruct rights	–	–
Buildings and structures	from 1.54% to 50.00%	from 2 to 65 years
Plant and equipment	from 3.33% to 50.00%	from 2 to 30 years
Office equipment	from 10.00% to 50.00%	from 2 to 10 years
Vehicles	from 6.67% to 50.00%	from 2 to 15 years
Computers	from 14.29% to 50.00%	from 2 to 7 years

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

If at the time of preparing the financial statements there are any circumstances indicating that the carrying amount of property, plant and equipment may not be recoverable, such assets are reviewed for potential impairment. If any indications of impairment are identified and the carrying amount exceeds the estimated recoverable amount, then the carrying amount of such assets or cash-generating units to which such assets belong is written down to the recoverable amount. The recoverable amount is equal to the higher of the fair value less cost to sell or the value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. If an asset does not generate recognisable separate cash inflows, the recoverable amount is assessed for the cash-generating unit to which that asset belongs. Impairment losses are recognised in the statement of profit or loss as cost in the category that corresponds to the function of a given asset.

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

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

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

11.4. Intangible assets

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

As at January 1st 2004 the Company measured a part of its intangible assets at fair value and recognised the fair value as deemed cost for IFRS 1 purposes.

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

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

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

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

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

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

Research and development work

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

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

A summary of the policies applied to the Company’s intangible assets is present below:

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

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

11.5. Goodwill

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

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

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

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

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

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

11.6. Shares in subsidiaries, associates and joint ventures

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

11.7. Leases

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

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

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

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

11.8. Impairment of non-financial long-term assets

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

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

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

11.9. Borrowing costs

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

11.10. Recoverable amount of long-term assets

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

11.11. Financial assets

Financial assets are classified into the following categories:

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

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

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

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

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

a) it is classified as held for trading. Financial assets are classified as held for trading if they:
   i. have been acquired principally for the purpose of being sold in the near future,
   ii. are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
   iii. are derivatives (except for those which are part of hedge accounting or financial guarantee contracts),
b) upon initial recognition it was designated at fair value through profit and loss in accordance with IAS 39.

Financial assets at fair value through profit or loss are measured at fair value, based on their market value as at the end of the reporting period, without reflecting costs to sell. Any changes in the value of such instruments are recognised in the statement of comprehensive income as finance income or costs. If a contract contains one or more embedded derivatives, the entire contract can be designated as a financial asset at fair value through profit or loss. The above does not apply when an embedded derivative has no significant impact on the cash flows generated under the contract or when it is clear, without an analysis or following a short analysis, that if a similar hybrid instrument was first considered, separation of the embedded derivative would be prohibited. Financial assets may be designated upon initial recognition at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment in the area of measurement or recognition (accounting mismatch), or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at December 31st 2015, the Company recognised shares in listed companies in the category of financial assets accounted for at fair value through profit or loss.

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

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

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

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

If the Company:

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

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

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

11.12. Impairment of financial assets

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

11.12.1. Assets recognised at amortised cost

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

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

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

11.12.2. Financial assets carried at cost

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

11.12.3. Available-for-sale financial assets

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

11.13. Non-current assets held for sale

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

11.14. Derivative financial instruments and hedges

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

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

11.15. Inventories

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

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

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

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

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

11.16. Trade and other receivables

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

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

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

Other receivables include in particular prepayments for future acquisitions of property, plant and equipment, intangible assets and inventories.

Prepayments are presented according to the type of assets to which they refer: as non-current or current assets, respectively. As non-cash assets, prepayments are not discounted.

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

11.17. Cash and cash equivalents

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

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

11.18. Share capital

Share capital is disclosed in the financial statements in the amount defined in the Articles of Association and entered in the Court Register. Declared but outstanding contributions to equity are disclosed under "Called-up share capital not paid", as a negative value. Treasury shares are disclosed as a separate negative item of equity.

11.19. Provisions

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

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

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

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

11.20. Interest-bearing borrowings and other debt instruments

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

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

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

11.21. Trade and other payables

Current trade and other payables are reported at amounts payable.

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

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

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

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

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

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

11.22. Employee benefits

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

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

The Company recognises such costs on an accrual basis.

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

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

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

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

11.23. Taxes

11.23.1. Income tax

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

11.23.1.1. Current income tax

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

11.23.1.2. Deferred income tax

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

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

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

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

- except where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and

- in the case of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

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

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

11.23.2. Value added tax

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

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

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

11.24. Revenue

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

11.24.1. Revenue from sale of goods (merchandise and products)

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

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

11.24.2. Services

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

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

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

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

11.24.3. Interest

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

11.24.4. Dividends

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

11.24.5. Rental income

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

11.24.6. Construction contracts

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

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

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

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

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

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

11.24.7. Government grants

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

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

11.25. Earnings per share

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

(PLN '000)

12. Operating segments

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

13. Seasonality and cyclical nature of the Company's operations

The operations of the Company are not affected by seasonality or periodic fluctuations that could materially impact its financial performance.

14. Construction contracts

Revenue from construction contracts is recognised with 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 in the 12 months ended December 31st 2015 and December 31st 2014, as well as gross amount due to customers for contract work and gross amount due from customers for contract work at the dates stated above.

	Dec 31 2015	*Dec 31 2014*
Contract costs incurred to date (cumulative)	2,678,101	2,785,090
Recognised profits less recognised losses to date (cumulative)	188,963	156,277
Contract revenue recognised by reference to the contract stage of completion (cumulative)	2,867,064	2,941,367
Progress billings (cumulative)	2,676,106	2,874,767
Gross amount due to customers for contract work (liability), including:	**(90,378)**	**(161,446)**
- advances received (liabilities arising from advances received)	(56,955)	(55,585)
- adjustment to advances received arising from amounts due from customers	56,861	19,998
- gross amount due to customers for contract work	(90,284)	(125,859)
Prepayments relating to accounting for construction contracts, including:	**276,703**	**239,735**
- gross amount due from customers for contract work (asset)	254,188	210,494
- contract acquisition cost and other accrued contract costs	22,515	29,241
Provision for penalties for late contract performance or failure to meet guaranteed technical specifications	–	(1,946)
Provision for losses on construction contracts	(29,807)	(36,087)

The Company analyses each contract for potential losses, which are immediately recognised as an expense in accordance with IAS 11.36. In accordance with IAS 11.11-15, in its accounting for construction contracts the Company recognises estimated penalties arising from delays in the completion of contracts or failure to meet guaranteed technical specifications. Penalty estimates are made based on source documentation concerning delays in contract performance or issues relating to guaranteed technical specifications, based on contractual 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 or failure to meet guaranteed technical specifications is exposed to the risk of a dispute, which in the Company's opinion gives rise to risk of indeterminable consequences.

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

14.1. Key contracts executed by the Company

14.1.1. Opole Project

In February 2012, the Company, 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 PGE Elektrownia Opole S.A., together with equipment and devices as well as all related buildings and structures. The competing bidders for the project included Alstom Power Sp. z o.o. ("Alstom").

In the second half of 2011, mutual claims were raised between the RAFAKO Group and the Alstom Group companies in connection with disputes relating to jointly executed projects, as reported by the Company in previous reports.

On October 15th 2013, RAFAKO S.A. reached a settlement the Alstom Group which:

- governed in a comprehensive manner the terms of financial settlements between the groups,
- provided for a mutual waiver of claims by RAFAKO S.A. and the Alstom Group,
- and defined the scope of collaboration between the parties on RAFAKO S.A.'s projects.

The key provisions of the final settlement:

- The Alstom Group agreed to was obliged to pay EUR 43.5m to RAFAKO S.A.;
- RAFAKO S.A. and the Alstom Group waived their mutual claims relating to the Karlsruhe, Westfalen and Bełchatów projects and withdrew the court actions and calls for arbitration submitted in connection with the disputes; and
- RAFAKO S.A. agreed to cooperate with the Alstom Group on the Opole Contract, including to subcontract to the Alstom Group 100% of RAFAKO's scope of work under the Opole Contract. Detailed rules of cooperation and the scope of work subcontracted to the Alstom Group were defined in the Settlement concluded on October 25th 2013 between Alstom, the Consortium composed of RAFAKO S.A., Polimex-Mostostal S.A., Mostostal Warszawa S.A. and PGE, and special purpose vehicles of each of Consortium members.

The withdrawal of all claims, execution of the settlement, and the transfer of the agreed payments marked an end to all outstanding settlements, disputes, and issues related to penalties and claims between RAFAKO S.A. and the Alstom Group companies in connection with the projects described above.

On October 11th 2013, the Consortium and the Employer concluded an annex to the Agreement, whereby Alstom was included in the list of subcontractors.

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

Under the subcontractor agreement between SPV-RAFAKO and Alstom, SPV-RAFAKO appointed Alstom as its subcontractor responsible for 100% of the work and services making up the Company's scope of work under the Opole Project. Alstom took over the entire responsibility towards the Employer for the execution of the contract.

By December 31st 2015, Alstom signed with ENERGOTECHNIKA ENGINEERING Sp. z o.o., a subsidiary, an agreement for delivery of project documentation.

Rules of accounting for the Opole Contract:

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

The value of balances under the contract has no effect on the values disclosed in the Company's statement of financial position.

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

The execution of the Opole Project may affect RAFAKO S.A.'s performance if the Company becomes Alstom's subcontractor for the design and construction of the boiler island comprising the steam generator, desulfurization, dust removal and denitrification units, as well as all equipment required for the operation of these units; such deliveries would fall within the Company's principal business activity.

(PLN ‘000)

14.1.2. Jaworzno Project

RAFAKO S.A. in a consortium comprising RAFAKO S.A. (Consortium Leader) and MOSTOSTAL WARSZAWA S.A. is executing the contract for ‘Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800–910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems’. The value of the contract is approximately PLN 5.4bn (VAT inclusive). On August 4th 2013, the project consortium agreement was amended, with RAFAKO S.A. taking over 99.99% of the Project scope of 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 work executed under the Project.

Rules of 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 S.A. subcontracted approximately 88.5% of the Project’s scope of work, with RAFAKO S.A. executing directly the remaining 11.5% (with an approximate value of PLN 506m; the scope includes the design of the boiler island, as well as supply of boiler pressurised parts and a dust removal unit).

For the purposes of execution of the Project, RAFAKO S.A. and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/insurance guarantees with an aggregate amount of PLN 523m, required for the Project execution; under the same agreements, security for the guarantees was established on the assets of RAFAKO SA and E003B7 Sp. z o.o.

RAFAKO S.A. does not plan for E003B7 Sp. z o. o. to pay dividend before completion of the Jaworzno project.

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

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

14.2. Provision for losses on construction contracts

The Company recognises provisions for anticipated losses on contracts in accordance with the methodology described in Note 11.24.6 If analysis shows that the estimated total contract costs will exceed reliable contract revenue (i.e. the overall result on the contract will be a loss), the entire loss on such contract is recognised in the reporting period.

	Dec 31 2015	*Dec 31 2014*
Opening balance	36,087	35,704
Recognition of provision for liability	16,957	17,338
Reversal/utilisation of provision for liability	(23,237)	(16,955)
Closing balance	**29,807**	**36,087**
Current as at	29,807	36,087
Non-current as at	–	–
	29,807	**36,087**

(PLN '000)

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

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

During the 12 months ended December 31st 2015, the Company reviewed the amounts of provisions for costs of late contract performance (including delays in fulfilling contractual obligations and terms of assessing penalties) recognised for several current contracts. Using the most recent data on running contracts and based on settlements of completed contracts, the Company's Management Board determined that there was no need to recognise provisions for costs of late contract performance.

	Dec 31 2015	*Dec 31 2014*
Opening balance	1,946	50,192
Recognition of provision for liability	–	7,457
Reversal/utilisation of provision for liability	(1,946)	(55,703)
Closing balance	–	**1,946**
Current as at	–	1,946
Non-current as at	–	–
	–	**1,946**

In 2015, the Company reversed provisions for contractual penalties for a total amount of PLN 1,946 thousand and as at December 31st 2015 the Company had no provisions for costs of late contract performance.

In 2014, the Company reversed/used provisions for contractual penalties for a total amount of PLN 55,703 thousand, which primarily included a reversed provision for a potential contractual penalty payable to one customer (PLN 28,359 thousand) and use of provision for delayed execution of contracts (PLN 13,445 thousand).

15. Income and expenses

15.1. Revenue from sale of goods and services

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Net revenue from sale of goods	946,550	1,096,405
including: from related entities	3,059	670
Net revenue from sale of services	41,064	58,163
including: from related entities	697	108
Gain /(loss) on realisation of derivatives	–	–
Gain /(loss) on valuation of derivatives	–	–
Contractual penalties	(136)	(13,445)
Realised exchange differences on trade receivables	635	(753)
Exchange differences on valuation of trade receivables	(839)	1,350
Net revenue from sale of goods and services, total	**987,274**	**1,141,720**
including: from related entities	3,756	778

(PLN '000)

In the 12 months ended December 31st 2015, the Company's revenue from sale of goods and services amounted to PLN 987,274 thousand, i.e. PLN 154,446 thousand less than in the 12 months ended December 31st 2014. The revenue decline in 2015 was mainly attributable to a decline in the value of the Company's order book. Sales shrank on both the domestic and foreign markets.

15.2. Revenue from sale of materials

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Revenue from sale of materials	2,022	2,020
including: from related entities	1	–
Net revenue from sale of goods and materials, total	**2,022**	**2,020**
including: from related entities	1	–

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

Revenue from sales to related entities is presented in detail in Note 48.

Sales of particular product groups by market are presented in section 3.2 of the Directors' Report on the operations of RAFAKO S.A. in 2015.

15.3. Geographical structure of revenues

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Revenue from sales to domestic customers	868,732	969,184
including: from related entities	697	94
Revenue from sales to foreign customers	120,564	174,556
including: from related entities	3,060	684
Net sales revenue, total	**989,296**	**1,143,740**
including: from related entities	3,757	778

(PLN '000)

15.4. Cost of sales

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Depreciation and amortisation	10,662	10,388
Raw materials and consumables used	425,766	532,873
Services	331,766	373,843
Taxes and duties	6,663	6,094
Salaries and wages	140,704	136,462
Social security and other benefits	32,144	31,296
Business travel expenses	7,318	6,929
Advertising expenses	4,863	3,544
Realised exchange differences	624	264
Unrealised exchange differences	(978)	1,457
Cost of insurance	1,167	1,325
Other expenses	887	618
Total expenses by nature	**961,586**	**1,105,093**
Change in inventories, provisions, prepayments and accruals (including adjustment resulting from IAS 11)	12,263	2,108
Work performed by entity and capitalised	(1,123)	(13)
Distribution costs (negative value)	(28,564)	(30,399)
Administrative expenses (negative value)	(39,389)	(38,414)
Cost of products sold	**904,773**	**1,038,375**
Cost of merchandise and materials sold	2,056	2,019
Costs of sales	**906,829**	**1,040,394**

Cost of sales in 2015 were PLN 906,829 thousand, with the Company's gross profit at PLN 82,467 thousand. The change in relation to 2014 (down PLN 20,879 thousand) was mainly due to:

- lower sales in 2015,

- a lower, compared with 2014, change in provisions for contractual penalties (settlement of charged penalties), leading to a positive adjustment of gross profit/(loss) on sales of products and services.

Distribution costs disclosed by the Company mainly include expenses incurred by the cost centres allocated to distribution cost in the cost accounting model (a significant part of which consists of payroll costs and advertising expenses). Such costs also include bidding costs and impairment losses on trade receivables. In the Company's statement of comprehensive income for 2015, distribution costs are disclosed at PLN 28,564 thousand, with the largest item being distribution costs net of reversed and used impairment losses on trade receivables of PLN 28,233 thousand (December 31st 2014: PLN 27,178 thousand).

(PLN '000)

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

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Items recognised as cost of sales (cost of merchandise and products sold):	8,667	8,796
Depreciation of property, plant and equipment	7,189	7,178
Amortisation of intangible assets	1,478	1,618
Impairment of property, plant and equipment	–	–
Items recognised as distribution costs:	458	456
Depreciation of property, plant and equipment	380	380
Amortisation of intangible assets	78	76
Items recognised as administrative expenses:	1,537	1,136
Depreciation of property, plant and equipment	1,395	1,031
Amortisation of intangible assets	142	105
Total depreciation and amortisation	**10,662**	**10,388**

15.6. Employee benefit expenses

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Salaries and wages, including:	140,704	136,462
current wages and salaries expense	139,318	129,959
other benefits, including post-employment benefits	1,386	6,503
Social security	32,144	31,296
	172,848	**167,758**

15.7. Other income

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Income from contractual penalties	369	1,491
Reversal of provision for amounts due to the state budget	157	990
Reversal of impairment loss on non-financial assets	238	–
Gain on sale of property, plant and equipment	118	–
Grants	1,399	174
Compensations received	332	555
Reimbursed cost of training of juvenile workers	–	553
Income under sureties*	5,652	–
Other	593	639
	8,858	**4,402**

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

(PLN '000)

15.8. Other expenses

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Cost of property, plant and equipment sold	–	89
Donations	1,041	430
Scrapping of property, plant and equipment	151	256
Scrapping of materials	82	38
Repairs of property, plant and equipment	98	102
Legal costs	86	111
Power Engineer's Day organisation cost	506	332
Amortisation of licensing fees	3,444	–
Recognition of impairment loss on disputed receivables	–	308
Recognition of impairment loss on other receivables	–	1,460
Recognition of provision for cost of litigation and disputed claims	1,206	5,014
Compensations paid	690	1,790
Other	493	620
	7,797	**10,550**

15.9. Finance income

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Interest on financial instruments	2,737	37
Interest on security deposits provided	2,373	5,294
Other interest	–	–
Gains on measurement of financial instruments	–	–
Net foreign exchange gains	125	447
Reversal of impairment loss on investments	3,639	55
Discount (long-term accounts receivable and payable)	3,916	–
Dividends	11	2,808
Reversal of provisions for finance costs	281	–
Other finance income	321	2
	13,403	**8,643**

15.10. Finance costs

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Net foreign exchange losses	–	–
Interest on financial instruments	3,590	6,234
Other interest	702	921
Commission on bank borrowings received	889	1,246
Discount (long-term accounts receivable and payable)	–	1,246
Cost of financial instruments measurement	159	–
Recognition of provision for finance cost	1,335	–
Recognition of impairment loss on non-financial assets	–	–
Other finance costs	241	80
	6,916	**9,727**

For details of finance income and finance costs related to financial instruments, see Note 53.2.

(PLN '000)

15.11. Items of other comprehensive income

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Exchange differences on translating foreign operations	(233)	89
Other comprehensive income due to actuarial gains/(losses)	(314)	(5,005)
Tax on other comprehensive income	60	950
	(487)	**(3,966)**

16. Income tax

16.1. Income tax expense

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

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Statement of profit or loss		
Current income tax	41	(8,030)
Current income tax expense	–	(11,577)
Adjustments to current income tax from previous years	41	3,547
Deferred tax	(6,892)	4,244
Related to recognition and reversal of temporary differences	(6,892)	4,244
Adjustments to deferred tax from previous years	–	–
Income tax expense in the statement of profit or loss	**(6,851)**	**(3,786)**
Deferred tax on other comprehensive income	60	950
Related to recognition and reversal of temporary differences	60	950
Income tax expense recognised in other comprehensive income	**60**	**950**

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

In 2014, the Company submitted to tax authorities corrected corporate tax returns for 2008−2013, adjusting the taxable income by a total of PLN 18,667 thousand, which resulted in a PLN 3,547 thousand tax overpayment for previous years. The principal reason for the corrections was the use of technological tax relief and adjustment to revenue and expenses on contracts completed in 2012−2013.

(PLN '000)

16.2. Reconciliation of effective income tax rate

The table below presents reconciliation of corporate income tax on pre-tax profit/loss computed at the statutory tax rate with corporate income tax computed at the effective tax rate for the years ended December 31st 2015 and December 31st 2014:

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Profit before tax from continuing operations	33,438	27,301
	33,438	**27,301**
Tax at Poland's statutory tax rate of 19%	6,353	5,187
Non-tax-deductible costs (permanent differences), including:	4,195	4,909
recognition of provision for contractual penalties	693	1,650
write-off of receivables, classified as non-tax-deductible	1,169	419
charitable donations	198	–
cost of entertainment	123	86
recognition of provisions/accruals for non-deductible costs	–	12
production costs of foreign branch	687	64
recognition of impairment loss on loans advanced	–	1
realised foreign exchange losses – non-deductible costs	210	–
CIT correction	–	1,012
other	1,114	1,665
Non-taxable income (permanent differences)	(3,346)	(2,549)
from contractual penalties	(371)	(2,375)
non-deductible VAT on receivables	–	(840)
due to the use of non-taxable provisions	(1,707)	–
dividends received	(3)	(535)
other	(1,266)	1,201
Other	(308)	(213)
Correction of previous years' tax	(42)	(3,548)
Tax at the effective tax rate of 20.49% (2014: 13.87%)	**6,851**	**3,786**
Income tax (expense) in the statement of comprehensive income	6,851	3,786
Income tax attributable to discontinued operations		–
	6,851	**3,786**

(PLN '000)

16.3. Deferred income tax calculated as at December 31st 2015

Deferred income tax calculated as at December 31st 2015 relates to the following:

	Statement of financial position		*Statement of comprehensive income*	
	Dec 31 2015	*Dec 31 2014*	*Dec 31 2015*	*Dec 31 2014*
- investment reliefs	(3)	(4)	1	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,214)	(14,342)	(872)	(1,200)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,433	1,818	(385)	(23)
- difference between tax base and carrying amount of loans and receivables	604	509	95	(2,565)
different timing of recognition of revenue from sale of goods and services for tax purposes	(42,673)	(21,158)	(21,515)	8,254
- difference between tax base and carrying amount of inventories	1,967	1,481	486	274
- provisions	16,511	18,025	(1,514)	(3,430)
difference between tax base and carrying amount of financial liabilities measured at amortised cost	21	75	(54)	(107)
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	–	–	–	–
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	6	15	(9)	(8)
- different timing of recognition of cost of sales for tax purposes	60,609	50,288	10,321	2,456
tax loss	602	–	602	(1,468)
adjustment to costs of unpaid invoices	18,419	12,127	6,292	2,663
other	456	736	(280)	348
Deferred tax expense			**(6,832)**	**5,194**
Net deferred tax asset / liability, including:	**42,738**	**49,570**		
Deferred tax asset	42,738	49,570		
Deferred tax liability	–	–		

In the year ended December 31st 2015, the Company recognised a single deferred tax asset on a tax loss of PLN 3,169 thousand, which will be offset against profits in future reporting periods.

In the year ended December 31st 2012, the Company recognised a single deferred tax asset on a tax loss of PLN 15,442 thousand. In 2013, the Company reduced the asset by PLN 7,721 thousand, following partial settlement of the tax loss. In the year ended December 31st 2014, the Company settled the balance of the deferred tax asset following settlement of the remaining amount of tax loss.

17. Discontinued operations

The Company did not discontinue any operations in the 12 months ended December 31st 2015.

(PLN '000)

18. Proposed distribution of profit for 2015

The Management Board of the Company recommends that the net profit of PLN 26,587 thousand be transferred to the Company's statutory reserve funds.

19. Earnings /(loss) per share

Basic earnings/(loss) per share is calculated as the quotient of net profit/(loss) for the given accounting period attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares of the Company outstanding in the period.

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

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Net profit/(loss) from continuing operations	26,587	23,515
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	26,587	23,515
Net profit/(loss) attributable to ordinary shareholders, applied to calculate earnings per share	**26,587**	**23,515**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	74,472,635	69,600,000
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings/(loss) per share	74,472,635	69,600,000
Earnings /(loss) per share		
– basic earnings/(loss) from profit/(loss) for the period	0.36	0.34

The Company does not present diluted earnings/(loss) per share for the 12 months ended December 31st 2015 as it does not have any dilutive financial instruments.

20. Significant items disclosed in the statement of cash flows

The PLN 135,996 thousand decrease in receivables disclosed in the statement of cash flows for the 12 months ended December 31st 2015 resulted mainly from:

- PLN 119,349 thousand decrease in trade receivables,
- PLN (7,233) thousand increase in receivables from the state budget (including VAT),
- PLN (11,374) thousand increase in prepayments made,
- PLN 39,584 thousand decrease in security deposits receivable,
- PLN (5,728) thousand increase in receivables under sureties,
- PLN 1,398 thousand decrease in other receivables.

For a detailed description of changes in security deposits and disputed receivables in 2015, see Note 32.

The PLN 55,732 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (42,132) thousand decrease in trade payables,
- PLN (1,010) thousand decrease in provision for retirement benefits
  (1,644) thousand decrease in the provision for retirement benefits (net of actuarial gains/(losses)),
- PLN (1,346) thousand decrease in the provision for bonuses,
- PLN (16,735) thousand decrease in provision for uninvoiced services and goods,
- PLN (2,976) thousand decrease in VAT liabilities,
- PLN (1,204) thousand decrease in social security liabilities,
- PLN 11,380 thousand set-off of income tax liabilities,
- PLN 1,075 thousand increase in other liabilities.

The PLN -116,262 thousand change in accruals and deferrals as shown in the statement of cash flows was mainly caused by:

- PLN (78,977) thousand increase in
  PLN (36,968) thousand increase in gross amount due from customers for contract work,
- PLN (71,068) thousand decrease in gross amount due to customers for contract work,
  including:
- PLN (35,493) thousand decrease in advances,
- PLN (8,226) thousand decrease in provisions for contract work,

For a detailed description of the decrease in provisions, see Notes 14.2 and 14.3.

The PLN 35,493 thousand change in advances in 2015 resulted primarily from recognition of some of the advances as revenue, in accordance with IAS 11 Construction Contracts.

The amount of PLN 25,524 thousand related to the acquisition of property, plant and equipment and intangible assets comprises capital expenditure on property, plant and equipment of PLN 20,502 thousand and capital expenditure on intangible assets of PLN 4,022 thousand. The expenditure on property, plant and equipment was primarily related to the modernisation of the Company's buildings and structures as well as purchase of plant and equipment. The expenditure on the purchase of intangible assets was mainly attributable to the acquisition of an organised part of business of PBG Avatia Sp. z o.o., which is presented in more detail in Note 26.

The PLN 18,570 thousand decrease in borrowings disclosed under financing activities in the statement of cash flows was caused by the repayment of the PKO BP credit facility.

The Company's cash from financing activities was also affected by interest of PLN 3,420 thousand paid on the PKO BP credit facility extended (December 31st 2014: PLN 6,409 thousand) and of PLN 158 thousand paid on a loan received.

(PLN '000)

21. Social assets and liabilities of the Company Social Benefits Fund

The Act on Company Social Benefits Fund of March 4th 1994, as amended, stipulates that each employer with more than 20 full-time employees is obliged to set up a Company Social Benefits Fund and make periodic contributions thereto, comprising a basic contribution and a contribution for old-age and disability retirees. The Fund is designed to finance the Company's social activities, loans advanced to their employees and other social costs.

	Dec 31 2015	*Dec 31 2014*
Assets of the Company Social Benefits Fund	3,858	3,394
Cash of the Company Social Benefits Funds	3,511	2,987
Loans advanced to employees from the Company Social Benefits Funds	347	407
Liabilities of the Company Social Benefits Funds	(3,559)	(3,255)
Net balance	**299**	**139**

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Contributions to the Company Social Benefits Fund during the financial period	2,554	2,523
	2,554	**2,523**

(PLN '000)

22. Property, plant and equipment

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

*tangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 34.1

(PLN '000)

Dec 31 2014	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2014	**9,270**	**83,031**	**46,365**	**3,582**	–	**1,022**	**143,270**
Acquisitions	–	–	–	2,809	–	5,751	8,560
Liquidation/sale	–	–	(18)	(180)	–	–	(198)
Transfers from property, plant and equipment under construction	–	517	3,188	60	–	(3,765)	–
Exchange differences on translating foreign operations	–	–	1	–	–	–	1
Depreciation for the period	–	(2,482)	(5,457)	(650)	–	–	(8,589)
Impairment of property, plant and equipment for the reporting period	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	18	–	16	(272)	–	–	(238)
Net carrying amount as at Dec 31 2014	**9,288**	**81,066**	**44,095**	**5,349**	–	**3,008**	**142,806**
As at Jan 1 2014							
Gross carrying amount	9,270	102,079	98,989	7,268	2,538	1,022	221,166
Accumulated amortisation and impairment	–	(19,048)	(52,624)	(3,686)	(2,538)	–	(77,896)
Net carrying amount	**9,270**	**83,031**	**46,365**	**3,582**	–	**1,022**	**143,270**
As at Dec 31 2014							
Gross carrying amount	9,288	102,597	101,078	8,402	2,494	3,008	226,867
Accumulated amortisation and impairment	–	(21,531)	(56,983)	(3,053)	(2,494)	–	(84,061)
Net carrying amount	**9,288**	**81,066**	**44,095**	**5,349**	–	**3,008**	**142,806**

(PLN '000)

23. Property, plant and equipment held under leases

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

The economic useful lives of those assets are consistent with the lease terms, ranging from 48 to 60 months. Leased assets are depreciated by the Company using the straight-line depreciation method.

As at December 31st 2014, the Company held and used under finance lease vehicles with a gross value of PLN 3,224 thousand as at their acquisition date.

24. Non-current assets held for sale

As at December 31st 2015, the Company classified non-current assets worth PLN 119 thousand (December 31st 2014: PLN 35,450 thousand) as assets held for sale.

On December 30th 2014, the Company executed a preliminary conditional agreement for sale of shares in FPM S.A., a subsidiary, to TDJ S.A. for PLN 48m. The transaction was conditional on:

1) TDJ S.A. obtaining clearance for the business concentration from the President of the Office of Competition and Consumer Protection (President of UOKiK); or TDJ S.A.'s request for clearance being returned following President of UOKiK's declaration that there was no obligation to request such clearance; or the expiry of the deadline for the clearance without any decision on business concentration issued by the President of UOKiK;
2) Approval of the sale of FPM S.A. shares granted by the Supervisory Board of RAFAKO S.A.

On January 12th 2015, the Supervisory Board of RAFAKO S.A. approved the sale of FPM S.A. shares. On February 19th 2015, RAFAKO S.A. was notified by TDJ that the President of UOKiK cleared the business concentration involving takeover of control of FPM S.A. by TDJ. On February 23rd 2015, a share sale agreement was executed for an aggregate amount of PLN 48m. The Sold Assets represent 82.19% of FPM S.A.'s share capital and confer 82.19% of total voting rights at the FPM S.A. General Meeting, i.e. 1,376,508 votes. The carrying amount of the shares in the Company's accounting books was PLN 35,2m. Following the transaction, RAFAKO S.A. holds no FPM S.A. shares.

There are no links between RAFAKO S.A. or the management or supervisory personnel of RAFAKO S.A. and TDJ or its management personnel.

	Dec 31 2015	*Dec 31 2014*
Non-current assets held for sale, including:		
land	–	2
buildings and structures	–	–
plant and equipment	107	25
motor vehicles	12	239
shares in subsidiaries*	–	35,184
	119	**35,450**

*shares/interest pledged as security for the Company's liabilities as at the reporting date are presented in Note 34.3.

25. Investment property

As at December 31st 2015 and December 31st 2014, the Company held no investment property.

(PLN '000)

26. Intangible assets

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

*intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 34.2.

(PLN '000)

Dec 31 2014	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2014	**376**	**6,980**	–	–	**7,356**
Acquisitions	–	–	–	3,779	3,779
Liquidation/sale	–	(172)	–	–	(172)
Transfers from intangible assets under development	–	3,779	–	(3,779)	–
Impairment	–	–	–	–	–
Amortisation for the year	–	(1,799)	–	–	(1,799)
Exchange differences on translating foreign operations	–	–	–	–	–
As at Dec 31 2014	**376**	**8,788**	–	–	**9,164**
As at Jan 1 2014					
Gross carrying amount	376	20,076	108	173	20,733
Accumulated amortisation and impairment	–	(13,096)	(108)	(173)	(13,377)
Net carrying amount	**376**	**6,980**	–	–	**7,356**
As at Dec 31 2014					
Gross carrying amount	376	23,054	–	3,779	27,209
Accumulated amortisation and impairment	–	(14,266)	–	(3,779)	(18,045)
Net carrying amount	**376**	**8,788**	–	–	**9,164**

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

- a licence for BENSON supercritical boilers, with a carrying amount of PLN 3,337 thousand as at December 31st 2015 (December 31st 2014: PLN 3,452 thousand); the remaining licence amortisation period was nine years from December 31st 2015;
- a licence for catalytic flue gas denitrification, with a carrying amount of PLN 716 thousand as at December 31st 2015 (December 31st 2014: PLN 891 thousand); the remaining licence amortisation period was four years from December 31st 2015.

Intangible assets held for sale

As at December 31st 2015 and December 31st 2014, the Company carried no intangible assets held for sale.

Goodwill

As at December 31st 2015, the Company disclosed goodwill of PLN 1,774 thousand, recognised on:

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

accounting for a transaction under which, in 2007, RAFAKO S.A. purchased an organised part of business from Wyrskie Zakłady Urządzeń Przemysłowych NOMA INDUSTRY Sp. z o.o. w upadłości (in bankruptcy) – PLN 376 thousand.

Test for goodwill impairment

At the end of the reporting period, the Company tested goodwill for impairment following acquisition of control of an organised part of the business of PBG AVATIA sp. z o.o. by RAFAKO S.A. The test was carried out based on the present value of estimated five-year cash flows and the estimated residual value. The weighted average cost of capital (WACC) was assumed at 9.7%. The test did not reveal any impairment indicator.

Amortisation of patents and licences

During the 12 months ended December 31st 2015 and the 12 months ended December 31st 2014, patents and licences, as well as computer software were amortised on a straight line basis over their economic useful lives of 2 to 10 years.

Development work

In the 12 months ended December 31st 2015 and the 12 months ended December 31st 2014, the Company made no expenditure on development work.

Business combinations

On October 30th 2015, the Company acquired an organised part of the business of its related entity PBG Avatia Sp. z o.o. (a subsidiary of PBG S.A. w upadłości układowej (in company voluntary arrangement)), comprising movables, intangible assets and rights under agreements, for a total amount of PLN 2,500,000.00. The acquisition was made as part of the strategy aimed at standardising the IT processes and services across the PBG Group.

As the condition precedent to the taking of control of the acquired business has been met, the transaction will be accounted for in accordance with IFRS 3 Business Combinations.

In connection with the transaction, as at December 31st 2015 the Company disclosed goodwill of PLN 3,398 thousand.

As at the date of these financial statements, the transaction was accounted for as follows:

	Goodwill (PLN '000)
Value of property, plant and equipment	36
Value of intangible assets	1,253
Liabilities	(187)
Total fair value of net assets acquired	1,102
Total cost of the acquisition	2,500
Goodwill recognised on acquisition	1,398

27. Participation in joint ventures

In the 12 months ended December 31st 2015 and the 12 months ended December 31st 2014, the Company was not engaged in any joint ventures with other business entities.

28. Shares in subsidiaries and other entities

	Dec 31 2015	*Dec 31 2014*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	25,032	25,032
Shares in other listed companies	210	369
Shares in other non-listed companies	19	19
	25,261	**25,420**

*shares/interest pledged as security for the Company's liabilities as at the reporting date are presented in Note 34.3.

In the 12 months ended December 31st 2014, the Company recorded a PLN 35,184 thousand change in shares in subsidiaries, attributable to the reclassification of shares in FPM S.A. to assets held for sale.

29. Non-current trade receivables, other receivables and prepayments

	Dec 31 2015	*Dec 31 2014*
Trade receivables, including:	5,660	28,990
Trade receivables from related entities	–	–
Trade receivables from other entities	5,660	28,990
Other receivables and prepayments, including:	732	–
Receivables related to sale of property, plant and equipment and intangible assets	494	–
Security deposits	238	–
Total receivables (net)	**6,392**	**28,990**
Impairment loss on receivables	–	–
Gross receivables	**6,392**	**28,990**

(PLN '000)

30. Other non-current financial assets

	Dec 31 2015	*Dec 31 2014*
Loans advanced	–	38
Non-current deposits, including:	–	–
- deposits securing bank guarantees provided to the Company	–	–
Other non-current financial assets, including:	35,628	33,344
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) related to the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	24,854	27,717
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) in connection with a loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	5,046	5,627
Receivables under a surety provided to a subsidiary	5,728	–
	35,628	**33,382**

In the 12 months ended December 31st 2015, the Company remeasured the receivable arising from the return of shares in ENERGOMONTAŻ-POŁUDNIE S.A. and the receivable arising from a loan granted to HYDROBUDOWA S.A. due to changes in estimates and assumptions, as discussed in Note 47.

The change in the receivables relative to the amount disclosed as at December 31st 2014 follows from measurement of the receivables at amortised cost, taking into account the assumptions and estimates specified in Note 7.

31. Inventories

	Dec 31 2015	*Dec 31 2014*
Materials (at cost)	18,804	21,715
At cost	29,157	29,507
At net realisable value	18,804	21,715
Total inventories, at the lower of cost and net realisable value	**18,804**	**21,715**

*inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 34.4.

Inventory write-downs

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
At the beginning of the period	(7,792)	(6,354)
- write-down recognised	(2,731)	(1,743)
- write-down reversed	170	305
Balance at end of period	**(10,353)**	**(7,792)**

(PLN '000)

32. Current trade receivables, other receivables and prepayments

	Dec 31 2015	*Dec 31 2014*
Trade receivables, including:	141,934	237,953
Trade receivables from related entities	1,695	1,817
Trade receivables from other entities	140,239	236,136
Income tax receivable	7,095	13,666
Other receivables and prepayments, including:	163,441	185,629
Advance payments made to related parties	52	363
Advance payments made to other parties	24,534	12,849
Receivables from the state budget	13,283	6,050
Contractual penalties receivable	–	–
Settlement of property insurance costs	726	921
Settlements with the Company Social Benefits Fund	299	139
Disputed receivables	300	300
Prepaid expenses	1,032	1,315
Security deposits	122,686	162,270
Receivables related to sale of property, plant and equipment and intangible assets	426	
Receivables sold	–	683
Other	103	739
Other receivables from related entities	–	–
Total receivables (net)	**312,470**	**437,248**
Impairment loss on receivables	31,636	40,294
Gross receivables	**344,106**	**477,542**

*trade receivables pledged as security for the Company's liabilities as at the reporting date are presented in Note 34.5.

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

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

The Company follows a policy pursuant to which it sells 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.

Current trade receivables of PLN 141,934 thousand recognised in the statement of financial position as at December 31st 2015 relate to trading contracts with domestic and foreign contractors.

The amount of security deposit receivables as at December 31st 2015 changed mostly in connection with payments and repayments of security deposits under the following business transactions:

- repayment of a cash deposit retained as security for the performance of contracts for the design, construction and commissioning of a wet limestone-gypsum desulphurisation unit; security deposit amounts repaid in the 12 months ended December 31st 2015 totalled PLN 36,820 thousand;
- repayment of a cash deposit retained as security for the performance of a contract for the construction of a fluidised bed boiler; security deposit amounts repaid in the 12 months ended December 31st 2015 totalled PLN 6,064 thousand.

A significant item of other receivables was advances, which amounted to PLN 24,586 thousand as at December 31st 2015 and included:

– advance payments of PLN 2,357 thousand under a contract for the design, manufacture and delivery of a flue gas heating system,
– advance payments of PLN 4,889 thousand under a contract for the design, manufacture, delivery, installation supervision and commissioning of equipment and components of the catalytic flue gas denitrification system for OP-650 steam generators No. 4,5,6,7 and 8 signed with a domestic employer;
– advance payments of PLN 6,815 thousand under a contract for the design, delivery, installation and commissioning of a steam generator (new coal-fired project).

(PLN '000)

32.1. Impairment losses on trade and other receivables

	Dec 31 2015	*Dec 31 2014*
At the beginning of the period, including:	(40,294)	(57,633)
- on receivables from related entities	–	–
Recognition of impairment loss on trade receivables	(1,253)	(17,718)
Recognition of impairment loss on other receivables	(526)	(8)
Reversal of impairment loss on trade receivables, including:	922	14,497
- on receivables from related entities	–	–
Reversal of impairment loss on other receivables	9,515	5,261
Use of impairment loss on trade receivables	–	15,307
Balance at end of period	**(31,636)**	**(40,294)**
- on receivables from related entities	–	–

In 2015, the Company reversed a PLN 8,977 thousand impairment loss on accrued contractual penalties.

In 2014, the Company reversed a PLN 5,261 thousand impairment loss on accrued contractual penalties.

Presented below is a breakdown of current trade and other financial receivables which were past due as at December 31st 2015 and December 31st 2014, but were not considered to be irrecoverable and therefore no impairment was recognised in respect of them.

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
Dec 31 2015	271,741	268,392	1,940	1,233	155	21	–

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
Dec 31 2014	430,196	403,353	20,470	1,018	722	2,808	1,825

33. Current financial assets

33.1. Derivative instruments

As at December 31st 2015, the Company carried no open FX contracts with a positive fair value.

The Company does not apply hedge accounting, but the transactions are not speculative and their purpose is to hedge foreign currency-denominated purchase/sale contracts. As a result, the Company recognises the effects of fair-value measurement/ realisation of such instruments similarly as exchange differences, i.e. in other income or expenses.

33.2. Short-term investments

As at December 31st 2015 and December 31st 2014, the Company held no financial assets representing short-term investments.

Investment fund units are classified by the Company in the category of financial assets accounted for at fair value through profit or loss.

33.3. Current deposits

As at December 31st 2015 and December 31st 2014, the Company held no current deposits.

(PLN '000)

33.4. Loans advanced

Loans	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity date*	*Receivables under advanced notes*	
						Dec 31 2015	*Dec 31 2014*
Non-current loans							
Natural persons*	Representation on submission to enforcement under Art. 777.1.5	cash loans granted to finance payments for shares in a subsidiary	PLN	1Y WIBOR + margin	Dec 31 2016	–	38
						–	**38**
Current loans							
Natural persons*	Representation on submission to enforcement under Art. 777.1.5	cash loans granted to finance payments for shares in a subsidiary	PLN	1Y WIBOR + margin	Dec 31 2016	80	70
RAFAKO HUNGARY**	blank promissory note with a promissory note declaration	EUR 95 thousand cash loan financing contract performance	EUR	1M LIBOR + margin	Dec 31 2016	406	–
						486	**70**

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

(PLN '000)

33.5. Other current financial assets

	Dec 31 2015	*Dec 31 2014*
Other current financial assets, including:		
Additional contributions to the equity of a subsidiary	–	–
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)
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) related to the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	4,943	–
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) in connection with a loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	1,003	–
	5,946	**–**

In the 12 months ended December 31st 2015, based on the adopted assumptions the Company recognised under other financial assets a short-term receivable on the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A. and a receivable under a loan granted to HYDROBUDOWA S.A.

The change in the receivables relative to the amount disclosed as at December 31st 2014 follows from measurement of the receivables at amortised cost, taking into account the assumptions and estimates specified in Note 7.2. In the 12 months ended December 31st 2015, based on the adopted assumptions the Company recognised under other financial assets a short-term receivable on the return of shares in ENERGOMONTAŻ-POŁUDNIE S.A. and a receivable under a loan granted to HYDROBUDOWA S.A.

On April 18th 2012, the Company and Olenia Ltd entered into a preliminary agreement for the purchase of 50% of shares in Bioelektrownia Szarlej sp. z o.o. and assignment of rights to receivables in the form a loan granted to that company. The total amount of the advance paid by the Company under the agreement was PLN 16,176 thousand (of which PLN 5,676 thousand was paid in respect of shares presented as other non-financial assets and PLN 10,500 thousand was paid in respect of the loan presented as other financial assets). Bioelektrownia Szarlej sp. z o.o. is a special purpose vehicle established for the purpose of construction of 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 delays in the performance of work and termination of the project subsidy agreement. Bioelektrownia Szarlej sp. z o.o.'s efforts to resume the project were unsuccessful.

Due to the status of the project, the Company'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)

33.6. Cash and cash equivalents

	Dec 31 2015	*Dec 31 2014*
Cash in hand and at banks	14,766	7,101
Current deposits for up to 3 months, including:	82,343	7,247
- deposits pledged as security for contingent liabilities	–	–
	97,109	**14,348**
including: restricted cash	2,153	1,317

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

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

34. Assets pledged as security for Company's liabilities

34.1. Property, plant and equipment pledged as security

As at December 31st 2015, property, plant and equipment pledged as security for liabilities amounted to PLN 145,791 thousand. The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (the mortgage for a total maximum amount of PLN 300m on property of which RAFAKO S.A. is the owner or perpetual usufructuary, with the exception of residential property) and in respect of the repayment of BGK's, PKO BP's and PZU's claims towards RAFAKO S.A. under the Surety Agreement pledged as security for 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 registered pledge over a set of movables and rights).

	Dec 31 2015	*Dec 31 2014*
Property, plant and equipment mortgaged, including:	92,225	90,156
land	9,273	9,268
buildings and structures	82,952	80,888
Property, plant and equipment encumbered with registered pledge, including:	53,566	46,669
plant and equipment	50,793	44,120
motor vehicles	2,773	2,549
	145,791*	**136,825***

*the disclosed amounts include property, plant and equipment classified as held for sale, of PLN 119 thousand (December 31st 2014: PLN 266 thousand).

34.2. Intangible items pledged as security

As at December 31st 2015, intangible assets worth PLN 11,449 thousand served as security in respect of the Company's liabilities (December 31st 2014: PLN 8,788 thousand). The intangible assets are pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A. and BGK's, PKO BP's and PZU's claims towards RAFAKO S.A. under the Surety Agreement executed in order 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 registered pledge over a set of movables and rights).

34.3. Inventories pledged as security

As at December 31st 2015, shares in companies for an amount of PLN 25,261 thousand (December 31st 2014: PLN 25,420 thousand) were pledged as security in for liabilities under the multi-purpose credit facility agreement between the Parent and PKO BP S.A. (the mortgage) and for BGK's, PKO BP's and PZU's claims towards RAFAKO S.A. under the Surety Agreement executed in order 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 Jaworzno III 910 MW unit Project (a registered pledge over a set of movables and rights).

34.4. Inventories pledged as security

As at December 31st 2015, inventories worth PLN 18,726 thousand served as security in respect of the Company's liabilities (December 31st 2014: PLN 21,715 thousand). The inventories are pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A. and BGK's, PKO BP's and PZU's claims towards RAFAKO S.A. under the Surety Agreement executed in order 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 registered pledge over a set of movables and rights).

34.5. Trade receivables pledged as security

Trade receivables with a carrying amount of PLN 26,137 thousand were pledged as security in respect of guarantees and borrowings received by the Group as at December 31st 2015 (December 31st 2014: PLN 17,406 thousand).

35. Equity

35.1. Share capital

In the twelve months ended December 31st 2015, the share capital of RAFAKO S.A. changed following the issue of 15,331,998 Series J shares with a par value of PLN 2.00 per share. Following the issue, the Company's share capital was increased by PLN 30,664 thousand, and amounted to PLN 169,864 thousand as at December 31st 2015. For a detailed description of the issue of Series J shares, see Note 41 to these financial statements.

Share capital	*Number of shares* *pcs.*	*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**

35.2. Par value per share

All the shares have a par value of PLN 2.00 per share and have been taken up for cash contributions.

35.3. Shareholders' rights

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

(PLN '000)

35.4. Share premium

In the 12 months ended December 31st 2015, after the issue of Series J shares had been accounted for, the share premium was PLN 62,862 thousand, while the cost directly related to the issue was PLN 4,300 thousand. Following recognition of share premium of PLN 58,562 thousand, reduced by the issue cost, share premium totalled PLN 95,340 thousand. For a detailed description of the issue of Series J shares, see Note 41 to these financial statements (December 31st 2014: PLN 36,778 thousand).

35.5. Reserve funds

Reserve funds have been created from statutorily required transfers from profits generated by the Company in previous financial years, as well as from profit appropriations in excess of the statutorily required transfers. Following the transfer into reserve funds of the 2014 net profit of PLN 23,515 thousand, the reserve funds as at December 31st 2015 amounted to PLN 104,716 thousand (December 31st 2014: PLN 81,201 thousand).

35.6. Translation reserve

The balance of translation reserve is adjusted for exchange differences arising from translation of the financial statements of the Company's foreign branch. As at December 31st 2015, translation reserve amounted to PLN 60 thousand (December 31st 2014: PLN 293 thousand).

35.7. Retained earnings and dividends paid

As at December 31st 2015, following the recognition of a PLN 26,587 thousand net profit for the 12 months ended December 31st 2015, recognition of actuarial gains of PLN -254 thousand and transfer of PLN 23,515 of net profit for 2014 to reserve funds, the Company's retained earnings amounted to PLN 21,843 thousand.

In 2015, the Company did not pay dividends nor did the Management Board declare such payment.

35.8. Capital management

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

	Dec 31 2015	*Dec 31 2014*
Share of debt in equity		
Total	391,823	276,497
Borrowed funds (bank credit facility and loans)	111,213	130,229
Total equity and liabilities	986,971	1,037,898
Capitalisation ratio	**0.40**	**0.27**

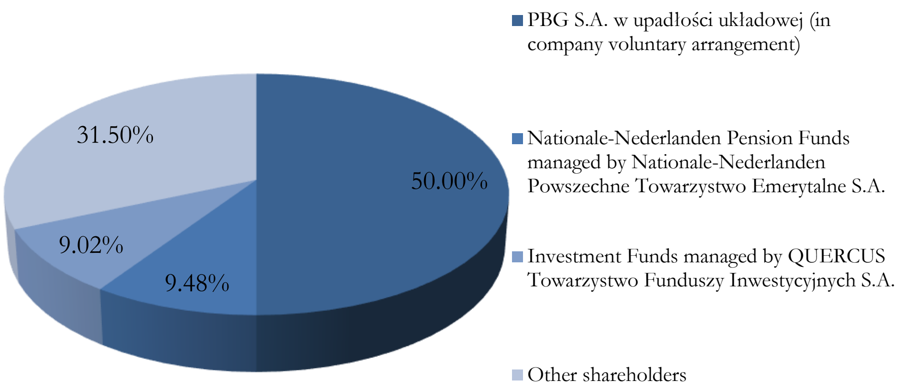
(PLN '000)

36. Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A. at the end of the reporting period

Shareholder	*Number of shares (pcs.)*	*Number of votes attached to the shares held*	*Ownership interest*	*% of total vote at GM*
PBG S.A. w upadłości układowej (in company voluntary arrangement)* **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. w upadłości układowej (in company voluntary arrangement)):	34,800,001	34,800,001	40.974%	40.974%
Nationale-Nederlanden Pension Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.**	8,048,507	8,048,507	9.480%	9.480%
Investment Funds managed by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A.*, including:**	7,662,062	7,662,062	9.020%	9.020%
QUERCUS PARASOLOWY SFIO	5,791,025	5,791,025	6.820%	6.820%

* Based on a notification of September 9th 2015.
** Based on a notification of July 30th 2015.
*** Based on a notification of September 10th 2015.

Shareholder structure as at December 31st 2015



(PLN '000)

37. Interest-bearing borrowings

As at December 31st 2015, the Company carried liabilities under bank credit facilities.

Current borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity date*	*Liabilities under borrowings*	
						Dec 31 2015	*Dec 31 2014*
Current borrowings:							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts,* clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising the entire business of the Company	Agreement for a PLN 150 million renewable overdraft***	PLN	1M WIBOR + margin	May 31 2016****	109,208	128,127
						109,208	**128,127**
Short-term loans received:							
PGL-DOM Sp. z o.o.*****	blank promissory note with a promissory note declaration	Cash loan agreement to be used for funding day-to-day operations	PLN	1M WIBOR + margin	Dec 31.2016	2,005	2,102
						2,005	**2,102**

*The facility is secured by receivables under contracts performed by the Company;

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

***As at the date of issue of these financial statements, in accordance with the annex of April 29th 2014 to the credit facility agreement, the multi-purpose credit facility limit amounted to PLN 200,000,000.00, including a PLN 150,000,000.00 overdraft facility;

****As at the date of issue of these financial statements, in accordance with the annex of May 29th 2015 to the credit facility agreement, the term of the facility and its repayment date were extended until May 31st 2016;

***** A subsidiary.

The Company plans to extend the credit facility agreement for subsequent periods. The Company's credit standing should be analysed taking into account the information included in Note 6, relating to continuation of the Company's operations.

38. Employee benefit obligations

38.1. Post-employment and other employee benefits

Based on a forecast made at the end of the period by a professional actuarial company, the Company recognises a provision for the present value of the liability arising from retirement benefits, jubilee bonuses and the Social Fund. The provision amount and a reconciliation showing movements in the provision during the financial year are presented in the table below:

	Dec 31 2015	*Dec 31 2014*
As at Jan 1 2012	26,803	22,808
Interest expense	670	912
Current service costs	403	585
Actuarial (gains)/losses	314	5,005
Benefits paid	(2,717)	(2,507)
Closing balance	**25,473**	**26,803**
Non-current provisions	23,500	24,907
Current provisions	1,973	1,896

The main assumptions adopted by the actuary as at December 31st 2015 and for the 12 months ended December 31st 2015, as well as for the 12 months ended December 31st 2014 to determine the amount of the obligation were as follows:

	Dec 31 2015	*Dec 31 2014*
Discount rate (%)	2,8	2,5
Anticipated inflation rate (%)*	–	–
Employee turnover rate	5	5
Anticipated salary growth rate (%)**	2	5

*No data in the actuary's report.
** 2% in 2016 and in subsequent years

Sensitivity analysis

Change of the discount rate by half percentage point:

	Increase (PLN '000)	*Decrease (PLN '000)*
Dec 31 2015		
Effect on the defined benefit obligation	(1,121)	1,336
Dec 31 2014		
Effect on the defined benefit obligation	(1,301)	1,403

(PLN '000)

39. Trade and other payables

39.1. Non-current trade and other payables

	Dec 31 2015	Dec 31 2014
Trade payables, including:		
Trade payables to related entities	55	6
Trade payables to other entities	20,741	20,498
	20,796	**20,504**
Capital commitments	112	172
	112	**172**
Financial liabilities, including:		
Finance lease liabilities	3,111	1,581
	3,111	**1,581**
Other liabilities, including:		
Unpaid bonus accrual	311	334
Provisions for warranty repairs	4,325	1,859
	4,636	**2,193**

39.2. Current provisions, trade and other payables

	Dec 31 2015	Dec 31 2014
Trade payables, including:		
Trade payables to related entities	9,235	7,017
Trade payables to other entities	247,568	292,210
	256,803	**299,227**
Liabilities under investments in non-current assets	1,790	4,860
	1,790	**4,860**

(PLN '000)

	Dec 31 2015	*Dec 31 2014*
Other liabilities		
VAT	1,418	4,394
Personal income tax	2,116	2,101
Social security liabilities	7,537	8,741
Other taxes, customs duties and insurance payable	72	201
Salaries and wages payable	6,952	7,687
Accrued holiday entitlements	3,076	3,289
Unpaid bonus accrual	6,784	8,107
Provisions for warranty repairs	7,600	9,988
Liabilities under financial guarantees and sureties issued	–	745
Accrual for costs of uninvoiced materials and services	4,828	21,563
Accrual for audit fees	111	100
Provisions for other liabilities and disputed claims	7,000	5,667
Other amounts payable to employees	279	–
Security deposits	144	613
Other	1,027	1,527
	48,944	**74,723**
Other financial liabilities		
Finance lease liabilities	1,278	559
	1,278	**559**

In 'Provisions for other liabilities and disputed claims' the Company included a provision for claims by the Company's customers.

39.3. Liabilities under financial derivatives

As at December 31st 2015, the Company carried no open FX contracts with a negative fair value.

39.4. Capital commitments

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

As at December 31st 2015, the Company was also a party to certain agreements for planned capital expenditure totalling PLN 186 thousand, which were not disclosed in the accounting books as at the end of the reporting period.

(PLN '000)

39.5. Accrued holiday entitlements

The amount of accrued holiday entitlements is calculated on a monthly basis based on the actual number of days of unused holidays as at the end of each month. One twelfth of the holiday leave due for the whole year, increased by any unused days of holiday leave due for prior periods, is allocated to each individual month of the financial year. The number of days thus calculated is then multiplied by the average daily rate applicable to a given employee, determined on the basis of their salary for the month for which the accrual is made, plus amounts due to the Social Insurance Institution.

	Dec 31 2015	*Dec 31 2014*
Opening balance	3,289	2,102
Recognition of provision for liability	3,076	3,289
Cost of benefits paid	–	–
Reversal of provision for liability	(3,289)	(2,102)
Closing balance	**3,076**	**3,289**
Current as at	3,076	3,289
Non-current as at	–	–
	3,076	**3,289**

39.6. Unpaid bonus accrual

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

	Dec 31 2015	*Dec 31 2014*
Opening balance	8,441	1,124
Recognition of provision for liability	6,066	7,759
Cost of benefits paid	(6,555)	(230)
Reversal of provision for liability	(857)	(212)
Closing balance	**7,095**	**8,441**
Current as at	6,784	8,107
Non-current as at	311	334
	7,095	**8,441**

(PLN '000)

39.7. Provision for warranty repairs

Provisions for warranty repairs are recognised as a result of estimating the expected and measurable costs of oversight, repairs and warranty works related to the Company's contractual liabilities, arising from the completion of a construction contract.

	Dec 31 2015	*Dec 31 2014*
Opening balance	11,847	10,646
Recognition of provision for liability	9,702	13,422
Costs of warranty repairs incurred	(9,624)	(12,221)
Reversal of provision for liability	–	–
Closing balance	**11,925**	**11,847**
Current as at	7,600	9,988
Non-current as at	4,325	1,859
	11,925	**11,847**

39.8. Liabilities under bank guarantees and sureties issued

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

	Dec 31 2015	*Dec 31 2014*
Opening balance	745	745
Recognition of provision for liability	66	–
Surety costs incurred	(811)	–
Reversal of accrual	–	–
Closing balance	–	**745**
Current as at	–	745
Non-current as at	–	–
	–	**745**

39.9. Income tax payable

As at December 31st 2015 and December 31st 2014, the Company carried no income tax payable.

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

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

In the period of 12 months ended December 31st 2015, there were no tax audits at the Company.

In the period of 12 months ended December 31st 2014, there were no tax audits at the Company.

40. Grants

As at December 31st 2015, grants received amounted to PLN 807 thousand. Grants received pertain to:

- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed the design, delivery and installation of natural gas detection and signalling systems for two gas furnaces at RAFAKO S.A.; the grant was made in cash,
- Research project 'Development of technologies for high performance zero emission coal-fired units integrated with CO_2 capture from flue gas,' carried out under the 'Advanced power generation technologies' strategic scientific research and development programme of the National Centre for Research and Development of Warsaw; the grant was made in cash,
- Research project 'Innovative low-emission technologies (DUO-BIO) for reconstruction of coal-fired power plants comprising 200 MW generating units' funded by the National Centre for Research and Development as part of the Applied Research Programme; the grant was made in cash,
- Research project to develop an innovative electrostatic method of reducing emissions of submicron particles in exhaust and flue gases, in particular from biofuel-fired sources (ELAGLOM) funded by the National Centre for Research and Development as part of the Applied Research Programme; the grant was made in cash,
- Research project 'CO_2 methanisation unit for storing electricity by producing SNG' pursued jointly with TAURON Wytwarzanie S.A., Institute for Chemical Processing of Coal, AGH University of Technology, West Technology & Trading Polska Sp. z o.o. of Opole, EXERGON Sp. z o.o. of Gliwice, CEA Institute of France and a French-based company Atmostat; the grant was made in cash,
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to install a hydrocarbons detection system in RAFAKO S.A.'s paint and varnish storage facility; the grant was made in cash,
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to modernise and extend RAFAKO S.A.'s CCTV system; the grant was made in cash,

(PLN '000)

Settlements relating to grants:

Purpose of the grant	*Jan 1 2015*	*Increase in the period*	*Grants posted to other income in the period*	*Grants returned in the period*	*Other grant decreases in the period*	*Dec 31 2015*
Modernisation of property, plant and equipment	21	136	(4)	–	–	153
Partial performance of a research project	1,050	1,367	(1,763)	–	–	654
	1,071	**1,503**	**(1,767)**	**–**	**–**	**807**

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

On May 13th 2015, the Management Board of RAFAKO S.A. passed resolutions to increase the Company's share capital within the limit of authorised share capital by not more than PLN 30,663,996, through the issue of not more than 15,331,998 Series J ordinary bearer shares with a par value of PLN 2 per share. Under the Private Placement Resolution, in accordance with the obligation set forth in Section 5 of Resolution No. 2 of the Extraordinary General Meeting of RAFAKO S.A. of March 24th 2014, the Management Board decided to offer Series J Shares to the Company's shareholders holding individually at least 10% of Company shares on the date of adoption of the EGM Resolution ("Entitled Shareholders") in a private placement within the meaning of Art. 431.2.1 of the Commercial Companies Code, and to waive the pre-emptive rights of the Company's existing shareholders. Under the Open Subscription Resolution, the Management Board decided to offer Series J Shares by way of an open subscription within the meaning of Art. 431.2.2 of the Commercial Companies Code, with pre-emptive rights of the Company's existing shareholders waived, provided that a part or all of Series J shares have not been acquired by the Entitled Shareholders.

On June 9th 2015, the Company received representations from Eligible Shareholders in which each of them declared having no intention to participate in the Private Placement irrespective of the final terms and conditions thereof.

Following the open subscription, on July 21st 2015 the maximum number of Series J shares were allotted at the issue price of PLN 6.10 per share. On July 28th 2015, the Management Board of Krajowy Depozyt Papierów Wartościowych S.A. (CSDP) resolved to register in its securities depository 15,331,998 allotment certificates (rights to shares, or PDA) in respect of Series J ordinary bearer shares, which were introduced to trading on the main market of the WSE on July 29th 2015.

On July 23rd 2015, the Company filed an application with the District Court of Gliwice, 10th Commercial Division of the National Court Register, for registration of the Company's share capital increase. On September 7th 2015, the Court registered the Company's increased share capital of PLN 169,863,996.

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

42. Use of proceeds

PLN 89,225 thousand of share issue proceeds were used in 2015, of which:

- PLN 4,090 thousand was used towards security deposits for new financial instruments,
- PLN 3,066 thousand was used towards financial services related to the execution of new projects,
- PLN 1,031 thousand was used towards R&D work in Q4 2015.

(PLN '000)

43. Liabilities under finance leases and lease agreements with a purchase option

As at December 31st 2015, future minimum lease payments under finance leases and lease agreements with a purchase option and the net present value of minimum lease payments were as follows:

	Dec 31 2015		*Dec 31 2014*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	1,278	1,278	559	559
from 1 to 5 years	3,111	3,111	1,581	1,581
over 5 years	–	–	–	–
Total minimum lease payments	**4,389**	**4,389**	**2,140**	**2,140**
Less finance costs	–	–	–	–
Present value of minimum lease payments, including:	**4,389**	**4,389**	**2,140**	**2,140**
current	1,278	1,278	559	559
non-current	3,111	3,111	1,581	1,581

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

	Dec 31 2015	*Dec 31 2014*
Off-balance sheet items under bank guarantees received mainly as security for performance of contracts, including:	235,544	189,601
- from related entities	–	–
Receivables under sureties received, including:	7,600	7,600
- from related entities	–	–
Promissory notes received as security, including:	26,667	27,557
- from related entities	13,204	14,821
Letters of credit	–	19,180
	269,811	**243,938**

	Dec 31 2015	*Dec 31 2014*
Off-balance sheet items under bank guarantees issued mainly as security for performance of contracts, including:	201,181	243,232
- to related entities	–	–
Liabilities under sureties, including:	1,046,000	1,046,000
- to related entities	1,046,000	1,046,000
Promissory notes issued as security, including:	28,747	28,647
- to related entities	2,000	2,000
Letters of credit	–	–
	1,275,928	**1,317,879**

In 2015, RAFAKO S.A. recorded a PLN 41,951 thousand drop in contingent liabilities, which resulted from a decrease in liabilities under guarantees. In 2015, guarantees (mainly performance bonds of PLN 42,973 thousand and bid bonds of PLN 12,107 thousand) were issued by banks and insurance companies to the Company's trading partners upon RAFAKO S.A.'s instruction. In this category of liabilities, the largest item was a performance bond of PLN 11,090 thousand issued in September 2015. Liabilities under sureties issued, of PLN 1,046,000 thousand, relate to a surety for E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. on April 16th 2014 and valid until April 17th 2028, in connection with the project involving the 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. − construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant −Power Plant II'. The largest item among guarantees which expired in the 2015 was a performance bond of PLN 12,239 thousand.

In 2015, the Company recorded an increase of PLN 25,625 thousand in contingent receivables related mainly to performance bonds, including an increase of PLN 45,943 thousand in receivables under bank and insurance guarantees received, a decrease of PLN 890 thousand in receivables under promissory notes and a decrease of PLN 19,180 thousand in receivables under letters of credit opened to the benefit of the Company. The largest item among guarantees received in 2015 was a performance bond of EUR 10,041 thousand. The largest items among guarantees expired in 2015 were two advance payment guarantees of PLN 4,193 thousand each.

45. Guarantees

As at December 31st 2015, the Company carried contingent liabilities under bank and insurance guarantees for a total amount of PLN 201,181 thousand, including:

No.	*Bank/insurer issuing a guarantee*	*Guarantee amount (PLN '000)*	*Type of guarantee*
1.	BZ WBK S.A.	17,953	warranty bond
2.	DEUTSCHE Bank Polska S.A.	1,157	warranty bond
3.	T.U. Euler HERMES S.A.	7,505	warranty bond
4.	STU ERGO HESTIA S.A.	19,366	performance bond, warranty bond
5.	PKO BP S.A.	107,381	performance bond, warranty bond, advance payment guarantee, bid bond, retention
6.	UNIQA TU S.A.	2,841	warranty bond, bid bond
7.	TUiR WARTA S.A.	9,316	performance bond, warranty bond
8.	Generali TU S.A.	2,250	performance bond
9.	InterRisk S.A.	10,662	performance bond, warranty bond, bid bond
10.	KUKE S.A.	20,166	performance bond, warranty bond, advance payment guarantee
11.	mBank S.A.	2,584	performance bond, warranty bond
	TOTAL	**201,181**	

In the majority of cases, the claims of insurers providing financial guarantees on the Company's instruction are secured by blank promissory notes with promissory note declarations, while banks' claims are secured mainly by voluntary submissions to enforcement, blank promissory notes with promissory note declarations and cash security deposits.

46. Litigation and disputes

Below are described the key litigations and disputes in which the Company is involved.

On November 3rd 2009, RAFAKO S.A. brought an action for payment with the Regional Court of Warsaw, 20th Commercial Division, against ING Bank Śląski S.A. ('ING'). In the action, RAFAKO S.A. demanded a refund of approximately PLN 9m unlawfully enforced from its accounts by ING Bank Śląski S.A. On November 29th 2010, the court of first instance issued a ruling in which it awarded PLN 8,996,566.00, plus statutory interest and litigation costs, to be paid by ING Bank Śląski S.A. to RAFAKO S.A. The attorney of ING Bank Śląski S.A. filed an appeal against the ruling of the court of first instance. On October 12th 2011, the Court of Appeals in Warsaw, having completed hearings, did not find the claims raised in the appeal by ING Bank Śląski S.A. justified, but resolved ex officio that the court of first instance failed to consider the substance of the dispute, reversed the ruling and remanded the case for re-examination by the court of first instance. In its ruling of April 1st 2014, the Regional Court of Warsaw ordered ING to pay RAFAKO S.A. PLN 3,646,699.59 plus statutory interest for the period from November 3rd 2009 until the payment date. The court dismissed the remaining part of the claim. Both parties lodged appeals against the ruling. The amount awarded to RAFAKO pursuant to a final ruling of the Court of Appeals, issued on May 29th 2015, was PLN 3,636,226.62 plus statutory interest from November 25th 2009. The costs of the appeal proceedings were offset. The awarded amount was credited to the account of the Company in July 2015.

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

An action brought by Steinmüller Babcock Environment GmbH (formerly FISIA BABCOCK ENVIRONMENT GmbH) against RAFAKO S.A. was pending before the International Court of Arbitration at the International Chamber of Commerce in Vienna. The proceedings were initiated following the filing of a claim for payment of approximately EUR 3.8m in connection with a licence agreement relating to a wet flue gas desulfurization unit. The principal claim concerned payment of an allegedly outstanding licence fee. In RAFAKO S.A.'s opinion, the claim is groundless. RAFAKO S.A.'s stance is that the contract for the upgrade of four desulfurization units, in relation to which the dispute arose, had been performed based RAFAKO's proprietary technological solutions, without any licensed know-how. On December 18th 2015, the parties signed a final contract settlement agreement, which ended the dispute. Under the agreement, RAFAKO S.A. paid Steinmüller Babcock Environment GmbH EUR 800 thousand in three instalments. On February 12th 2016, the Company received an official confirmation from the Arbitration Court that the proceedings in the case had been closed.

On December 9th 2014, RAFAKO S.A. received a claim for payment of EUR 644.5 thousand from ESPD Environmental Solutions and Project Development GmbH of Vienna (ESPD). The Company's liability is alleged to arise out of the cooperation agreement signed between the parties, under which ESPD agreed to provide support for RAFAKO S.A.'s efforts to win contracts for flue gas denitration (DeNOx) units. RAFAKO S.A.'s stance is that the fee claimed by ESPD is not due since no services have been provided. On December 7th 2015, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw awarded the full claimed amount to ESPD. The amount owed by the Company was paid to ESPD, but the Company remains in dispute, and on January 21st 2016 it filed an appeal against the award with the Court of Appeals in Katowice. At present it is difficult to predict when the appeal will be considered by the Court.

47. Receivables from related entities in company voluntary arrangement

At the end of the reporting period, in the statement of financial position the Company recognised net receivables of PLN 35.8m from related entities in company voluntary arrangement.

On December 20th 2011, RAFAKO S.A. and PBG S.A. („indirect parent”) of Wysogotowo an agreement („Agreement”), under which RAFAKO S.A. acquired an interest in ENERGOMONTAŻ-POŁUDNIE Spółka Akcyjna („EP”) with registered office at ul. Mickiewicza 15, Katowice. Under the Agreement, RAFAKO S.A. acquired 46,021,520 ordinary bearer shares in EP with a par value of PLN 1 per share and a total par value of PLN 46,021,520, representing 64.84% of the share capital and 64.84% of total voting rights at the General Meeting of the company, carrying the right to 46,021,520 votes attached to the shares. PBG S.A. sold the shares for PLN 160,154,889.60 (PLN 3.48 per share). The purchase price was paid on December 30th 2011. Following an analysis and taking into account the likelihood of RAFAKO S.A.’s additional payments and claims, the Management Board determined the purchase price at PLN 160,154,889.60, plus transaction costs of PLN 557,363.40.

As a result of the above-mentioned transactions, ENERGOMONTAŻ-POŁUDNIE S.A. became a subsidiary of the RAFAKO Group.

The acquisition of shares in ENERGOMONTAŻ-POŁUDNIE S.A. was disclosed in the Company’s financial statements for the financial year ended December 31st 2011 under cost of an investment in a subsidiary. The carrying amount of the investment as at December 31st 2011 was PLN 160,712.3 thousand. In accordance with the Company’s accounting policy, the shares in the subsidiary were recognised at historical cost (net of impairment, if any).

On June 4th 2012, PBG S.A. filed a petition for insolvency. On June 13th 2012, the court granted the petition and PBG S.A. was declared to be insolvent in company voluntary arrangement.

On July 16th 2012, the Management Board of RAFAKO S.A. received a letter from the Court Supervisor of PBG S.A. w upadłości układowej (in company voluntary arrangement) addressed to the company (“PBG”), informing PBG that the sale of 46,021,520 shares in ENERGOMONTAŻ-POŁUDNIE S.A. by PBG to the Company on December 20th 2011 “as a legal transaction executed by the Bankrupt (PBG) for a consideration, within six months before the date of submitting the bankruptcy petition (i.e. June 4th 2012), with a related party in respect of which the Bankrupt (PBG) was a parent, is ineffective against its bankruptcy estate”, in accordance with Art.128.2 of the Bankruptcy and Restructuring Law (“Letter”). The Court Supervisor requested the PBG Management Board to immediately take steps under Art. 134 of the Bankruptcy and Restructuring Law to effect a return transfer of 46,021,520 shares in ENERGOMONTAŻ-POŁUDNIE S.A. to PBG’s account.

On August 7th 2012, the Company’s Management Board entered into an agreement with PBG S.A. w upadłości układowej (in company voluntary arrangement) of Wysogotowo for the transfer of shares in ENERGOMONTAŻ-POŁUDNIE Spółka Akcyjna of Katowice. The agreement provided for the transfer of 46,021,520 ordinary bearer shares in the company, with a par value of PLN 1 per share, representing 64.84% of the share capital and 64.84% of total voting rights at the General Meeting of ENERGOMONTAŻ-POŁUDNIE S.A., carrying the right to 46,021,520 votes. The share transfer was registered in the brokerage account on August 7th 2012.

In accordance with the legal analyses available to the Company’s Management Board, as a result of PBG S.A.’s insolvency declared on June 13th 2012, the sale of shares in ENERGOMONTAŻ-POŁUDNIE S.A. by PBG S.A. to RAFAKO S.A. under the agreement signed on December 20th 2011 has become legally ineffective against the bankruptcy estate as of the date of the court’s decision to declare PBG S.A. insolvent, i.e. as of June 13th 2012 (the date of loss of control). This means that the Company is required to return the shares in ENERGOMONTAŻ-POŁUDNIE S.A. to PBG S.A. to include them in PBG S.A.’s bankruptcy estate, i.e. to procure that they are recorded in PBG S.A.’s securities account. This requirement arose by operation of law upon the declaration of PBG S.A.’s insolvency. Considering the above, having analysed the legal opinions on the ineffectiveness of the acquisition of ENERGOMONTAŻ-POŁUDNIE S.A. shares from PBG S.A. w upadłości układowej (in company voluntary arrangement), the Company’s Management Board resolved to submit to the procedure involving the return of the shares.

Given the ineffectiveness of PBG S.A.'s disposal of the shares in ENERGOMONTAŻ-POŁUDNIE S.A. to RAFAKO S.A., the Company is entitled to claim a refund of the price paid for the shares. RAFAKO S.A.'s right to the refund of the price paid for the shares of ENERGOMONTAŻ-POŁUDNIE S.A. results in the recognition, in the statement of financial position, of a receivable which was initially recognised at fair value by reference to the present value of the expected inflows. Accordingly, the fair value of the receivable was estimated taking into account the expected cash inflows to the Company, taking into consideration PBG S.A.'s arrangement proposals providing for a 31% reduction of the debt (for which no deferred tax asset was recognised) and the expected timing of the inflow of the first instalment of cash to the Company, assessed by the Management Board as June 30th 2015.

In the 12 months ended December 31st 2015, the Company remeasured the asset based on updated arrangement proposals of November 3rd 2014, put forward by PBG S.A. w upadłości układowej (in company voluntary arrangement), providing with respect to the first group of creditors (which includes RAFAKO S.A.'s claim) for repayment of PLN 500 thousand and an 80% reduction of the receivable in excess of PLN 500 thousand. The receivable will be repaid in semi-annual instalments over a period of five years beginning on June 30th 2016. The Company's Management Board estimates that the first instalment will be paid by June 30th 2016.

The value of the receivable determined based on the assumptions discussed above as at December 31st 2015, recognised under 'Other non-current financial assets' amounts to PLN 24.8m and under 'Other current financial assets' amounts to PLN 4.9m. The full amount of the claim, i.e. PLN 160,154,889.60, has been included in the proof of the claim to the bankruptcy estate of PBG.S.A. and is on the list of claims acknowledged by the Court Supervisor (publication in Monitor Sądowy i Gospodarczy official gazette of June 4th 2013).

In addition, on January 10th 2012, RAFAKO S.A. entered into a loan agreement with Hydrobudowa Polska S.A. of Wysogotowo, under which RAFAKO S.A. granted a cash loan of PLN 32m to the company maturing in 12 months (i.e. on January 9th 2013) to finance the company's day-to-day operations. To secure the repayment of the loan, Hydrobudowa Polska S.A. issued a blank promissory note with a 'protest waived' clause to RAFAKO S.A., guaranteed by PBG S.A. and Multaros Trading Company Ltd., together with relevant promissory note declarations. RAFAKO S.A. is entitled to fill in the note with the amount of any overdue balance of the loan with interest, up to PLN 35,000,000 (thirty-five million zloty). The loan bears interest at an annual rate of 1M WIBOR plus margin. By the date of these financial statements, RAFAKO S.A. had not received any amounts from Hydrobudowa Polska S.A., either as repayment of the loan principal or interest.

On June 4th 2012, PBG S.A. and Hydrobudowa Polska S.A. filed petitions with the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, for declaring PBG S.A. and Hydrobudowa Polska S.A. insolvent in voluntary arrangement. On June 13th 2012, the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, declared PBG S.A. insolvent in voluntary arrangement. On June 11th 2012, the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, declared the bankruptcy of Hydrobudowa Polska S.A. by liquidation of its assets. Pursuant to Art. 124.2 of the Bankruptcy and Restructuring Law, following the declaration of bankruptcy of Hydrobudowa Polska S.A., RAFAKO S.A. is entitled to seek the return of the actually advanced loan, in accordance with the Bankruptcy and Restructuring Law. On October 26th 2012, the Company's Management Board filed a proof of the Company's claim in respect of the loan in the bankruptcy proceedings against Hydrobudowa Polska S.A. The loan is included in the list of claims acknowledged by the Official Receiver.

Taking into consideration the process of bankruptcy liquidation of Hydrobudowa Polska S.A., in order to seek the return of the loan amount, on September 21st 2012, the Company's Management Board filed the claim with the register of claims maintained as part of the PBG bankruptcy arrangement proceedings PBG S.A. In the 12 months ended December 31st 2014, taking into consideration current arrangement proposals (dated November 3rd 2014), the fair value of the receivable was estimated taking into account the expected cash inflows to the Company, assuming the repayment of PLN 500 thousand per one creditor and the 80% reduction of the receivable in excess of PLN 500 thousand (for which no deferred tax asset was recognised) as well as the expected timing of the first inflow of cash to the Company, assessed by the Company's Management Board as June 30th 2016 (arrangement proposals provide for the repayment of the debt on a semi-annual basis over the period of five years).

(PLN '000)

As at December 31st 2015, the value of the receivable determined based on the assumptions discussed above, recognised under 'Other non-current financial assets' amounts to PLN 5m and under 'Other current financial assets' amounts to PLN 1m. The full amount of the claim, i.e. PLN 32,915,787.40, has been included in the proof of the Company's claim to the bankruptcy estate of PBG.S.A. and is on the list of claims acknowledged by the Court Supervisor (publication in Monitor Sądowy i Gospodarczy official gazette of June 4th 2013).

The total amount of receivables from the related entity (PBG S.A. w upadłości układowej (in company voluntary arrangement)), which results from the above-mentioned titles and is recognised in the statement of financial position, is PLN 35.8m. The recoverable amount of the claims depends on the terms of the arrangement with PBG S.A.'s creditors and on the possibility of fulfilment of that arrangement by PBG S.A. in the future. In its decision of October 8th 2015, the Bankruptcy Court approved the PBG Arrangement. However, as at the date of issue of these financial statements the decision is not final.

In the 12 months ended December 31st 2015, the measurement of the receivables contributed PLN 2,502 thousand (December 31st 2014: PLN 83 thousand) to the Company's net profit/(loss).

48. Related parties

In 2015 and 2014, the Company did not enter into any material transactions with related parties on non-arm's length terms.

Total amounts of transactions with related parties in the 12 months ended December 31st 2015 and December 31st 2014 were as follows:

Related party	*12 months ended Dec 31*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related entities*	*Liabilities to related parties*
Parent:					
PBG S.A. w upadłości układowej (in company voluntary arrangement)	2015	138	20	36,015*	1
	2014	–	5,057	33,344*	–
PBG Group companies:					
PBG Oil and Gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.)	2015	13	13,008	17	5,409
	2014	–	1,506	–	565
PBG Avatia Sp. z o.o. w upadłości układowej (in company voluntary arrangement)	2015	–	2,690	–	–
	2014	–	4	–	1
PBG ERIGO Sp. z o.o.	2015	3	–	3	–
	2014	–	–	–	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	2015	13	–	16	–
	2014	–	–	–	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	2015	–	57	–	1
	2014	–	60	–	23
RAFAKO Engineering Sp. z o.o.	2015	137	1,064	1,066	1,019
	2014	40	9,953	4	903
RAFAKO Engineering Solution doo.	2015	–	737	–	123
	2014	–	1,246	–	170

(PLN '000)

Related party	*12 months ended Dec 31*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related entities*	*Liabilities to related parties*
FPM S.A.**	2015	–	–	–	–
	2014	–	3	–	–
RAFAKO Hungary Sp. z o.o.	2015	3,058	–	1,194	–
	2014	684	–	14	–
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	2015	53	11,140	11	2,127
	2014	48	17,643	10	5,300
E001RK Sp. z o.o.	2015	6	326	–	25
	2014	6	388	1	61
E003B7 Sp. z o.o.	2015	335	–	5,767	–
	2014	166	–	1,788	–
Related parties:					
PBG Foundation	2015	–	399	–	113
	2014	–	–	–	–
SWGK CONSULTING Sp. z o.o.	2015	–	596	–	100
	2014	–	–	–	–
Mostostal Energomontaż Gliwice S.A.	2015	–	18	–	372
	2014	–	–	–	–
Energoprojekt Katowice	2015	–	265	–	–
	2014	–	–	–	–

**The receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) described in Note 47*
*** A subsidiary since February 28th 2015.*

48.1. Company's Parent

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

As at December 31st 2015, PBG S.A. of Wysogotowo held 50% + 1 ordinary share in the Company (9.026% of shares held directly, and 40.974% of shares held indirectly).

48.2. Joint ventures in which the Company is a partner

The Company is not a partner in any joint ventures.

48.3. Related-party transactions

In 2015, the Company did not enter into any material related-party transactions on non-arm's length terms. All transactions with related parties are executed on terms applied by the Company in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are agreed. The related party must ensure that a contract is performed in accordance with the documentation, give a warranty for a specified period and provide security in the form of a performance bond issued by a bank or a blank promissory note. Related parties are also subject to standard contractual penalties, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

(PLN '000)

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

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

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

48.5. Shares held by members of management and supervisory bodies

The table below presents the number of shares in the Company or Company's related entities held by the management and supervisory staff as at December 31st 2015:

	Company name	*Total number of shares*	*Par value of shares (PLN)*
Member of the management staff			
Edward Kasprzak	RAFAKO S.A.	2,000	4,000
Jarosław Dusiło	PBG S.A. w upadłości układowej (in company voluntary arrangement)	100	100
Tomasz Tomczak	PBG S.A. w upadłości układowej (in company voluntary arrangement)	3,250	3,250
Member of the supervisory staff			
Małgorzata Wiśniewska	PBG S.A. w upadłości układowej (in company voluntary arrangement)	3,279	3,279
Jerzy Wiśniewski	PBG S.A. w upadłości układowej (in company voluntary arrangement)	3,881,224	3,881,224

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

The Company is not operating any employee share option schemes.

48.7. Remuneration of the Company's senior management staff

	12 months ended Dec 31 2015	*12 months ended Dec 31 2014*
Short-term employee benefits (salaries and overheads)	9,043	8,204
Length-of-service awards	37	17
Post-employment benefits	–	–
Termination benefits	19	–
Employee share-based payments	–	–
Total cost of remuneration paid to key management staff*	**9,099**	**8,221**

The remuneration paid to members of the Company's Management and Supervisory Boards for the year ended December 31st 2015 was as follows:

PLN '000

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

The remuneration paid to members of the Company's Management and Supervisory Boards for the year ended December 31st 2014 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**2,904**	**1,205**	**665**
Agnieszka Wasilewska-Semail	226	–	3
Krzysztof Burek	542	192	–
Jarosław Dusiło	542	240	–
Edward Kasprzak	542	199	–
Maciej Modrowski	234	199	140
Paweł Mortas	438	375	492
Tomasz Tomczak	380	–	30
Supervisory Board	**1,020**	–	**1,330**
Jerzy Wiśniewski	236	–	600
Dariusz Sarnowski	146	–	180
Piotr Wawrzynowicz	144	–	360
Małgorzata Wiśniewska	108	–	–
Agenor Gawrzyał	114	–	33
Edyta Senger-Kałat	108	–	–
Przemysław Schmidt	108	–	157
Adam Szyszka	56	–	–
Total	**3,924**	**1,205**	**1,995**

49. Management Board's position on the feasibility of meeting previously published forecasts

The Company has not published any forecasts for 2015.

(PLN '000)

50. Information on agreement with qualified auditor or auditing firm qualified to audit financial statements, applicable in the periods specified above

By a resolution of July 6th 2015, RAFAKO S.A.'s Supervisory Board, acting in accordance with the authority afforded by the Company's Articles of Association, selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa of Warsaw, entered in the register of the National Chamber of Statutory Auditors under No. 130, as the auditor of the Company's financial statements for 2015. The auditor was appointed in accordance with the applicable regulations and professional standards. The agreement with the auditor will be concluded for a period of time necessary to review and audit the financial statements of RAFAKO S.A. and the consolidated financial statements of the RAFAKO Group for the financial year 2015. In the past, Ernst & Young Audyt performed reviews and audits of the financial statements of the Company and the consolidated financial statements of the RAFAKO Group for 2002−2005 and 2011−2014.

On July 22nd 2015, the Company entered into an agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa for the review and audit of the separate and consolidated financial statements for 2015. The total remuneration payable to the auditor for the review and audit of the financial statements was agreed at PLN 200 thousand.

The table below presents the remuneration paid or payable to the qualified auditors of financial statements for the year ended December 31st 2015 and December 31st 2014, broken by type of service:

Type of service	*Year ended Dec 31 2015*	*Year ended Dec 31 2014*
Mandatory audit of the separate and consolidated financial statements	200	179
Other services	235	30
Total*	**435**	**209**

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

(PLN '000)

51. Objectives and policies of financial risk management

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

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

The key financial risk to which the Company is exposed is liquidity risk, discussed at length in Note 6.

In 2015, the Company continued its PLN 150m overdraft facility agreement with PKO BP S.A., exposing it to interest rate risk that will have an effect on the amount of finance costs paid by the Company in the following periods. The base interest rate, determining the cost of the credit facility, remained relatively low and constant.

Currency risk and interest rate risk are other types of risk to which the Company was exposed in the reporting period and continues to be exposed. An overview of these risks is presented in Note 53.1 and Note 51.2.

The accounting policies applied by the Company with respect to derivative instruments are discussed in Note 11.11.

51.1. Interest rate risk

As at December 31st 2015, the Company was party to a credit facility agreement, therefore its operations were exposed to credit risk and the risk associated with potential changes in interest rates. Changes in market interest rates may trigger changes to the interest charged on the credit facility, as well as the interest earned by the Company on its deposits. Sensitivities to such changes are analysed in the table below.

Sensitivity to interest rate risk

The table below presents sensitivity of pre-tax profit to reasonable movements in interest rates, assuming that other factors remain constant (deposits, advanced loans, bank credit facility). The effect on the Company's equity is not presented.

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

(PLN '000)

	Increase/decrease (percentage points)	Effect on pre-tax profit/loss
Period ended Dec 31 2014		
PLN	+ 1%	622
EUR	+ 1%	753
GBP	+ 1%	43
PLN	- 1%	(622)
EUR	- 1%	(753)
GBP	- 1%	(43)

51.2. Currency risk

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

In the reporting period, more than 12.2% of the Company's invoiced revenue was denominated in foreign currencies, primarily in the euro.

The currency risk management strategy followed by the Company provides for the use of natural hedging to the largest possible extent. The Company strives to achieve the highest possible level of structural matching of income and expenses denominated in the same currency and related to the running contracts. From 30% to 70% of the estimated net exposure to currency risk which is not covered by natural hedging is hedged at the time of transaction execution, exclusively with accepted types of derivative instruments. As at December 31st 2015, the Company did not have any open hedging positions.

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

The table below presents the sensitivity of the pre-tax profit/loss (due to changes in the value of monetary assets and liabilities) to reasonable movements mostly in the EUR, GBP, CZK, TRY, and RSD exchange rates, with all the other factors unchanged.

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

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	Exchange rate increase/decrease	Effect on pre-tax profit/loss	Effect on net profit/loss
Dec 31 2014 – EUR	+10%	14,671	11,884
	-10%	(14,671)	(11,884)
Dec 31 2014 – GBP	+10%	492	399
	-10%	(492)	(399)
Dec 31 2014 – TRY	+10%	5	4
	-10%	(5)	(4)
Dec 31 2014 – DKK	+10%	1	1
	-10%	(1)	(1)

51.3. Commodity price risk

The Company is exposed to price risk, particularly the risk of increase in the prices of materials of strategic importance to its operations. The level of this risk is greatly determined by the conditions prevailing in the global commodities markets (including steel, precious metals, fuel and energy markets), which are affected by both exchange rate movements and producers' consolidation efforts intended to achieve joint control of prices. The commodity price risk management strategy envisages entering into contracts with sub-suppliers of materials and services in the master contract currency, arranging for procurement of materials by the customer, and entering into procurement contracts providing for fixed prices. The Company does not enter into long-term contracts with sub-suppliers. The scope of supplies is determined and suppliers selected on an individual basis depending on requirement.

51.4. Credit risk

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

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

51.5. Liquidity risk

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

The Company's financial liquidity (going concern) in 2015 is discussed at length in Note 6 to the financial statements.

(PLN '000)

The table below presents the Company's financial liabilities by maturity as at December 31st 2015 and December 31st 2014, based on undiscounted contractual payments.

December 31st 2015	*payable on demand*	*up to 3 months*	*from 3 to 12 months*	*from 1 year to 5 years*	*over 5 years*	*Total*
Interest-bearing borrowings	–	–	111,213	–	–	111,213
Lease liabilities	–	314	964	3,111	–	4,389
Trade payables and capital commitments	29,437	177,237	51,887	20,423	517	279,501
Discount on liabilities	–	–	–	1,565	81	1,646
	29,437	**177,551**	**164,064**	**25,099**	**598**	**396,749**

Dec 31 2014	*payable on demand*	*up to 3 months*	*from 3 to 12 months*	*from 1 year to 5 years*	*over 5 years*	*Total*
Interest-bearing borrowings	–	128,127	2,102	–	–	130,229
Lease liabilities	–	137	423	1,580	–	2,140
Trade payables and capital commitments	56,347	213,134	34,606	20,009	667	324,763
Discount on liabilities	–	–	–	1,506	173	1,679
	56,347	**341,398**	**37,131**	**23,095**	**840**	**458,811**

52. Derivative instruments

As at December 31st 2015, the Company did not carry any open transactions in derivative financial instruments.

The Company does not apply hedge accounting, but the transactions it concludes are not speculative and their purpose is to effectively hedge foreign currency-denominated purchase/sale contracts. As a result, the Company recognises the effects of fair-value measurement/ realisation of such instruments similarly as exchange differences, i.e. in other income or expenses.

(PLN '000)

53. Financial instruments

53.1. Carrying amounts of various classes and categories of financial instruments

The following tables show the carrying amounts of various classes and categories of financial instruments as at December 31st 2015 and December 31st 2014.

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

Classes and categories of financial assets	*Carrying amount Dec 31 2015*	*Carrying amount Dec 31 2014*
Assets at fair value through profit or loss	–	–
Investment fund units	–	–
Derivative instruments	–	–
Available-for-sale financial assets	**210**	**369**
Long-term shareholdings	210	369
Loans and receivables	**314,295**	**462,965**
Trade receivables	147,594	266,943
Receivables related to sale of property, plant and equipment and intangible assets	920	–
Other receivables	123,721	162,570
Loans advanced	486	108
Non-current deposits	–	–
Current deposits	–	–
Other non-current financial assets	35,628	33,344
Other current financial assets	5,946	–
Cash and cash equivalents	**97,109**	**14,348**
	411,614	**477,682**

Classes and categories of financial liabilities	*Carrying amount Dec 31 2015*	*Carrying amount Dec 31 2014*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**390,714**	**454,992**
Borrowings	111,213	130,229
Trade payables (including capital commitments)	279,501	324,763
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**4,389**	**2,140**
Liabilities under leases and lease agreements with a purchase option	4,389	2,140
	395,103	**457,132**

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As at December 31st 2015 and December 31st 2014, the Company held the following financial instruments measured at fair value:

Dec 31 2015	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	–	–
Investment fund units	–	–	–
Derivative instruments	–	–	–
Available-for-sale financial assets	**210**	**–**	**–**
Long-term shareholdings	210	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivative instruments	–	–	–

Dec 31 2014	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	–	–
Investment fund units	–	–	–
Derivative instruments	–	–	–
Available-for-sale financial assets	**369**	**–**	**–**
Long-term shareholdings	369	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivative instruments	–	–	–

(PLN '000)

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

12 months ended Dec 31 2015	*Category in accordance with IAS 39*	*Interest income/ (expense)*	*Foreign exchange gains/ (losses)*	*Reversal/ (recognition) of impairment losses*	*Gains/ (losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial assets								
Available-for-sale financial assets (non-current), including:	Available for sale	–	–	–	(159)	–	11	(148)
- shares	Available for sale	–	–	–	(159)	–	11	(148)
Other financial assets (non-current), including:		6	2	–	1,668	–	–	1,676
- non-current deposits	Receivables and loans	–	–	–	–	–	–	–
- non-current loans	Receivables and loans	6	2	–	4	–	–	12
- receivables under the surety		–	–	–	(837)	–	–	(837)
- receivables from related entities in company voluntary arrangement	Receivables and loans	–	–	–	2,501	–	–	2,501
Other financial assets (current), including:		–	84	–	–	–	–	84
- current deposits	Receivables and loans	–	84	–	–	–	–	84
- receivables from related entities in company voluntary arrangement	At fair value through profit or loss	–	–	–	–	–	–	–
- current loans	Receivables and loans	–	–	–	–	–	–	–
Trade and other receivables	Receivables and loans	4,935	29	8,658	1,363	–	–	14,985
- trade receivables		2,562	(204)	(331)	1,389	–	–	3,416
- other receivables		2,373	233	8,989	(26)	–	–	11,569
Financial derivatives	At fair value through profit or loss	–	–	–	–	–	–	–
Cash and cash equivalents	Receivables and loans	169	(194)	–	–	–	–	(25)
Total		**5,110**	**(79)**	**8,658**	**2,872**	**–**	**11**	**16,572**

(PLN '000)

12 months ended Dec 31 2015	*Category in accordance with IAS 39*	*Interest income/ (expense)*	*Foreign exchange gains/ (losses)*	*Reversal/ (recognition) of impairment losses*	*Gains /(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(3,293)	–	–	–	–	(889)	(4,182)
- loans bearing interest at variable rates	Other financial liabilities at amortised cost	(60)	–	–	–	–	–	(60)
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(3,233)	–	–	–	–	(889)	(4,122)
- other current credit facilities bearing interest at variable rates	Other financial liabilities at amortised cost	–	–	–	–	–	–	–
Other financial liabilities, including:	Other financial liabilities at amortised cost	(156)	(1)	–	–	–	–	(157)
- liabilities under finance leases and lease agreements with a purchase option	Other financial liabilities at amortised cost	(156)	(1)	–	–	–	–	(157)
Trade and other payables	Other financial liabilities at amortised cost	(843)	354	–	(28)	–	–	(517)
– trade payables		(141)	377	–	(16)	–	–	220
– other liabilities		(702)	(23)	–	(12)	–	–	(737)
Hedging instruments	Other financial liabilities at amortised cost	–	–	–	–	–	–	–
Financial derivatives	At fair value through profit or loss	–	–	–	–	–	–	–
Total		**(4,292)**	**353**	–	**(28)**	–	**(889)**	**(4,856)**

(PLN '000)

12 months ended Dec 31 2014	*Category in accordance with IAS 39*	*Interest income/ (expense)*	*Foreign exchange gains/ (losses)*	*Reversal/ (recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial assets								
Available-for-sale financial assets (non-current), including:	Available for sale	–	–	–	–	–	2,808	2,808
- shares	Available for sale	–	–	–	–	–	2,808	2,808
Other financial assets (non-current), including:		7	–	–	79	–	–	86
- non-current deposits	Receivables and loans		–	–	–	–	–	
- non-current loans	Receivables and loans	7	–	–	(4)	–	–	3
- receivables from related entities in company voluntary arrangement	Receivables and loans	–	–	–	83	–	–	83
Other financial assets (current), including:		–	(78)	–	–	–	–	(78)
- current deposits	Receivables and loans	–	(78)	–	–	–	–	(78)
– certificates of deposit	At fair value through profit or loss	–	–	–	–	–	–	–
- receivables from related entities in company voluntary arrangement	At fair value through profit or loss	–	–	–	–	–	–	–
- advance payment to acquire the right to a loan	At fair value through profit or loss	–	–	–	–	–	–	–
- current loans	Receivables and loans	–	–	–	–	–	–	–
Trade and other receivables	Receivables and loans	5,294	415	2,032	(1,349)	–	–	6,392
- trade receivables		1	597	(3,221)	(1,349)	–	–	(3,972)
- other receivables		5,293	(182)	5,253	–	–	–	10,364
Financial derivatives	At fair value through profit or loss	–	–	–	–	–	–	–
Cash and cash equivalents	Receivables and loans	30	707	–	–	–	–	737
Total		**5,331**	**1,044**	**2,032**	**(1,270)**	–	**2,808**	**9,945**

(PLN '000)

12 months ended Dec 31 2014	*Category in accordance with IAS 39*	*Interest income/ (expense)*	*Foreign exchange gains/ (losses)*	*Reversal/ (recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(5,869)	–	–	–	–	(1,246)	(7,115)
- loans bearing interest at variable rates	Other financial liabilities at amortised cost	(75)	–	–	–	–	–	(75)
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(5,794)	–	–	–	–	(1,246)	(7,040)
- other current credit facilities bearing interest at variable rates	Other financial liabilities at amortised cost	–	–	–	–	–	–	–
Other financial liabilities, including:	Other financial liabilities at amortised cost	(41)	–	–	–	–	–	(41)
- liabilities under finance leases and lease agreements with a purchase option	Other financial liabilities at amortised cost	(41)	–	–	–	–	–	(41)
Trade and other payables	Other financial liabilities at amortised cost	(1,245)	(1,721)	–	24	–	–	(2,942)
– trade payables		(324)	(1,691)	–	25	–	–	(1,990)
– other liabilities		(921)	(30)	–	(1)	–	–	(952)
Hedging instruments	Other financial liabilities at amortised cost	–	–	–	–	–	–	–
Financial derivatives	At fair value through profit or loss	–	–	–	–	–	–	–
Total		**(7,155)**	**(1,721)**	–	**24**	–	**(1,246)**	**(10,098)**

(PLN '000)

53.3. Interest rate risk

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

Dec 31 2015

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

(PLN ‘000)

Dec 31 2014

Fixed interest	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Non-current deposits	–	–	–	–	–	–	–
Current deposits	–	–	–	–	–	–	–
Variable interest							
Cash and cash equivalents	14,348	–	–	–	–	–	14,348
Loans advanced	70	38	–	–	–	–	108
Liabilities under finance leases and lease agreements with a purchase option	560	588	592	377	23	–	2,140
Borrowings	130,229	–	–	–	–	–	130,229
	145,207	**626**	**592**	**377**	**23**	–	**146,825**

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

54. Employment

Between January and December 2015, the average headcount at the Company was 2,143.

For a detailed description of changes to the employment structure, see Section III.4 in the Directors' Report on the Operations of RAFAKO S.A. in 2015.

55. Events after the end of the reporting period

January 13th 2016 was the effective date of a conditional contract between a subsidiary E003B7 Sp. z o.o. ("SPV") and a Consortium comprising KOPEX S.A. of Katowice (Consortium Leader) and STAL-SYSTEMS S.A. of Wólka Pełkińska (Consortium Partner) for the supply and assembly of the steel structure of a building housing the turbine house, boiler house, bunkering room, LUVO and SCR, assembly of coal bunkers, as well as hoisting and laying of steam blowers in connection with the project 'Development of new coal-fired generation capacities at Tauron Wytwarzanie S.A. – Construction of a 910 MW supercritical power generating unit at the Jaworzno III Power Plant – Power Plant II', executed by RAFAKO S.A. and the SPV.

On February 24th 2016, E003B7 Sp. z o.o. ("SPV") (a wholly-owned subsidiary of RAFAKO) concluded with (i) Powszechna Kasa Oszczędności Bank Polski S.A. ("PKO BP"), (ii) Powszechny Zakład Ubezpieczeń S.A. ("PZU"), (iii) Bank Gospodarstwa Krajowego ("BGK") and (iv) mBank S.A. ("mBank" and collectively with PKO BP, PZU and BGK, the "Guarantors") an annex to the agreement of April 16th 2014 for the grant of bank and insurance guarantees to the SPV in connection with the project providing for the development of new coal-fired generation capacities at Tauron Wytwarzanie S.A. (the "Employer") − construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant − Power Plant II" (the "Jaworzno Project") performed by RAFAKO and the SPV .

Under the annex, mBank undertook to issue, in favour of the employer, (i) an advance payment bank guarantee of PLN 48m and (ii) a performance bond bank guarantee for the Jaworzno Project of PLN 126,334 thousand. Both guarantees were issued on February 26th 2016. Following the execution of the Annex and in connection with the change of the form of performance bond for the Main Contract with Tauron Wytwarzanie S.A., after the guarantees issued by mBank had been posted, the amount of PLN 40m deposited in cash by RAFAKO S.A. to secure performance of the Main Contract was returned to the Company by the employer. At the same time, the SPV received PLN 16.3m in retention monies.

In order to secure the Guarantors' (including mBank's) claims under legal recourse from the guarantees and performance bonds provided by the Guarantors, RAFAKO S.A. and the SPV made changes to the security arrangements and created security interests for the benefit of mBank identical to those created for the benefit of PKO, BGK and PZU, including in particular creating or changing the scope of the following security: (i) a surety for the SPV's liabilities under the Agreement, valid until April 17th 2028, provided by RAFAKO S.A. in favour of the Guarantors; (ii) a registered pledge over assets comprising the SPV's business; (iii) a registered and financial pledge over SPV shares representing 100% of the SPV's share capital and conferring the right to 100% of voting rights at the SPV's general meeting, held by RAFAKO S.A., and (iv) registered and ordinary or financial pledges over the SPV's and RAFAKO S.A.'s bank accounts and receivables connected with the Main Contract; as well as RAFAKO S.A.'s and the SPV's statements on submission to enforcement. All the registered pledges secure claims up to a maximum amount of PLN 1,300,000,000.

On March 10th 2016, the Company received a decision on the following entries in the pledge register:

a) change of the pledge established by RAFAKO S.A. over RAFAKO S.A.'s receivables from the Employer under the Jaworzno Project contract of April 17th 2014, securing the Guarantors' claims against RAFAKO S.A. arising from RAFAKO S.A.'s surety for the SPV's liabilities under the Guarantee Agreement;
b) change of the pledge established by RAFAKO S.A. over RAFAKO S.A.'s shareholding in the SPV, representing 100% of the SPV's share capital and 100% of votes at the SPV's General Meeting, pledged as security for the Guarantors' receivables from the Company arising from RAFAKO S.A.'s surety for SPV's liabilities under the Guarantee Agreement,
c) change of the pledge established by RAFAKO S.A. over RAFAKO S.A.'s shareholding in the SPV, representing 100% of the SPV's share capital and 100% of votes at the SPV's General Meeting, pledged as security for the Guarantors' receivables from the SPV under the Guarantee Agreement;
d) change of the pledge established by the SPV over its receivables under the Project Account Agreement concluded between the SPV and PKO BP, pledged as security for the Guarantors' receivables from the SPV under the Guarantee Agreement;
e) change of the pledge established by the SPV over its claims against RAFAKO under the Jaworzno Project Subcontactor Agreement, securing the Guarantors' receivables from the SPV under the Guarantee Agreement;
f) change of the second ranking pledge established by RAFAKO over a set of the Company's movables and rights, securing the Guarantors' receivables from RAFAKO S.A. arising from RAFAKO S.A.'s surety for the SPV's liabilities under the Guarantee Agreement.

Additionally, on March 18th 2016, the Company received a decision on the following entries in the pledge register:

a) change of the pledge established by RAFAKO over RAFAKO S.A.'s receivables from the Employer under the Jaworzno Project contract of April 17th 2014, pledged as security for the Guarantors' claims against the SPV under the Guarantee Agreement;
b) change of the pledge established by the SPV over its receivables under euro bank account agreements, under the agreement concluded on September 8th 2014 between the SPV and BGK as the Pledge Administrator;
c) change of the pledge established by the SPV over a set of the SPV's movables and rights, under the agreement concluded on September 8th 2014 between the SPV and BGK as the Pledge Administrator;
d) change of the pledges established by the SPV over transferred cash payments constituting part of the amount of remuneration payable to RAFAKO S.A. for the performance of the Main Contract, and part of the prepayment payable to RAFAKO S.A. under the Main Contract, pledged as security for the Guarantors' claims against the SPV under the Guarantee Agreement.
e) change of the pledge established by the SPV over its receivables under bank account agreements, under the agreement concluded on September 16th 2014 between the SPV and BGK as the Pledge Administrator;

(PLN '000)

These financial statements of RAFAKO S.A. were authorised for issue on March 21st 2016 by virtue of Resolution No. 29 of RAFAKO S.A. Management Board dated March 21st 2016.

Signatures:

March 21st 2016	Agnieszka Wasilewska-Semail	President of the Management Board	....
March 21st 2016	Krzysztof Burek	Vice-President of the Management Board	....
March 21st 2016	Jarosław Dusiło	Vice-President of the Management Board	....
March 21st 2016	Edward Kasprzak	Vice-President of the Management Board	....
March 21st 2016	Tomasz Tomczak	Vice-President of the Management Board	....
March 21st 2016	Jolanta Markowicz	Chief Accountant	....