

**RAFAKO GROUP**



---

**PBG GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31ST 2017**

**with the auditor's report on the consolidated financial  
statements**

## Table of contents

Consolidated statement of comprehensive income.....	1
Consolidated statement of comprehensive income.....	2
Consolidated statement of financial position.....	3
Consolidated statement of financial position.....	4
Consolidated statement of cash flows.....	5
Consolidated statement of cash flows - contd. ....	6
Consolidated statement of changes in equity .....	7
ADDITIONAL EXPLANATORY NOTES.....	8
1. GENERAL INFORMATION .....	8
2. Composition of the Group .....	8
3. Composition of the parent's Management and Supervisory Boards.....	10
4. Authorisation of the financial statements .....	10
5. Material judgements and estimates .....	10
5.1. Professional judgement.....	10
5.2. Uncertainty of estimates .....	11
6. Basis of preparation of the financial statements.....	14
6.1. Statement of compliance .....	16
6.2. Functional currency and presentation currency.....	16
7. Significant accounting policies.....	16
7.1. Basis of consolidation .....	16
7.2. Investments in associates and joint ventures.....	17
7.3. Interests in joint operations .....	17
7.4. Fair value measurement .....	17
7.5. Business combinations under common control .....	18
7.6. Foreign currency translation.....	19
7.7. Property, plant and equipment .....	19
7.8. Intangible assets .....	20
7.9. Goodwill.....	22
7.10. Investment property.....	22
7.11. Leases .....	22
7.12. Impairment of non-financial non-current assets.....	23
7.13. Borrowing costs .....	23
7.14. Recoverable amount of non-current assets .....	23
7.15. Financial assets .....	23
7.16. Impairment of financial assets.....	25
7.16.1. Assets carried at amortised cost .....	25
7.16.2. Financial assets carried at cost.....	25
7.16.3. Available-for-sale financial assets .....	25
7.17. Non-current assets held for sale.....	25
7.18. Derivative financial instruments and hedges .....	26
7.19. Inventories.....	26
7.20. Trade and other receivables .....	26
7.21. Cash and cash equivalents.....	27
7.22. Share capital .....	27
7.23. Provisions.....	27
7.24. Interest-bearing borrowings and other debt instruments .....	27
7.25. Trade and other payables .....	27
7.26. Employee benefits .....	28
7.27. Taxes.....	28
7.27.1. Income tax expense .....	28
7.27.2. Value added tax .....	31
7.27.3. Assessment of tax uncertainties .....	31
7.28. Revenue.....	31
7.28.1. Revenue from sale of merchandise and finished goods .....	31
7.28.2. Services .....	31
7.28.3. Interest.....	31
7.28.4. Dividends.....	32

7.28.5.	Rental income .....	32
7.28.6.	Construction contracts .....	32
7.28.7.	Government grants .....	32
7.29.	Earnings per share .....	32
8.	Changes in accounting policies (significant accounting policies) .....	33
9.	New standards and interpretations issued but not yet effective .....	33
9.1.	Implementation of IFRS 15 .....	34
9.2.	Implementation of IFRS 9 .....	37
9.3.	Implementation of IFRS 16 .....	38
10.	Operating segments .....	39
11.	Construction contracts .....	42
11.1.	Key contracts executed by the Group .....	43
11.2.	Provision for construction contract losses .....	44
11.3.	Provision for costs due to late performance of contracts .....	44
12.	Income and expenses .....	45
12.1.	Revenue from sale of goods and services .....	45
12.2.	Revenue from sale of materials .....	45
12.3.	Revenue by geography .....	46
12.4.	Expenses by nature .....	47
12.5.	Depreciation of property, plant and equipment, amortisation of intangible assets, and impairment losses recognised in the consolidated statement of comprehensive income .....	48
12.6.	Employee benefits expense .....	48
12.7.	Other income .....	49
12.8.	Other expenses .....	49
12.9.	Finance income .....	50
12.10.	Finance costs .....	50
13.	Income tax .....	51
13.1.	Income tax expense .....	51
13.2.	Reconciliation of effective income tax rate .....	52
13.3.	Deferred income tax calculated as at December 31st 2017 .....	53
14.	Proposed coverage of 2017 loss .....	54
15.	Assets and liabilities of the Company Social Benefits Fund .....	54
16.	Earnings /(loss) per share .....	55
17.	Significant items disclosed in the statement of cash flows .....	55
18.	Property, plant and equipment .....	57
19.	Property, plant and equipment held under leases .....	59
20.	Assets held for sale, unrelated to discontinued operations .....	59
21.	Intangible assets .....	59
22.	Shares in other entities .....	61
23.	Long-term trade receivables, other receivables and prepayments .....	61
24.	Long-term bonds .....	62
25.	Other non-current financial assets .....	63
26.	Inventories .....	63
27.	Short-term trade receivables, other receivables and prepayments .....	64
27.1.	Impairment losses on trade and other receivables .....	65
28.	Current financial assets .....	66
28.1.	Short-term deposits .....	66
28.2.	Other current financial assets .....	66
28.3.	Loans advanced .....	67
28.4.	Cash and cash equivalents .....	68
29.	Assets pledged as security for the Group's liabilities .....	69
29.1.	Property, plant and equipment pledged as security .....	69
29.2.	Intangible items pledged as security .....	69
29.3.	Shares pledged as security .....	69
29.4.	Inventories pledged as security .....	69
29.5.	Trade receivables pledged as security .....	69
30.	Equity .....	70
30.1.	Share capital .....	70
30.2.	Par value per share .....	70
30.3.	Shareholders' rights .....	70

30.4.	Share premium .....	70
30.5.	Dividends paid .....	70
30.6.	Capital management .....	70
30.7.	Non-controlling interests.....	71
30.8.	Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO (the parent) at the end of the reporting period .....	71
31.	Interest-bearing borrowings .....	72
32.	Employee benefit obligations .....	73
32.1.	Post-employment and other benefits .....	73
33.	Trade and other payables .....	74
33.1.	Long-term trade and other payables.....	74
33.2.	Short-term provisions, trade and other payables .....	74
33.3.	Liabilities under financial derivatives .....	75
33.4.	Amounts payable for tangible and intangible assets.....	75
33.5.	Amounts payable for unused holiday entitlements .....	76
33.6.	Unpaid bonus accrual .....	76
33.7.	Provision for warranty repairs.....	77
33.8.	Amounts payable under voluntary redundancy programme .....	77
33.9.	Restructuring provision .....	78
33.10.	Income tax payable.....	78
34.	Grants.....	79
35.	Issue, redemption and repayment of debt and equity securities.....	80
36.	Use of proceeds .....	80
37.	Liabilities under finance leases and rental contracts with purchase option.....	81
38.	Litigation and disputes.....	81
39.	Arrangement receivables from related entity .....	82
40.	Changes in off-balance sheet items .....	83
41.	Guarantees provided by the Group .....	84
42.	Related parties.....	85
43.	Group's parent .....	86
44.	Joint ventures.....	86
45.	Related-party transactions.....	86
46.	Transactions with other members of the Management Board and Supervisory Board .....	86
47.	Shares held by members of management and supervisory bodies .....	87
48.	Shares held by senior management staff under employee stock option plan .....	87
49.	Remuneration of the Group's senior management staff.....	87
50.	Management Board's position on the Group's ability to deliver forecast results .....	92
51.	Agreement with qualified auditor or auditing firm qualified to audit financial statements .....	93
52.	Objectives and policies of financial risk management .....	93
52.1.	Interest rate risk .....	93
52.2.	Currency risk .....	94
52.3.	Commodity price risk.....	95
52.4.	Credit risk.....	95
52.5.	Liquidity risk.....	95
53.	Derivative instruments.....	96
54.	Financial instruments.....	97
54.1.	Carrying amounts of various classes and categories of financial instruments .....	97
54.2.	Items of income, expenses, gains and losses recognised in the consolidated statement of profit or loss, by category of financial instruments.....	99
54.3.	Interest rate risk .....	105
55.	Employment.....	107
56.	Events after the reporting period .....	107

## Consolidated statement of comprehensive income for the 12 months ended December 31st 2017

	Note	12 months ended Dec 31 2017	12 months ended Dec 31 2016
<b>Continuing operations</b>			
<b>Revenue</b>		<b>1,782,594</b>	<b>1,875,313</b>
Revenue from sale of goods and services	12.1	1,780,024	1,870,559
Revenue from sale of materials	12.2	2,570	4,753
Cost of sales	12.4	(1,632,608)	(1,750,999)
<b>Gross profit/(loss)</b>		<b>149,986</b>	<b>124,313</b>
Other income	12.7	10,339	3,613
Distribution costs	12.4	(38,683)	(31,962)
Administrative expenses	12.4	(61,135)	(57,750)
Other expenses	12.8	(14,095)	(13,517)
<b>Operating profit/(loss)</b>		<b>46,412</b>	<b>24,697</b>
Finance income	12.9	2,100	5,016
Finance costs	12.10	(11,574)	(7,220)
<b>Profit/(loss) before tax</b>		<b>36,938</b>	<b>22,493</b>
Income tax expense	13.1	(33,741)	(11,553)
<b>Profit/(loss) from continuing operations</b>		<b>3,197</b>	<b>10,940</b>

Racibórz, April 5th 2018

Agnieszka  
Wasilewska-Semail

Jarosław Dusiło

Edward Kasprzak

Karol Sawicki

Tomasz Tomczak

Jolanta Markowicz

President of the  
Management Board

Vice President of the  
Management Board

Vice President of the  
Management  
Board

Vice President of the  
Management Board

Vice President of the  
Management Board

Head of  
Accounting and  
Tax Department –  
Chief Accountant

## Consolidated statement of comprehensive income for the 12 months ended December 31st 2017

	Note	12 months ended Dec 31 2017	12 months ended Dec 31 2016
<b>Other comprehensive income for period</b>		<b>(78)</b>	<b>(744)</b>
<i>Items to be reclassified to profit/(loss) in subsequent reporting periods</i>			
Exchange differences on translating foreign operations		(336)	(56)
Exchange differences on translating foreign operations attributable to non-controlling interests		(4)	5
<b>Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods</b>		<b>(340)</b>	<b>(51)</b>
<i>Items not subject to reclassification to profit/(loss) in subsequent reporting periods</i>			
Other comprehensive income due to actuarial gains/(losses)		324	(855)
Tax on other comprehensive income	13.1	(62)	162
<b>Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods</b>		<b>262</b>	<b>(693)</b>
<b>Total comprehensive income for period</b>		<b>3,119</b>	<b>10,196</b>
Net profit/(loss) attributable to:			
Owners of the parent		3,197	10,940
Non-controlling interests		2,220	10,513
		977	427
Comprehensive income attributable to:			
Owners of the parent		3,119	10,196
Non-controlling interests		2,146	9,764
		973	432
Earnings per share:			
Basic/diluted earnings per share (PLN)		0.03	0.12
Earnings per share from continuing operations			
Basic/diluted earnings per share (PLN)		0.03	0.12

Racibórz, April 5th 2018

Agnieszka  
Wasilewska-Semil

Jarosław Dusilo

Edward Kasprzak

Karol Sawicki

Tomasz Tomczak

Jolanta Markowicz

President of the  
Management Board

Vice President of the  
Management Board

Vice President of  
the Management  
Board

Vice President of the  
Management Board

Vice President of the  
Management Board

Head of  
Accounting and  
Tax Department –  
Chief Accountant

## Consolidated statement of financial position as at December 31st 2017

	Note	Dec 31 2017	Dec 31 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	170,934	178,585
Intangible assets	21	18,071	18,782
Long-term trade receivables, other receivables and prepayments	23	41,163	34,007
Trade receivables		39,304	33,817
Other receivables and prepayments		1,859	190
Non-current financial assets		25,011	24,911
Shares in other entities	22	242	840
Long-term bonds	24	24,769	–
Other non-current financial assets	25	–	24,071
Deferred tax assets	13.3	32,784	51,387
		<b>287,963</b>	<b>307,672</b>
<b>Current (short-term) assets</b>			
Inventories	26	14,560	13,983
Short-term trade receivables, other receivables and prepayments	27	501,337	750,365
Trade receivables	27	351,972	587,263
Income tax receivable	27	104	19,583
Other receivables and prepayments	27	149,261	143,519
Gross amount due from customers for construction contract work	11	279,908	235,351
Current financial assets		195,981	118,763
Derivative instruments	53	479	–
Short-term deposits	28.1	–	74
Short-term loans advanced	28.3	10,010	35
Short-term bonds	24	5,201	–
Other current financial assets	28.2	–	11,130
Cash and cash equivalents	28.4	180,291	107,524
		<b>991,786</b>	<b>1,118,462</b>
<b>Assets held for sale</b>	20	125	935
<b>TOTAL ASSETS</b>		<b>1,279,874</b>	<b>1,427,069</b>

Racibórz, April 5th 2018

Agnieszka  
Wasilewska-Semail

Jarosław Dusiło

Edward Kasprzak

Karol Sawicki

Tomasz Tomczak

Jolanta Markowicz

President of the  
Management Board

Vice President of the  
Management Board

Vice President of  
the Management  
Board

Vice President of the  
Management Board

Vice President of the  
Management Board

Head of  
Accounting and  
Tax Department –  
Chief Accountant

## Consolidated statement of financial position

as at December 31st 2017

	Note	Dec 31 2017	Dec 31 2016
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	30.1	254,864	169,864
Share premium	30.4	173,708	95,340
Reserve funds		182,242	175,365
Exchange differences on translating foreign operations		(433)	(97)
Retained earnings / Accumulated losses		(8,756)	(5,617)
		<b>601,625</b>	<b>434,855</b>
Equity (attributable to non-controlling interests)	30.7	8,628	8,996
<b>Total equity</b>		<b>610,253</b>	<b>443,851</b>
<b>Non-current liabilities</b>			
Finance lease liabilities	33.1, 37	2,106	3,540
Deferred tax liabilities	13.3	65	384
Employee benefit obligations	32	20,536	21,855
Long-term trade and other payables		43,811	48,070
Trade payables	33.1	38,714	40,213
Amounts payable for tangible and intangible assets	33.1	50	149
Other liabilities	33.1	5,047	7,708
		<b>66,518</b>	<b>73,849</b>
<b>Current liabilities</b>			
Short-term trade and other payables		438,246	577,013
Trade payables	33.2	314,370	473,476
Amounts payable for tangible and intangible assets	33.2	974	1,610
Income tax payable	33.10	2,280	123
Other liabilities	33.2	120,622	101,804
Current portion of interest-bearing borrowings	31	98,728	147,107
Other financial liabilities and finance lease liabilities	33.2, 37	2,445	2,045
Employee benefit obligations	32	2,768	2,022
Gross amount due to customers for contract work, provisions for contract work and deferred income		60,916	181,182
Amounts due to customers for construction contract work	11	37,106	156,644
Provisions for construction contract work	11	23,530	24,017
Grants	34	280	521
		<b>603,103</b>	<b>909,369</b>
<b>Total liabilities</b>		<b>669,621</b>	<b>983,218</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,279,874</b>	<b>1,427,069</b>

Racibórz, April 5th 2018

Agnieszka  
Wasilewska-Semail

Jarosław Dusilo

Edward Kasprzak

Karol Sawicki

Tomasz Tomczak

Jolanta Markowicz

President of the  
Management Board

Vice President of the  
Management Board

Vice President of  
the Management  
Board

Vice President of the  
Management Board

Vice President of the  
Management Board

Head of  
Accounting and  
Tax Department –  
Chief Accountant



## Consolidated statement of cash flows for the 12 months ended December 31st 2017

	Note	12 months ended Dec 31 2017	12 months ended Dec 31 2016
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax from continuing operations		36,938	22,493
Adjustments for:		<b>(66,436)</b>	<b>(135,160)</b>
Depreciation and amortisation	12.5	14,191	14,400
Foreign exchange gains/(losses)		(5)	165
Interest and dividends, net		3,625	4,608
(Gain)/loss from investing activities		(1,810)	(121)
Increase/(decrease) in financial liabilities/financial assets from valuation of derivative instruments		(479)	–
(Increase)/decrease in receivables	17	222,185	(268,651)
Change in inventories		(577)	4,834
Increase/(decrease) in employee benefit obligations, excluding borrowings	17	(132,787)	125,608
Change in prepayments and accruals for construction contracts	17	(164,582)	6,622
Income tax paid		(5,402)	(22,414)
Other		(795)	(211)
<b>Net cash from operating activities</b>		<b>(29,498)</b>	<b>(112,667)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment and intangible assets		2,292	1,944
Purchase of property, plant and equipment and intangible assets	17	(4,717)	(8,749)
Proceeds from debt instruments held	24	5,659	–
Purchase of financial assets		(243)	(721)
Dividends and interest received		33	44
Loans advanced	28.3	(10,000)	–
Repayment of loans advanced		–	–
Other		88	88
<b>Net cash from investing activities</b>		<b>(6,888)</b>	<b>(7,394)</b>

Racibórz, April 5th 2018

Agnieszka  
Wasilewska-Semail

Jarosław Dusiło

Karol Sawicki

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

Head of  
Accounting and  
Tax Department –  
Chief Accountant

**Consolidated statement of cash flows - contd.**  
for the 12 months ended December 31st 2017

	Note	12 months ended Dec 31 2017	12 months ended Dec 31 2016
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	17	163,368	–
Payment of finance lease liabilities		(2,800)	(3,161)
Proceeds from borrowings		376	37,773
Repayment of borrowings	17	(48,535)	–
Interest paid		(2,626)	(3,070)
Bank fees		(1,102)	(838)
Other		780	(261)
<b>Net cash from financing activities</b>		<b>109,461</b>	<b>30,443</b>
Net increase/(decrease) in cash and cash equivalents		<b>73,075</b>	<b>(89,618)</b>
Net foreign exchange differences		(308)	(119)
<b>Cash at beginning of period</b>	28.4	107,524	197,261
<b>Cash at end of period</b>	28.4	<b>180,291</b>	<b>107,524</b>

Racibórz, April 5th 2018

Agnieszka  
Wasilewska-Semail

Jarosław Dusilo

Edward Kasprzak

Karol Sawicki

Tomasz Tomczak

Jolanta Markowicz

President of the  
Management Board

Vice President of the  
Management Board

Vice President of  
the Management  
Board

Vice President of the  
Management Board

Vice President of the  
Management Board

Head of  
Accounting and  
Tax Department –  
Chief Accountant

**Consolidated statement of changes in equity**  
for the 12 months ended December 31st 2017

	<i>Share capital</i>	<i>Share premium</i>	<i>Reserve funds</i>	<i>Exchange differences on translating foreign operations</i>	<i>Retained earnings/ Accumulated losses</i>	<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
As at Jan 1 2017	<b>169,864</b>	<b>95,340</b>	<b>175,365</b>	<b>(97)</b>	<b>(5,617)</b>	<b>434,855</b>	<b>8,996</b>	<b>443,851</b>
Profit from continuing operations	–	–	–	–	2,220	2,220	977	3,197
Other comprehensive income	–	–	–	(336)	262	(74)	(4)	(78)
Distribution of retained earnings	–	–	6,877	–	(6,877)	–	–	–
Change in Group structure	–	–	–	–	1,256	1,256	(1,341)	(85)
Share issue	85,000	78,368	–	–	–	163,368	–	163,368
As at Dec 31 2017	<b>254,864</b>	<b>173,708</b>	<b>182,242</b>	<b>(433)</b>	<b>(8,756)</b>	<b>601,368</b>	<b>8,628</b>	<b>610,253</b>
As at Jan 1 2016	<b>169,864</b>	<b>95,340</b>	<b>112,715</b>	<b>(41)</b>	<b>47,213</b>	<b>425,091</b>	<b>4,675</b>	<b>429,766</b>
Profit from continuing operations	–	–	–	–	10,513	10,513	427	10,940
Other comprehensive income	–	–	–	(56)	(693)	(749)	5	(744)
Distribution of retained earnings	–	–	62,650	–	(62,650)	–	–	–
Change in Group structure	–	–	–	–	–	–	3,889	3,889
As at Dec 31 2016	<b>169,864</b>	<b>95,340</b>	<b>175,365</b>	<b>(97)</b>	<b>(5,617)</b>	<b>434,855</b>	<b>8,996</b>	<b>443,851</b>

Racibórz, April 5th 2018

Agnieszka  
Wasilewska-Semail

Jarosław Dusiło

Edward Kasprzak

Karol Sawicki

Tomasz Tomczak

Jolanta Markowicz

President of the  
Management Board

Vice President of the  
Management Board

Vice President of  
the Management  
Board

Vice President of the  
Management Board

Vice President of the  
Management Board

Head of  
Accounting and  
Tax Department –  
Chief Accountant

## ADDITIONAL EXPLANATORY NOTES

### 1. GENERAL INFORMATION

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

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

The Group companies have been established for an indefinite term.

The Group's consolidated financial statements cover the year ended December 31st 2017 and include comparative data as at and for the year ended on December 31st 2016.

The Group's principal business activity includes:

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

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

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

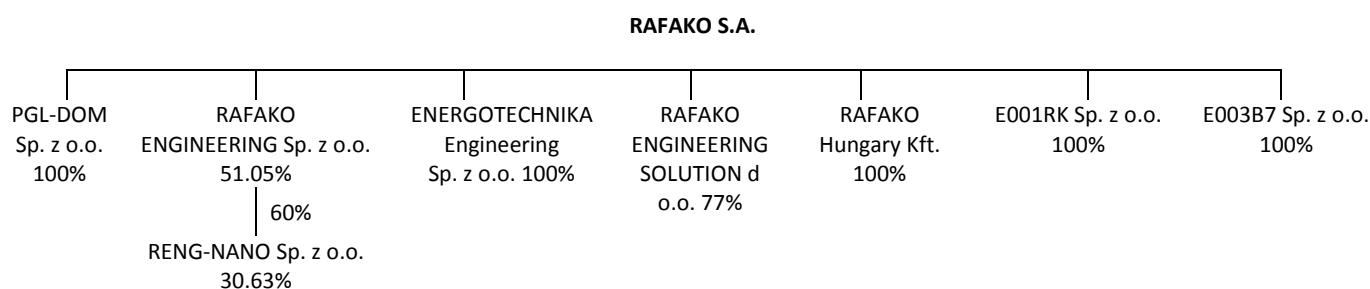
### 2. Composition of the Group

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

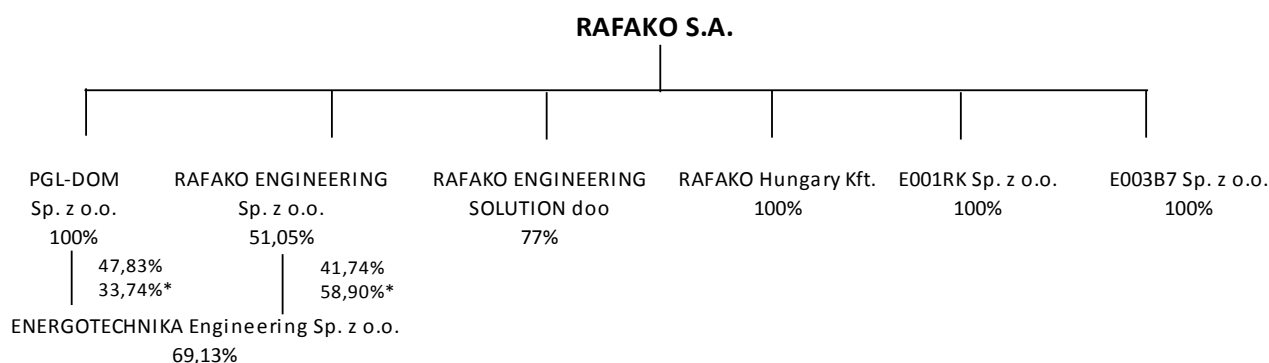
The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, using uniform accounting policies.

As at December 31st 2017, the RAFAKO Group comprised the parent and eight subsidiaries operating in the power construction, services and trade sectors.

As at December 31st 2017, the following subsidiaries were consolidated in the Group's consolidated financial statements:



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



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

<i>Name and principal place of business</i>	<i>Principal business activity</i>	<i>Registry court and number in the National Court Register (KRS)</i>	<i>Consolidation method</i>
RAFAKO S.A. Racibórz	Production of steam generators, excluding hot water central heating boilers	District Court of Gliwice KRS 34143	–
PGL – DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court of Gliwice KRS 58201	full
RAFAKO ENGINEERING Sp. z o.o. Racibórz	Construction and process design, urban planning	District Court of Gliwice KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice	Construction and process design, urban planning, engineering consultancy	District Court of Gliwice KRS 417946	full
RAFAKO ENGINEERING SOLUTION doo of Belgrade, Serbia	Process design, including construction, industry, and environmental protection consultancy and supervision	Commercial Register Agency of the Republic of Serbia 20320524	full
RAFAKO Hungary Kft. of Budapest, Hungary	Equipment assembly in the power and chemical industries	Registry Court of the Capital City of Budapest	full
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	District Court of Gliwice KRS 479758	full
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology	District Court of Gliwice KRS 486911	full
RENG-NANO Sp. z o.o.* Racibórz	Manufacture of metal structures and components, repair and maintenance of finished metal goods	District Court of Gliwice KRS 663393	full

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

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

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

In the 12 months ended December 31st 2017, a number of changes occurred in the Group's structure.

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

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

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

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

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

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

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

In the 12 months ended December 31st 2017 and by the date of authorisation of these consolidated financial statements for issue, changes were made in the composition of the parent's Supervisory Board. On November 9th 2017, Mr Dariusz Sarnowski, Deputy Chairman of the RAFAKO Supervisory Board, tendered his resignation from the Supervisory Board.

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

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

### **4. Authorisation of the financial statements**

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

### **5. Material judgements and estimates**

#### **5.1. Professional judgement**

When preparing the consolidated financial statements of the Group, the Management Board of the parent has to make certain judgements, assumptions and estimates which affect the presented revenue, costs, assets, liabilities, as well as

---

related notes and disclosures concerning contingent liabilities. Uncertainties related to these assumptions and estimates may result in material changes to carrying amounts of assets and liabilities in the future.

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

#### *Classification of leases where the Group is the lessee*

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

#### *Embedded derivatives*

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

#### *Consortium agreements*

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

### **5.2. Uncertainty of estimates**

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

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

#### *Impairment of assets*

At the end of a reporting period, the Group conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the recoverable amount of the cash-generating unit to which these assets belong. The recoverable amount is equal to the higher of two – value in use or fair value less costs to sell. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Group made an assessment of whether there are any indications of asset impairment.

For further information on asset impairment as at the end of the reporting period, see Notes 18, 23, 27.1 and 28.2 to these consolidated financial statements.

#### *Measurement of employee benefit obligations*

Employee benefit obligations were estimated with actuarial methods.

The underlying assumptions are presented in Note 32.1.32.1 The change in employee benefit obligations in the reporting period resulted from the recognition of current service costs, interest expense and benefits paid.

In the year ended December 31st 2016, in connection with the launch of the voluntary redundancy programme for the parent's employees (for details, see Note 33.8), the RAFAKO Management Board resolved to recognise a provision of PLN 7,622 thousand to cover the estimated cost of the programme. In the year ended December 31st 2017, in connection with the implementation of the Voluntary Redundancy Programme, a provision of PLN 5,498 thousand was used.

#### *Deferred tax asset*

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

#### *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 54

#### *Depreciation and amortisation rates*

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

#### *Revenue recognition*

In accounting for its long-term contracts, the Group uses the percentage of completion method. The use of the method requires the Company to estimate the percentage of completion. If the estimated total contract costs increased by 10% in relation to the Group's original estimate, the revenue would decrease by approximately PLN 78.9m.

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

#### *Revenue*

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

- a) Revenue from the sale of products and merchandise is recognised when the significant risks and rewards of ownership of the products and merchandise have passed to the buyer and the amount of revenue can be reliably measured;
- b) revenue from the provision of construction services is recognised with use of the percentage of completion method. Revenue from construction contracts is recognised and disclosed in line with the policies discussed in Note 7.28.6;



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

*Provision for expected contract losses*

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

*Provision for costs due to late performance of contracts*

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

*Provision for warranty repairs*

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

*Impairment of financial assets*

At the end of a reporting period, the Group makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the entity recognises an impairment loss to bring down the carrying amount to the present value of expected cash flows.

*Uncertainty related to tax settlements*

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

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

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

On July 15th 2016, the Tax Legislation was amended to reflect the provisions of the General Anti-Abuse Rule ("GAAR"). GAAR is intended to prevent the creation and use of artificial schemes to avoid paying taxes in Poland. Under GAAR, tax avoidance is an arrangement the main purpose of which is to obtain a tax advantage which is contrary to the objectives and purpose of the tax legislation. In accordance with GAAR, no tax advantage can be obtained through an arrangement if the arrangement was artificial. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements operating in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations will require much more judgement to be exercised when assessing the tax consequences of particular transactions.

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

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

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

## **6. Basis of preparation of the financial statements**

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

The RAFAKO Group's financial statements have been prepared on the assumption that the Group companies will continue as going concerns for at least 12 months after the reporting date, i.e. December 31st 2017.

The principal factor affecting the RAFAKO Group's ability to continue as a going concern is the financial condition of the parent. These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern for at least 12 months after the reporting date, i.e. December 31st 2017.

To continue as a going concern, the Group must secure an appropriate order book (including, first of all, securing sufficient financing to perform the contracts in the order book) and maintain financial liquidity. Therefore, the principal factor affecting the Group's ability to continue as a going concern is the financial condition of the parent.

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

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

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

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

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

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

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

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

Despite the constraints discussed in Note 11.1.1, RAFAKO's financial condition is supported by the very sound financial position of E003B7 sp. z o.o., a subsidiary which executes around 88.7% of the Jaworzno 910 MW project with an approximate value of PLN 4.6bn. In 2017, the subsidiary delivered revenue of PLN 1.1bn and net profit of PLN 64m, had net current assets of PLN 167m, and identified no material risks to the execution of the project.

### 6.1. Statement of compliance

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

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

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

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

### 6.2. Functional currency and presentation currency

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

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

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

## 7. Significant accounting policies

### 7.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of RAFAKO and its controlled entities (subsidiaries) prepared as at December 31st 2017.

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

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

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

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

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

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

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

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

### **7.2. Investments in associates and joint ventures**

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

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

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

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

### **7.3. Interests in joint operations**

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

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

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

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

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

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

### **7.4. Fair value measurement**

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

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

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

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

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

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

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

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

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

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

#### *Summary of significant accounting policies concerning fair value measurement*

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

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

#### **7.5. Business combinations under common control**

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

## 7.6. Foreign currency translation

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

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

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

Exchange rates used to determine carrying amounts:

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

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

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

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
RSD	0.0350	0.0355
HUF	0.0137	0.0105

## 7.7. Property, plant and equipment

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

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



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

Assets are depreciated with the straight-line method over the estimated useful life, as detailed below.

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

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

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

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

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

#### **7.8. Intangible assets**

Intangible assets which are separately acquired or produced (if they meet the criteria for being recognised as development expenditure) are initially recognised at cost. Cost of intangible assets acquired in a business combination is equivalent to their fair value as at the date of the combination. Following initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses, if any. Expenditure incurred on internally generated intangible assets, excluding capitalised development costs, is {1}not capitalised and is charged against profits in the period in which it is incurred.

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

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



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

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

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

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

*Research and development work*

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

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

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

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

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

---

### 7.9. Goodwill

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

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

### 7.10. Investment property

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

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

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

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

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

### 7.11. Leases

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

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

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

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

#### **7.12. Impairment of non-financial non-current assets**

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

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

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

#### **7.13. Borrowing costs**

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

#### **7.14. Recoverable amount of non-current assets**

At the end of a reporting period the Group makes an assessment to determine whether there is any indication that its assets may be impaired. If such indications exist, a formal estimate of the recoverable amounts of such assets is made. If the carrying amount of a given asset or a cash-generating unit exceeds its recoverable amount, an impairment loss is recognised and the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. Goodwill and intangible assets with indefinite useful lives and yet to be placed in service are tested for impairment. Goodwill is tested for impairment annually. The test performed as at December 31st 2016 did not reveal any impairment of the goodwill disclosed in the financial statements.

#### **7.15. Financial assets**

Financial assets are classified into the following categories:

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

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

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

- those qualifying as loans and receivables.

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

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

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

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

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

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

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

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

If the Group:

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

---

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

#### **7.16. Impairment of financial assets**

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

##### **7.16.1. Assets carried at amortised cost**

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

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

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

##### **7.16.2. Financial assets carried at cost**

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

##### **7.16.3. Available-for-sale financial assets**

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

#### **7.17. Non-current assets held for sale**

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

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

If the Group is obliged to implement a sales plan providing for the sale of an investment in a joint venture or associate, or a part of such investment, than such investment or a part thereof to be sold is classified as held for sale, the above criteria having been met, and the Group ceases to apply the equity method for accounting for that part of the investment which

has been classified as held for sale. The remaining part of the investment in an associate or joint venture, not classified as held for sale, continues to be equity-accounted. The Group ceases to apply the equity method upon disposal if the disposal transaction results in the Group's losing significant influence on the associate or joint venture.

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

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

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

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

#### **7.18. Derivative financial instruments and hedges**

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

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

#### **7.19. Inventories**

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

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

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

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

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

#### **7.20. Trade and other receivables**

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

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

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

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

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

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

#### **7.21. Cash and cash equivalents**

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

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

#### **7.22. Share capital**

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

#### **7.23. Provisions**

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

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

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

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

#### **7.24. Interest-bearing borrowings and other debt instruments**

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

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

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

#### **7.25. Trade and other payables**

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

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

Financial liabilities are classified as held for trading if they were acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded instruments, are also classified as held for trading, unless



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

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

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

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

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

#### **7.26. Employee benefits**

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

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

The Group recognises such costs on an accrual basis.

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

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

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

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

#### **7.27. Taxes**

##### **7.27.1. Income tax expense**

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

##### **7.27.1.1. Current income tax**





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

#### 7.27.1.2. Deferred income tax

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

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

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

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

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

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

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

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

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

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

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

**7.27.2. Value added tax**

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

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

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

**7.27.3. Assessment of tax uncertainties**

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

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

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

**7.28. Revenue**

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

**7.28.1. Revenue from sale of merchandise and finished goods**

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

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

**7.28.2. Services**

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

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

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

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

**7.28.3. Interest**

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

---

**7.28.4. Dividends**

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

**7.28.5. Rental income**

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

**7.28.6. Construction contracts**

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

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

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

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

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

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

**7.28.7. Government grants**

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

If a grant relates to a cost item, it is recognised as income in matching with the {1}expenses it is to compensate for. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset in equal annual instalments.

**7.29. Earnings per share**

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

## 8. Changes in accounting policies (significant accounting policies)

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

- Amendments to IAS 12 *Recognition of deferred tax assets for unrealised losses*  
The amendments clarify issues relating to debt instruments measured at fair value giving rise to deductible temporary differences, estimates of future taxable income, and an assessment of whether the income will allow deductible temporary differences to be realised. The amendments apply retrospectively.
- Amendments to IAS 7 *Disclosure Initiative*  
The amendments require that an entity disclose information which enables users of financial statements to evaluate changes in liabilities arising from financing activities. Presentation of comparative data for previous periods is not required.

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

## 9. New standards and interpretations issued but not yet effective

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

- IFRS 9 Financial Instruments (published on July 24th 2014) – effective for annual periods beginning on or after January 1st 2018,
- IFRS 14 Regulatory Deferral Accounts (published on January 30th 2014) – pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the publication of its final version; not adopted by the EU as at the date of authorisation of these financial statements – effective for annual periods beginning on or after January 1st 2016,
- IFRS 15 Revenue from Contracts with Customers (published on May 28th 2014), including amendments to IFRS 15 Effective Date of IFRS 15 (published on September 11th 2015) – effective for annual periods beginning on or after January 1st 2018,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published on September 11th 2014) – work leading to approval of the amendments was deferred by the EU for an indefinite period – effective date was deferred by the IASB for an indefinite period,
- IFRS 16 Leases (published on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019,
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (published on September 12th 2016) – effective for annual periods beginning on or after January 1st 2018,
- Clarifications to IFRS 15 Revenue from Contracts with Customers (published on April 12th 2016) – effective for annual periods beginning on or after January 1st 2018,
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (published on June 20th 2016) – effective for annual periods beginning on or after January 1st 2018,
- Amendments to Investments in Associates and Joint Ventures, introduced as part of the Annual Improvements to IFRS Standards 2014–2016 Cycle (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018,
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, introduced as part of the Annual Improvements to IFRS Standards 2014–2016 Cycle (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018,
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018; as at the date of authorisation of these consolidated financial statements, the interpretation was not adopted by the EU,
- Amendments to IAS 40 Transfer of Investment Property (published on December 8th 2016) – effective for annual periods beginning on or after January 1st 2018,

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

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

### 9.1. Implementation of IFRS 15

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

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

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

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

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

a) Revenue from sale of merchandise

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

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

i. Variable consideration

Some contracts with customers provide for variable consideration that reflects inflation adjustments to prices, post-completion settlement of the price depending on the actual weight of delivered components, and penalties.

Under IFRS 15, if the consideration promised in a contract includes a variable amount, an entity estimates the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer; the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

- Right of return

As the Group performs contracts that mainly comprise the delivery of products installed at the customer's site or the construction of complete assets for the customer, it does not account for the right of return.

- Price adjustments

The Group performs contracts containing inflation price adjustment clauses.

- Post-completion settlement of the price depending on the actual weight of delivered components

The Group performs contracts where the final amount of consideration depends on the weight of delivered components. The consideration is typically settled upon completion of deliveries.

- Liquidated damages

Liquidated damages paid by the Group to customers are recognised as a reduction of revenue. No losses on contracts were identified by the Group that would necessitate the recognition of additional provisions.

ii. Warranties

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

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

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

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

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

---

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

c) Advance payments received from customers

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

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

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

d) Presentation and disclosure requirements

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

e) Other adjustments

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

The Group expects that following the application of IFRS 15 the Group's retained earnings as at December 31st 2017 will decrease by PLN 11,500 thousand.

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



## 9.2. Implementation of IFRS 9

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

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

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

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

### a) Classification and measurement

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

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

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

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

### b) Impairment

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

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

- trade and disputed receivables – by approximately PLN 11.2m,
- bonds – by approximately PLN 5.7m,
- assets relating to accounting for construction contracts – by approximately PLN 2.4m,
- other instruments – by approximately PLN 2.3m.

The above adjustments will increase deferred tax assets by PLN 4.1m,  
and reduce the Company's equity by PLN 17.5m.

### c) Hedge accounting

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

### d) Other adjustments

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

### 9.3. Implementation of IFRS 16

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

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

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

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

Group companies are lessees with respect to lease agreements concerning office space, vehicles, and equipment, as described in more detail in Note 21.

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

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

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

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

At the date of authorisation of these consolidated financial statements for issue, the Management Board was assessing the impact of IFRS 16 on the accounting principles (policy) applied by the Group with respect to the Company's operations or financial results.

## 10. Operating segments

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

The Group identifies the following operating segments:

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

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

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

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

**12 months ended December 31st 2017 or  
as at December 31st 2017**

	<i>Power and environmental protection facilities</i>	<i>Other segments</i>	<i>Segments – total</i>	<i>Eliminations and unallocated items</i>	<i>Total</i>
<b>Revenue</b>					
Sales to external customers	1,734,932	51,274	1,786,206	(3,612)	1,782,594
Inter-segment sales	5,717	26,411	32,128	(32,128)	–
Total segment revenue	<u>1,740,649</u>	<u>77,685</u>	<u>1,818,334</u>	<u>(35,740)</u>	<u>1,782,594</u>
Cost of sales	(1,606,780)	(67,475)	(1,674,255)	41,647	(1,632,608)
<b>Total</b>					
Gross profit/(loss)	<u>133,869</u>	<u>10,210</u>	<u>144,079</u>	<u>5,907</u>	<u>149,986</u>
Other income/(expenses)	(92,074)	(5,318)	(97,392)	(6,182)	(103,574)
Operating profit/(loss)	41,795	4,892	46,687	(275)	46,412
Finance income/(costs)	(9,127)	1,111	(8,046)	(1,458)	(9,474)
Profit/(loss) before tax	32,668	6,003	38,671	(1,733)	36,938
Income tax expense	(31,906)	(1,166)	(33,072)	(669)	(33,741)
Segment's net profit/(loss)	<u>762</u>	<u>4,837</u>	<u>5,599</u>	<u>(2,402)</u>	<u>3,197</u>
<b>Results</b>					
Depreciation and amortisation	12,537	1,800	14,337	(146)	14,191
Share of profit of associates and joint ventures	–	–	–	–	–
<b>Assets and liabilities as at December 31st 2017</b>					
Segment assets	1,369,166	88,976	1,458,142	(178,268)	1,279,874
Segment liabilities	779,914	30,702	810,616	(140,995)	669,621
<b>Other information</b>					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	3,728	2,197	5,925	(3)	5,922

**12 months ended December 31st 2016 or  
as at December 31st 2016**

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

## 11. Construction contracts

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

Contract revenue was mainly derived from sales under the 910 MW Jaworzno Project, which in 2017 amounted to PLN 1,232,078 thousand (2016: PLN 1,274,220 thousand).

The table below presents the effects of accounting for construction contracts, including revenue and costs of the contracts performed in the years ended December 31st 2017 and December 31st 2016, as well as gross amount due to customers for contract work and gross amount due from customers for contract work at the above dates.

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Contract costs incurred to date (cumulative)	5,695,836	4,585,053
Recognised profits less recognised losses to date (cumulative)	353,700	328,791
Contract revenue recognised by reference to the contract stage of completion (cumulative)	6,049,536	4,913,844
Contract revenue recognised based on stage of completion (for the period)	1,761,714	1,857,342
Progress billings (cumulative)	<u>5,716,046</u>	<u>4,722,666</u>
<b>Gross amount due to customers for contract work (liability), including:</b>	<b>(37,106)</b>	<b>(156,644)</b>
- advance payments received (liabilities arising from advances received)	(140,354)	(166,642)
- adjustment to advance payments received arising from amounts due from customers	126,224	85,890
- gross amount due to customers for contract work	(22,976)	(75,892)
<b>Prepayments relating to accounting for construction contracts, including:</b>	<b>279,908</b>	<b>235,351</b>
- gross amount due from customers for contract work (asset)	253,772	205,197
- contract acquisition cost and other accrued contract costs	26,136	30,154
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(8,069)	(4,856)
Provision for construction contract losses	<u>(15,461)</u>	<u>(19,161)</u>

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

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

---

**11.1. Key contracts executed by the Group****11.1.1. Jaworzno Project**

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (the Consortium Leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of a 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 5.5bn (VAT inclusive). On August 4th 2013, the project consortium agreement was amended, with RAFAKO taking over 99.99% of the project deliveries (with Mostostal Warszawa taking the remaining 0.01%); consequently, the distribution of consideration due to the consortium members changed to reflect the members' actual shares in the project.

**Accounting for the Jaworzno project:**

For the purposes of execution of the Project, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO S.A. subcontracted approximately 88.7% of the Project's scope of work, with RAFAKO S.A. executing directly the remaining 11.3% (with an approximate value of PLN 506m; the scope includes the design of the boiler island and the supply of boiler pressure parts and a dust removal unit), scheduled mainly for 2015–2017.

RAFAKO and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/insurance guarantees for an aggregate amount of PLN 646m, required for the project execution; under the agreements, security for the guarantees was established over the assets of RAFAKO and E003B7 Sp. z o.o. On March 1st 2017, an annex to the contract was signed with the employer. Under the annex, the project completion date was postponed and the contract value was increased, as described in detail in Note III.1 to the Directors' Report on the RAFAKO Group's operations in 2017.

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

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

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

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

**11.1.2. Opole Project**

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

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

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

**Rules of accounting for the Opole Project:**

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

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

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

**11.2. Provision for construction contract losses**

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

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Opening balance	19,161	29,885
Provision for the obligation	22,152	10,806
Reversal of provision for the obligation	–	–
Utilisation of provision for liability	(25,852)	(21,530)
Closing balance	<b>15,461</b>	<b>19,161</b>
Short-term as at	15,461	19,161
Long-term as at	–	–
	<b>15,461</b>	<b>19,161</b>

**11.3. Provision for costs due to late performance of contracts**

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

During the 12 months ended December 31st 2017, the parent reviewed the amounts of recognised provisions for delay damages (including delays in meeting contractual obligations and the terms of assessing damages) under several current contracts. Using the most recent contract data and based on settlements of completed contracts, the parent's Management Board decided to recognise a PLN 9,027 thousand provision for costs of late performance. Additionally, the parent decided to reverse a PLN 5,814,000 provision for costs of late performance, mainly in connection with an out-of-court settlement with a key customer.



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

## 12. Income and expenses

### 12.1. Revenue from sale of goods and services

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Net revenue from sale of products	1,679,403	1,790,136
Net revenue from sale of services	106,837	75,645
including: from related entities	8,247	13,620
Net revenue from sale of other goods	4,351	3,368
Other income	839	–
Liquidated damages*	(9,308)	–
Exchange differences on trade receivables	(2,098)	1,410
 <b>Net revenue from sale of goods and services, total</b>	<b>1,780,024</b>	<b>1,870,559</b>
including: from related entities	8,247	13,620

\* For a detailed description of provisions for liquidated damages, see Note 11.3

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

### 12.2. Revenue from sale of materials

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Revenue from sale of materials	2,570	4,753
including: from related entities	–	–
 <b>Net revenue from sale of merchandise and materials, total</b>	<b>2,570</b>	<b>4,753</b>
including: from related entities	–	–

### 12.3. Revenue by geography

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Revenue from sales to domestic customers	1,623,934	1,701,656
including: from related entities	4,922	13,620
Revenue from sales to foreign customers	158,660	173,656
including: from related entities	3,325	-
<b>Net sales revenue, total</b>	<b><u>1,782,594</u></b>	<b><u>1,875,312</u></b>
including: from related entities	8,247	13,620

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

Revenue from sales to related entities is presented in detail in Note 38.1 to these consolidated financial statements.

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

<i>Trading partner</i>	<i>% of total sales</i>	<i>12 months ended Dec 31 2017</i>
Tauron Wytwarzanie S.A.	69%	1,232,833
Enea Wytwarzanie Sp. z o.o.	9%	167,400
Domestic customer	4%	69,846
CNIM (Constructions Industrielles De La Mediterranee)	3%	52,349
Other	15%	260,166
<b>TOTAL</b>	<b>100%</b>	<b><u>1,782,594</u></b>

#### 12.4. Expenses by nature

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Depreciation and amortisation	14,191	14,400
Raw materials and consumables used	307,949	431,196
Services	1,171,367	1,193,207
Taxes and duties	7,790	7,379
Salaries and wages	159,025	167,219
Social security and other employee benefits	34,636	36,392
Business travel expenses	7,611	8,226
Advertising expenses	3,895	3,714
Cost of insurance	1,891	2,849
Foreign exchange differences	(1,270)	1,140
Other expenses	1,255	1,895
Recognition of inventory write-down	796	3,409
<b>Total expenses by nature</b>	<b>1,709,136</b>	<b>1,871,026</b>
Change in inventories, provisions, prepayments and accruals (including adjustment under IAS 11)	24,237	(31,755)
Work performed by entity and capitalised	(2,383)	(1,024)
Distribution costs (negative value)	(38,683)	(31,962)
Administrative expenses (negative value)	(61,135)	(57,750)
<b>Cost of products sold</b>	<b>1,631,172</b>	<b>1,748,535</b>
Cost of merchandise and materials sold	1,436	2,464
<b>Cost of sales</b>	<b>1,632,608</b>	<b>1,750,999</b>

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

Distribution costs disclosed by the Group mainly include contract acquisition cost as well as cost of promotion and advertising. This item also includes impairment losses on trade receivables. Distribution costs of PLN 38,683 thousand recognised in the Group's comprehensive income for the 12 months ended December 31st 2017 comprised chiefly contract acquisition costs (PLN 12,186 thousand), costs of organisational units responsible for bidding for and performing contracts (PLN 15,104 thousand), and costs of promotion and advertising (PLN 4,952 thousand).

Administrative expenses in 2017 totalled PLN 61,135 thousand, having increased by PLN 3,385 thousand year on year. The year-on-year increase in administrative expenses is attributable mainly to higher costs of legal and advisory services, including costs of business support services and costs of organisational restructuring of the parent.

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

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Items recognised as cost of sales (cost of merchandise and finished goods sold)		
Depreciation of property, plant and equipment	10,233	10,008
Amortisation of intangible assets	1,226	1,604
Warranty provisions	13,488	7,728
Net foreign exchange differences	(1,270)	1,140
Inventory write-downs	(874)	1,626
	<b>22,803</b>	<b>22,106</b>
Items recognised as distribution costs		
Depreciation of property, plant and equipment	462	500
Amortisation of intangible assets	72	87
Impairment losses on trade receivables	6,079	218
	<b>6,613</b>	<b>805</b>
Items recognised as administrative expenses		
Depreciation of property, plant and equipment	2,007	2,065
Amortisation of intangible assets	191	136
	<b>2,198</b>	<b>2,201</b>

**12.6. Employee benefits expense**

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Salaries and wages, including:	155,984	171,111
- current wages and salaries expense	159,025	167,219
- post-employment benefits	449	2,069
provision for bonuses	(4,115)	483
provision for holiday entitlements	429	1,340
- other benefits	196	-
Social security	34,636	36,392
	<b>190,620</b>	<b>207,503</b>
Items recognised as cost of sales (cost of merchandise and finished goods sold)	146,692	158,158
Items recognised as distribution costs	11,264	11,500
Items recognised as administrative expenses	32,664	37,845

\* In 2017, the parent reversed the provision for bonuses, as described in detail in Note 33.6

### 12.7. Other income

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Income from liquidated damages*	5,336	67
Gain on sale of property, plant and equipment	1,344	758
Grants	921	486
Compensation received	85	145
Reversal of provision for other costs**	1,237	–
Reversal of impairment loss on other receivables	313	315
Materials recovered from liquidation of property, plant and equipment	–	461
Reversal of impairment loss on tangible assets	12	13
Other	1,091	1,368
	<u><b>10,339</b></u>	<u><b>3,613</b></u>

\*The key item of income from liquidated damages was PLN 5,195,000 in damages for late contract completion paid by one of the Group's subcontractors.

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

### 12.8. Other expenses

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Loss on scraping of tangible assets	148	295
Loss on disposal of non-financial non-current assets	137	–
Donations and grants	1,931	899
Recognition of impairment loss on other receivables	538	114
Repairs of property, plant and equipment	225	180
Scrapping of materials	377	536
Legal costs	125	263
Power Engineer's Day organisation cost	–	509
Provision for future costs	403	1,066
Provision for voluntary redundancy programme	–	7,622
Recognition of restructuring provision*	8,368	–
Trade union expenses	–	391
Other	1,843	1,642
	<u><b>14,095</b></u>	<u><b>13,517</b></u>

\*In 2017, the parent recognised a restructuring provision, as described in detail in Note 33.9

### 12.9. Finance income

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Interest on financial instruments, including: interest on loans, past due receivables, deposits, and bank accounts	1,531	1,642
Interest on security deposits provided	524	782
Foreign exchange gains	–	1,107
Income from measurement of long-term accounts receivable and payable	–	1,393
Other revenue	45	92
	<b>2,100</b>	<b>5,016</b>
	<b>2,100</b>	<b>5,016</b>

For details of finance income and finance costs related to financial instruments, see Note 54.2.

### 12.10. Finance costs

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Interest on financial instruments, including: interest on loans, borrowings, lease, and past due liabilities	3,763	4,434
Interest on employee benefits	769	713
Other interest	242	47
Foreign exchange losses	5,694	–
Costs on measurement of long-term accounts receivable and payable	231	1,476
Recognition of provision for interest expense	661	522
Other finance costs	214	28
	<b>11,574</b>	<b>7,220</b>
	<b>11,574</b>	<b>7,220</b>

For details of finance income and finance costs related to financial instruments, see Note 54.2.

### 13. Income tax

#### 13.1. Income tax expense

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

	<i>12 months ended</i>	<i>12 months ended</i>
	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
<b>Continuing operations</b>		
<b>Tax expense relating to continuing operations:</b>		
<i>Current income tax</i>	<b>(15,519)</b>	<b>(14,693)</b>
Current income tax expense	<b>(15,655)</b>	<b>(14,694)</b>
Adjustments to current income tax from previous years	136	1
<i>Deferred tax</i>	<b>(18,222)</b>	3,140
Related to recognition and reversal of temporary differences	<b>(18,222)</b>	3,140
Adjustments to deferred tax from previous years	-	-
<b>Income tax expense in the consolidated statement of profit or loss</b>	<b>(33,741)</b>	<b>(11,553)</b>
<i>Deferred tax on other comprehensive income</i>	<b>(62)</b>	162
Related to recognition and reversal of temporary differences	<b>(62)</b>	162
<b>Income tax expense recognised in other comprehensive income</b>	<b>(62)</b>	<b>162</b>

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

### 13.2. Reconciliation of effective income tax rate

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

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Profit before tax from continuing operations	36,938	22,493
Profit before tax from discontinued operations	-	-
<b>Profit/(loss) before tax</b>	<b>36,938</b>	<b>22,493</b>
Tax at statutory tax rate of 19%	7,018	4,274
Non-tax-deductible costs (permanent differences)	5,019	1,639
provision for liquidated damages	2,974	186
write-off of receivables, classified as non-tax-deductible	23	11
charitable donations	367	170
cost of entertainment	191	10
other	1,464	1,262
Non-taxable income (permanent differences)	(631)	(417)
from liquidated damages	(177)	(103)
Utilisation of impairment losses on receivables from related parties	(46)	(137)
other	(454)	(177)
Other	486	(183)
Tax loss not capitalised	22,006	6,572
Correction of previous years' tax	(157)	(332)
<b>Tax at the effective tax rate of 91.34% (2016: 51.95%)</b>	<b>33,741</b>	<b>11,553</b>
Income tax attributable to continuing operations	(33,741)	(11,553)
<b>Income tax (expense) in the consolidated statement of comprehensive income</b>	<b>33,741</b>	<b>11,553</b>



### 13.3. Deferred income tax calculated as at December 31st 2017

Deferred income tax calculated as at December 31st 2017 and December 31st 2016 follows from the following items of the financial statements:

	<i>Statement of financial position</i>		<i>Statement of comprehensive income</i>	
	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
- investment reliefs	(2)	(2)	-	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(16,295)	(16,252)	(43)	2,559
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,556	1,641	(85)	194
- difference between tax base and carrying amount of loans and receivables	1,672	1,739	(67)	530
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(69,391)	(42,605)	(26,786)	580
- difference between tax base and carrying amount of inventories	2,110	2,276	(166)	295
- provisions	55,807	39,243	16,564	20,823
- difference between tax base and carrying amount of liabilities under guarantees and factoring, excluded from the scope of IAS 39	-	-	-	(44)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	31,452	38,095	(6,643)	(25,010)
- tax asset related to tax loss	17,470	17,243	227	16,269
- adjustment to costs of unpaid invoices	4,568	7,763	(3,195)	(10,712)
- other	3,772	1,863	1,910	326
Deferred tax expense/benefit			<b>(18,284)</b>	<b>5,810</b>
Net deferred tax asset/liability, including:	<b>32,719</b>	<b>51,003</b>		
Deferred income tax attributable to discontinued operations			-	(2,509)
Deferred tax expense – continuing operations			<b>(18,284)</b>	<b>3,301</b>
Net deferred tax asset/liability, including:	<b>32,719</b>	<b>51,003</b>		
Deferred tax assets	32,784	51,387		
Deferred tax liability	65	(384)		

As at December 31st 2017, the parent recognised a deferred tax asset on a tax loss of PLN 91,673 thousand.

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

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

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

#### 14. Proposed coverage of 2017 loss

The parent's Management Board recommends that the net loss of PLN 66,048 thousand for 2017 be covered from the parent's statutory reserve funds.

#### 15. Assets and liabilities of the Company Social Benefits Fund

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

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Assets of Social Benefits Funds at Group companies	4,432	4,285
Cash	4,015	3,954
Loans advanced to employees	417	331
Liabilities to Social Benefits Funds	<b>(4,157)</b>	<b>(4,057)</b>
Net balance	<u><b>275</b></u>	<u><b>228</b></u>
	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Contributions to the Social Benefits Fund during the reporting period	2,680	2,725
	<u><b>2,680</b></u>	<u><b>2,725</b></u>

## 16. Earnings /(loss) per share

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

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

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Net profit/(loss) from continuing operations	3,197	10,940
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	3,197	10,940
<b>Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings per share</b>	<b>2,220</b>	<b>10,513</b>
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings per share	85,397,751	84,931,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings per share	85,397,751	84,931,998
Earnings/(loss) per share, PLN		
– basic earnings from profit attributable to holders of ordinary shares for period	0.03	0.12

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

## 17. Significant items disclosed in the statement of cash flows

The PLN 222,185 thousand increase in receivables disclosed in the consolidated statement of cash flows for the 12 months ended December 31st 2017 resulted mainly from:

- PLN 229,804 thousand decrease in trade receivables,
- PLN (503) thousand increase in receivables from the state budget (including VAT),
- PLN (5,082) thousand increase in advance payments made,
- PLN 4,323 thousand decrease in security deposits receivable,
- PLN (6,234) thousand increase in disputed receivables,
- PLN (123) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in 2017, see Note 27.

The PLN 132,787 thousand decrease in liabilities disclosed in the consolidated statement of cash flows resulted mainly from:

- PLN (160,605) thousand decrease in trade payables,
- PLN 12,482 thousand increase in VAT liabilities,
- PLN (573) thousand decrease in retirement benefit obligations (net of actuarial gains/(losses)),
  
- PLN (4,115) thousand decrease in the provision for bonuses,
- PLN (2,379) thousand decrease in the provision for warranty repairs,
- PLN 429 thousand increase in the provision for holiday entitlements,
- PLN (5,498) thousand decrease in the provision for the voluntary redundancy programme,
- PLN 11,910 thousand set-off of income tax liabilities,
- PLN 4,446 thousand increase in the provision for uninvoiced services and goods,
- PLN 8,368 thousand increase in the restructuring provision,
- PLN 2,748 thousand increase in other liabilities.

The PLN 164,582 thousand change in accruals and deferrals as disclosed in the consolidated statement of cash flows was mainly caused by:

- PLN (44,557) thousand increase in gross amount due from customers for construction contract work and related prepayments and accrued income,
- PLN (119,538) thousand decrease in gross amount due to customers for construction contract work, including:
- PLN (66,622) thousand decrease in advance payments,
- PLN (487) thousand decrease in provisions for construction contract work,

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

The PLN 66,622 thousand decrease in prepayments in 2017 resulted primarily from the recognition of some of received advance payments as revenue, in accordance with IAS 11 *Construction Contracts*.

The amount of PLN 4,717 thousand related to the acquisition of property, plant and equipment and intangible assets comprises capital expenditure on property, plant and equipment of PLN 3,577 thousand and capital expenditure on intangible assets of PLN 1,140 thousand. The expenditure on property, plant and equipment was primarily related to the modernisation of the Group's buildings and structures as well as purchase of plant and equipment and company cars.

The PLN 48,535 thousand outflow of cash from borrowings disclosed under financing activities in the consolidated statement of cash flows resulted from the increase in debt under the credit facility provided by PKO BP S.A.

The Group's cash from financing activities was increased by PLN 163,368 thousand, representing proceeds from the issue of Series K shares by the parent (cash received less issue costs). The Group's cash from financing activities was also affected by interest of PLN 2,578 thousand paid on the PKO BP credit facility (December 31st 2016: PLN 3,063 thousand).

## 18. Property, plant and equipment

Dec 31 2017	<i>Land</i>	<i>Buildings</i>	<i>Plant and equipment</i>	<i>Vehicles</i>	<i>Other</i>	<i>Property, plant and equipment under construction</i>	<i>Total</i>
<b>Net carrying amount as at Jan 1 2017</b>	<b>23,754</b>	<b>89,344</b>	<b>54,122</b>	<b>9,161</b>	<b>795</b>	<b>1,409</b>	<b>178,585</b>
Transfers from property, plant and equipment under construction	–	821	2,421	–	–	(3,242)	–
Acquisitions	–	5	814	1,612	516	2,087	5,034
Lease agreements	–	–	–	110	–	–	110
Liquidation/sale	(53)	(173)	(149)	(495)	–	–	(870)
Exchange differences on translating foreign operations	–	–	(3)	(1)	(9)	–	(13)
Depreciation for period	–	(2,915)	(7,112)	(2,334)	(341)	–	(12,702)
Impairment loss for period	–	–	(53)	12	–	–	(41)
Other, including reclassification of property, plant and equipment to/from assets held for sale	58	659	19	95	–	–	831
<b>Net carrying amount as at Dec 31 2017</b>	<b>23,759</b>	<b>87,741</b>	<b>50,059</b>	<b>8,160</b>	<b>961</b>	<b>254</b>	<b>170,934</b>
As at Jan 1 2017							
Gross carrying amount	23,754	118,041	120,736	14,189	3,673	1,409	281,802
Accumulated amortisation and impairment	–	(28,697)	(66,614)	(5,028)	(2,878)	–	(103,217)
<b>Net carrying amount</b>	<b>23,754</b>	<b>89,344</b>	<b>54,122</b>	<b>9,161</b>	<b>795</b>	<b>1,409</b>	<b>178,585</b>
As at Dec 31 2017							
Gross carrying amount	23,759	119,883	122,555	14,950	4,184	254	285,585
Accumulated amortisation and impairment	–	(32,142)	(72,496)	(6,790)	(3,223)	–	(114,651)
<b>Net carrying amount</b>	<b>23,759</b>	<b>87,741</b>	<b>50,059</b>	<b>8,160</b>	<b>961</b>	<b>254</b>	<b>170,934</b>

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

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

## 19. Property, plant and equipment held under leases

As at December 31st 2017, the parent and the subsidiaries held and used under finance lease assets with a gross carrying amount of PLN 11,009 thousand as at purchase date.

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

As at December 31st 2016, the parent and the subsidiaries held and used under finance lease assets with a gross carrying amount PLN 10,234 thousand as at purchase date.

## 20. Assets held for sale, unrelated to discontinued operations

As at December 31st 2017, the Group companies classified non-current assets worth PLN 125 thousand (December 31st 2016: PLN 935 thousand) as assets held for sale, unrelated to discontinued operations.

	Dec 31 2017	Dec 31 2016
Non-current assets held for sale, including:		
land	1	66
buildings and structures	16	836
plant and equipment	19	33
vehicles	89	-
	<b>125</b>	<b>935</b>

## 21. Intangible assets

	Goodwill	Patents and licences	Other intangible assets	Intangible assets under development	Total
<b>Dec 31 2017</b>					
<b>Net carrying amount as at Jan 1 2017</b>	<b>9,165</b>	<b>8,915</b>	<b>333</b>	<b>369</b>	<b>18,782</b>
Transfers from intangible assets under development	-	436	-	(436)	-
Acquisitions	-		14	764	778
Amortisation for the year	-	(1,310)	(179)	-	(1,489)
<b>As at Dec 31 2017</b>	<b>9,165</b>	<b>8,041</b>	<b>168</b>	<b>697</b>	<b>18,071</b>
As at Jan 1 2017					
Gross carrying amount	9,207	25,843	903	369	36,322
Accumulated amortisation and impairment	(42)	(16,928)	(570)	-	(17,540)
<b>Net carrying amount</b>	<b>9,165</b>	<b>8,915</b>	<b>333</b>	<b>369</b>	<b>18,782</b>
As at Dec 31 2017					
Gross carrying amount	9,207	26,389	917	697	37,210
Accumulated amortisation and impairment	(42)	(18,348)	(749)	-	(19,139)
<b>Net carrying amount</b>	<b>9,165</b>	<b>8,041</b>	<b>168</b>	<b>697</b>	<b>18,071</b>

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

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

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

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

### **Goodwill**

In 2017, goodwill did not change and amounted to PLN 9,165 thousand as at December 31st 2017.

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

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

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



### **Test for goodwill impairment**

At the end of the reporting period, goodwill was tested for impairment following the 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 allocated to a separate cash generating unit (IT department) and the estimated residual value. The weighted average cost of capital (WACC) was assumed at 7.32%. The test did not reveal any impairment indicator.

At the end of the reporting period, goodwill was tested by an independent expert for impairment following the acquisition of control of an organised part of the business by subsidiary RAFAKO Engineering Sp. z o.o. The test was carried out based on the present value of estimated five-year cash flows and the estimated residual value. The weighted average cost of capital (WACC) was assumed at 10.43%. The test did not reveal any impairment indicator.

### **Development work**

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

### **Business combinations**

In the 12 months ended December 31st 2017, there were no business combinations.

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

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

## **22. Shares in other entities**

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Shares in other listed companies	223	821
Shares in other non-listed companies	19	19
	<u>242</u>	<u>840</u>

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

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

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Trade receivables, including:	39,304	33,817
Trade receivables from related entities	–	–
Trade receivables from other entities	39,304	33,817
Other receivables and prepayments, including:	1,859	190
Investment receivables	–	–
Security deposits	105	97
Other long-term receivables	1,754	93
<b>Total receivables (net)</b>	<u><b>41,163</b></u>	<u><b>34,007</b></u>
Impairment loss on receivables	–	–
<b>Gross receivables</b>	<u><b>41,163</b></u>	<u><b>34,007</b></u>

## 24. Long-term bonds

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

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

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

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

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

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

2. In accordance with the terms of issue, the bonds issued by PGB S.A. are secured bonds within the meaning of the Bonds Act of January 15th 2015. The bonds are secured primarily with a registered pledge over 42,466,000 RAFAKO shares in a book-entry form (which represents 50% plus 1 share in RAFAKO's share capital), mortgages over PBG Group's properties (including one mortgage securing another financial liability of PBG S.A.), registered pledges over other assets of the PBG Group, sureties and declarations of voluntary submission to enforcement up to the amount of PLN 1,065,000,000.00, pursuant to Art. 777 of the Code of Civil Procedure.
3. PBG S.A. agreed to arrange for the Bonds to be converted into book-entry form and listed on the WSE ATS Market or Bondspot ATS Market within three months of their issue. By a decision of the Warsaw Stock Exchange Management Board dated March 9th 2017, the first listing of Series B, C, D, E, F, G, H and I bearer bonds of PGB S.A. in the Catalyst alternative trading system took place on March 10th 2017.

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

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

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

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

## 25. Other non-current financial assets

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Other non-current financial assets, including:	–	24,071
Arrangement receivables from related entity	–	24,071
	–	<b>24,071</b>

In the 12 months to December 31st 2017, the parent converted arrangement receivables from a related entity into bonds, as described in detail in Note 24 to these consolidated financial statements.

## 26. Inventories

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Materials (at net realisable value)	14,560	13,796
At cost	25,665	25,774
At net realisable value	14,560	13,796
Merchandise	–	187
At cost	–	187
At net realisable value	–	187
Total inventories, at the lower of cost and net realisable value	<b>14,560</b>	<b>13,983</b>

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

### 26.1. Inventory write-downs

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
At beginning of period	(11,978)	(10,352)
Write-down recognised	(796)	(3,409)
Write-down reversed	-	-
Write-down used	1,669	1,783
At end of period	<u>(11,105)</u>	<u>(11,978)</u>

### 27. Short-term trade receivables, other receivables and prepayments

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Trade receivables, including:	351,972	587,263
Trade receivables from related entities	1,176	4,613
Trade receivables from other entities	350,796	582,650
Income tax receivable	104	19,583
Other receivables and prepayments, including:	149,261	143,519
Receivables under advance payments	31,957	26,875
Receivables from the state budget	30,706	30,203
Settlement of property insurance costs	404	723
Settlements with the Company Social Benefits Fund	275	237
Disputed receivables	20,178	13,944
Prepaid expenses	2,372	2,504
Security deposits	62,271	68,263
Investment receivables	-	-
Other	1,098	770
Other receivables from related entities	-	-
<b>Total receivables (net)</b>	<u><b>501,337</b></u>	<u><b>750,365</b></u>
Impairment loss on receivables	36,699	32,472
<b>Gross receivables</b>	<u><b>538,036</b></u>	<u><b>782,837</b></u>

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

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

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

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

Short-term receivables of PLN 351,972 thousand recognised in the consolidated statement of financial position as at December 31st 2017 are receivables under contracts with domestic and foreign trading partners.

The security deposits of PLN 62,271 thousand disclosed in the consolidated statement of financial position as at December 31st 2017 relate mainly to projects implemented in the following areas:

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

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

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

Advance payments represented a significant portion of other receivables, and amounted to PLN 31,957 thousand as at December 31st 2017, including:

- advance payment of PLN 9,015 thousand under a contract for the construction of a biomass island,
- advance payment of PLN 4,031 thousand under a contract for the delivery and assembly of an NOx reduction unit;
- advance payment of PLN 2,620 thousand under a contract to design, deliver and install thermal and sound insulation,
- advance payment of PLN 1,292 thousand under a contract for the design, delivery and assembly of high-pressure pipelines together with valves and auxiliary systems, as well as selection and assembly of primary fixings, as part of the unit construction;
- advance payment of PLN 1,235 thousand under a contract for the design, delivery and installation of thermal insulation and electric heating of a boiler room, nave of electrical equipment together with a set of WP/WT pipelines, engine room, and cooling water pumping station.

### 27.1. Impairment losses on trade and other receivables

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
At beginning of period, including:	(32,472)	(32,393)
- on receivables from related entities	-	-
Recognition of impairment loss on trade receivables	(7,060)	(573)
Recognition of impairment loss on other receivables	(538)	(205)
Reversal of impairment loss on trade receivables, including:	428	475
- on receivables from related entities	-	-
Use of impairment loss on other receivables	453	220
Use of impairment loss on trade receivables	2,490	4
<b>At end of period</b>	<b>(36,699)</b>	<b>(32,472)</b>
- on receivables from related entities	-	-

In 2017, the parent recognised a PLN 4,021 thousand impairment loss on trade receivables from a customer in Poland who is party to a dispute with the parent. The parent also recognised a PLN 2,938 thousand impairment loss on trade receivables from a customer in Poland given uncertainty regarding the collection of the receivables.

The parent did not reverse any impairment losses on accrued liquidated damages in 2017.

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

## 28. Current financial assets

### 28.1. Short-term deposits

As at December 31st 2017, the Group had no short-term deposits with maturities ranging from 3 to 12 months.

As at December 31st 2016, the Group had PLN 74 thousand in short-term deposits with maturities ranging from 3 to 12 months.

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

### 28.2. Other current financial assets

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

In 2017, the parent converted arrangement receivables from a related entity into bonds, as described in detail in Note 24 to these consolidated financial statements.

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

### 28.3. Loans advanced

Loans	Security	Other	Currency	Effective interest rate	Maturity	Receivables under advanced loans	
						Dec 31 2017	Dec 31 2016
<b>Short-term loans</b>							
Natural persons*	Representation on submission to enforcement under Art. 777.1.5	Cash loans granted to finance payments for shares in a subsidiary	PLN	1Y WIBOR + margin	31/12/2016	–	35
PBG Oil and Gas Sp. z o.o.**	Blank promissory note with a promissory note declaration	PLN 10m cash loan to finance day-to-day operations	PLN	1M WIBOR + margin	31-12-2018	10,010***	–
						<b>10,010</b>	<b>35</b>

\*Related parties having personal links with RAFAKO S.A.

\*\*Related party having equity links with PBG S.A.

\*\*\* As at the date of issue of these consolidated financial statements, the loan had been repaid.

#### 28.4. Cash and cash equivalents

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Cash at bank and in hand	179,682	106,342
Short-term deposits for up to 3 months, including: - deposits pledged as security for contingent liabilities	609	1,182
	<b>180,291</b>	<b>107,524</b>
including: restricted cash	19,420	38,227

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

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

As at December 31st 2017, cash included restricted cash of PLN 18.2m (December 31st 2016: PLN 36.5m), which comprised cash held by the subsidiary E003B7 Sp. z o.o. and earmarked for the Jaworzno contract, which from the RAFAKO Group's perspective is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno project.

Dividend may be paid by E003B7 Sp. z o.o. to its sole shareholder, RAFAKO S.A., without triggering an adverse response from the financial institutions only after the expiry of the guarantee provided by those institutions (for details, see Note 11.1.1).



## 29. Assets pledged as security for the Group's liabilities

### 29.1. Property, plant and equipment pledged as security

As at December 31st 2017, property, plant and equipment pledged as security for liabilities amounted to PLN 139,791 thousand. The parent's property, plant and equipment of PLN 135,419 thousand are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a registered pledge over a set of movables and rights). In addition, a subsidiary's buildings and structures worth PLN 1,667 thousand, as well as IT equipment and office containers worth PLN 2,705 thousand are pledged as security for liabilities under credit facility agreements.

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Mortgaged property, plant and equipment, including:	90,051	90,182
land	9,208	9,258
buildings and structures	80,843	80,924
Property, plant and equipment encumbered with registered pledge, including:	49,740	50,259
plant and equipment	48,688	48,935
motor vehicles	1,052	1,324
	<b>139,791</b>	<b>140,441*</b>

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

### 29.2. Intangible items pledged as security

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

### 29.3. Shares pledged as security

As at December 31st 2017, shares for an amount of PLN 35,333 thousand (December 31st 2016: PLN 29,576 thousand) were pledged to secure the repayment of the multi-purpose credit facility with PKO BP S.A., and BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO under the Surety Agreement executed to secure the liabilities of E003B7 Sp. z o.o. under the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the Jaworzno III 910 MW unit project (a registered pledge over a set of movables and rights).

### 29.4. Inventories pledged as security

As at December 31st 2017, inventories worth PLN 12,057 thousand were pledged as security for the parent's liabilities (December 31st 2016: PLN 13,038 thousand). The inventories were pledged to secure repayment of the multi-purpose credit facility with PKO BP S.A., and BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO under the Surety Agreement executed to secure the liabilities of E003B7 Sp. z o.o. arising under the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the Jaworzno III 910 MW unit project (a registered pledge over a set of movables and rights).

### 29.5. Trade receivables pledged as security

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

### 30. Equity

#### 30.1. Share capital

In the 12 months ended December 31st 2017, there were changes in the parent's share capital, and as at December 31st 2017 the share capital was PLN 254,864 thousand.

<i>Equity</i>	<i>Number of shares</i>	<i>Value of shares (PLN '000)</i>
Series A Shares	900,000	1,800
Series B Shares	2,100,000	4,200
Series C Shares	300,000	600
Series D Shares	1,200,000	2,400
Series E Shares	1,500,000	3,000
Series F Shares	3,000,000	6,000
Series G Shares	330,000	660
Series H Shares	8,070,000	16,140
Series I Shares	52,200,000	104,400
Series J Shares	15,331,998	30,664
Series K Shares	42,500,000	85,000
	<b>127,431,998</b>	<b>254,864</b>

\*For a detailed description of the share issue, see Note 35.

In connection with the 2016 bond issue carried out by PGB S.A., the Company's main shareholder, a registered pledge was created over RAFAKO S.A. shares held directly by PGB S.A. (7,665,999 shares) and indirectly through Multaros Trading Company Limited, a subsidiary of PGB S.A. (34,800,001 shares) for the benefit of PGB S.A. bondholders.

#### 30.2. Par value per share

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

#### 30.3. Shareholders' rights

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

#### 30.4. Share premium

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

In the 12 months ended December 31st 2016, there were no changes in the share premium, and as at December 31st 2016 the share premium was PLN 95,340 thousand.

#### 30.5. Dividends paid

No dividends were paid by the Group companies in the 12 months ended December 31st 2017 and December 31st 2016.

#### 30.6. Capital management

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

	Dec 31 2017	Dec 31 2016
<b>Share of debt in equity</b>		
Equity attributable to owners of the parent	601,625	434,855
External capital (bank credit facility and loan)	98,728	147,107
Total equity and liabilities	1,279,874	1,427,069
Capitalisation ratio (equity / total assets)	<b>0.16</b>	<b>0.30</b>

### 30.7. Non-controlling interests

	Dec 31 2017	Dec 31 2016
Opening balance	8,996	4,675
Share in profit of subsidiaries	973	432
Dividend	-	-
Changes of equity structure at subsidiaries	(1,341)	3,889
Disposal of subsidiary	-	-
Closing balance	<b>8,628</b>	<b>8,996</b>

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

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

(\*) Number of shares based on PBG's and Multaros's notifications of December 28th 2017.

(\*\*) Number of shares based on a notification of January 3rd 2018 received from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.

(\*\*\*) Given the fact that Multaros Trading Company Ltd. is PBG S.A.'s subsidiary, RAFAKO S.A. (the "Company") is indirectly controlled by PBG S.A., which holds, directly and indirectly, 42,466,000 Company shares, representing 33.33% of its share capital and conferring the right to 33.32% of total voting rights at its General Meeting.

(\*\*\*\*) Number of shares estimated based on the annual asset structure published by Nationale-Nederlanden Otarty Fundusz Emerytalny (as at December 29th 2017).

### 31. Interest-bearing borrowings

As at December 31st 2017, the Group's liabilities under borrowings were PLN 98,728 thousand. The bank debt ratio, calculated as the sum of bank borrowings to total equity, was 16%.

<i>Short-term borrowings</i>	<i>Security</i>	<i>Other</i>	<i>Currency</i>	<i>Effective interest rate</i>	<i>Maturity</i>	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	current account overdraft facility of up to PLN 70m***	PLN	1M WIBOR + margin	30/06/2018*** *	55,137	99,394
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility of up to PLN 80m***	PLN	1M WIBOR + margin	30/06/2018*** *	43,419	47,713
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, mortgages, assignment of claims under insurance policy	PLN 500 thousand overdraft facility	PLN	1M WIBOR + margin	06/09/2018	172	–
						<b>98,728</b>	<b>147,107</b>

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

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

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

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

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

## 32. Employee benefit obligations

### 32.1. Post-employment and other benefits

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

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
As at January 1st	23,877	25,556
Interest expense	769	713
Current service costs	459	528
Actuarial (gains)/losses	(324)	854
Cost of benefits paid	(2,537)	(2,714)
Adjustment to the provision, related to the Voluntary Redundancy Programme	1,060	(1,060)
Closing balance	<u><u>23,304</u></u>	<u><u>23,877</u></u>
Long-term provisions	20,536	21,855
Short-term provisions	<u><u>2,768</u></u>	<u><u>2,022</u></u>

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

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

\*No data provided in the actuary's report.

\*\*2% in 2018 and subsequent years.

#### Sensitivity analysis

Change of the discount rate by half percentage point:

	<i>Increase (PLN '000)</i>	<i>Decrease (PLN '000)</i>
<i>Dec 31 2017</i>		
Effect on the defined benefit obligation	(944)	1,019
<i>Dec 31 2016</i>		
Effect on the defined benefit obligation	<u><u>(1,087)</u></u>	<u><u>1,180</u></u>

### 33. Trade and other payables

#### 33.1. Long-term trade and other payables

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Trade payables, including:		
Payables to related entities	–	5
Payables to other entities	38,714	40,208
	<u><b>38,714</b></u>	<u><b>40,213</b></u>
Financial liabilities, including:		
Finance lease liabilities	2,106	3,540
	<u><b>2,106</b></u>	<u><b>3,540</b></u>
Other liabilities, including:		
Unpaid bonus accrual	495	530
Amounts payable for tangible and intangible assets	50	149
Provisions for warranty repairs	4,384	5,718
Amounts payable under voluntary redundancy programme	153	1,460
Other liabilities	15	–
	<u><b>5,097</b></u>	<u><b>7,857</b></u>

#### 33.2. Short-term provisions, trade and other payables

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Trade payables, including:		
Payables to related entities	750	1,400
Payables to other entities	313,620	472,076
	<u><b>314,370</b></u>	<u><b>473,476</b></u>
Amounts payable for tangible and intangible assets	974	1,610
	<u><b>974</b></u>	<u><b>1,610</b></u>

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Other liabilities		
VAT	34,467	21,985
Personal income tax	2,422	2,552
Social security	9,087	9,471
Amounts payable to the Tax Office	–	6
Other taxes, customs duties and insurance payable	551	238
Settlements with the Company Social Benefits Fund	–	9
Salaries and wages payable	8,519	9,363
Accrued holiday entitlements	5,428	4,999
Unpaid bonus accrual	7,421	11,501
Provisions for warranty repairs	11,464	12,509
Provision for uninvoiced services and materials	9,566	5,120
Other amounts payable to employees	143	–
Other current accruals and deferred income*	15,404	9,890
Provisions for other liabilities and disputed claims	4,510	6,644
Amounts payable under voluntary redundancy programme	1,443	5,634
Security deposits	397	289
Restructuring provision**	8,368	–
Other	1,432	1,594
	<b>120,622</b>	<b>101,804</b>
Other financial liabilities		
Finance lease liabilities	2,445	2,045
	<b>2,445</b>	<b>2,045</b>

\*Including commissions on guarantees and insurance policies of a subsidiary.

\*\*For a detailed description of the restructuring provision, see Note 33.9.

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

### 33.3. Liabilities under financial derivatives

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

### 33.4. Amounts payable for tangible and intangible assets

As at December 31st 2017, the RAFAKO Group companies had commitments to purchase property, plant and equipment of PLN 1,024 thousand.

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

### 33.5. Amounts payable for unused holiday entitlements

Amounts payable for unused holiday entitlements are 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.

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Opening balance	4,999	3,659
Provision for the obligation	1,491	1,692
Cost of benefits paid	(1,062)	(352)
Reversal of provision for the obligation	-	-
Closing balance	<b>5,428</b>	<b>4,999</b>
Short-term as at	5,428	4,999
Long-term as at	-	-
	<b>5,428</b>	<b>4,999</b>

### 33.6. Unpaid bonus accrual

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

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Opening balance	12,031	11,548
Provision for the obligation	6,887	11,130
Cost of benefits paid	(4,933)	(10,371)
Reversal of provision for the obligation	(6,069)	(276)
Closing balance	<b>7,916</b>	<b>12,031</b>
Short-term as at	7,421	11,501
Long-term as at	495	530
	<b>7,916</b>	<b>12,031</b>

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



### 33.7. Provision for warranty repairs

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

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Opening balance	18,227	11,925
Provision for the obligation	13,254	16,570
Costs of warranty repairs incurred	(15,633)	(10,268)
Reversal of provision for the obligation	-	-
Closing balance	<b>15,848</b>	<b>18,227</b>
Short-term as at	11,464	12,509
Long-term as at	4,384	5,718
	<b>15,848</b>	<b>18,227</b>

### 33.8. Amounts payable under voluntary redundancy programme

On November 15th 2016, the Management Board of RAFAKO resolved to launch a voluntary redundancy programme for the Company employees. The term of the programme was from December 1st 2016 to January 31st 2017.

The programme's objective was to adapt the level, structure and costs of employment at RAFAKO S.A. to the conditions prevailing in the Company's markets so as to avoid the need to initiate a collective redundancy procedure. The programme was to cover up to 200 employees and was addressed in particular to:

- employees at retirement age,
- employees who were entitled to pre-retirement protection,
- other employees meeting the requirements set out in the programme rules.

176 employees applied to participate. 128 applications were approved and the final amount of the resulting obligations (fully provisioned for, charged to the Company's 2016 profit or loss) was PLN 7,622 thousand.

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Opening balance	7,094	-
Provision for the obligation	-	7,622
Utilised	(5,498)	(528)
Reversal of provision for the obligation	-	-
Closing balance	<b>1,596</b>	<b>7,094</b>
Short-term as at	1,443	5,634
Long-term as at	153	1,460
	<b>1,596</b>	<b>7,094</b>

### 33.9. Restructuring provision

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

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Opening balance	-	-
Provision for the obligation	8,368	-
Closing balance	<u><b>8,368</b></u>	<u>-</u>
Short-term as at	8,368	-
Long-term as at	-	-
	<u><b>8,368</b></u>	<u>-</u>

### 33.10. Income tax payable

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Corporate income tax	2,280	123
	<u><b>2,280</b></u>	<u><b>123</b></u>

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

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

In 2017, a tax audit was carried out at a subsidiary to examine the validity of a PLN 40m VAT refund for August 2017. The audit did not reveal any irregularities and the refund was credited to the subsidiary's bank account in due time. Moreover, in accordance with post-audit recommendations, a subcontractor had to correct the sales invoices issued in 2017. The correction consisted in changing the 23% VAT rate to reverse charge. The subsidiary corrected the VAT-7 return, without affecting the amount of settlements with the Tax Office.

In 2017, no tax audits were carried out at the parent or the other subsidiaries.

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

### 34. Grants

Grants recognised as at December 31st 2017 amounted to PLN 280 thousand. The grants pertain to:

- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed the design, delivery and installation of natural gas detection and signalling systems for two gas furnaces at RAFAKO; the grant was made in cash,
- Research project to develop an innovative electrostatic method of reducing emissions of submicron particles in exhaust and flue gases, in particular from biofuel-fired sources (ELAGLOM) funded by the National Centre for Research and Development as part of the Applied Research Programme; the grant was made in cash,
- Research project 'CO2 methanisation unit for storing electricity by producing CO2-SNG' executed jointly with TAURON Wytwarzanie S.A., Institute for Chemical Processing of Coal, AGH University of Technology, West Technology & Trading Polska Sp. z o.o. of Opole, EXERGON Sp. z o.o. of Gliwice, CEA Institute of France, and Atmosstat of France; the grant was made in cash,
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to install a hydrocarbons detection system in RAFAKO's paint and varnish storage facility; the grant was made in cash,
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to modernise and extend RAFAKO's CCTV system; the grant was made in cash,
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A. and InterRisk Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, under which the insurance companies co-finance the fire safety improvement programme in a production building of RAFAKO; the grant was made in cash,
- Municipal polygeneration system fired with biomass and refuse-derived fuel, a research project pursued in partnership with EXERGON Sp. z o.o. of Gliwice, TAURON Wytwarzanie S.A., Institute for Chemical Processing of Coal, EQTEC of Spain, CEA Institute of France, and Atmosstat of France; the grant was made in cash.

Grant settlements:

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

---

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

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

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

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

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

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

On December 27th 2017, the District Court in Gliwice, 10th Commercial Division of the National Court Register, registered the new share capital of the parent in the amount of PLN 254,863,996, and on January 18th 2018 Series K shares were first traded on the Warsaw Stock Exchange. The current shareholding structure is presented in note 30.8.

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

### 36. Use of proceeds

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

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

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

### 37. Liabilities under finance leases and rental contracts with purchase option

As at December 31st 2017 and December 31st 2016, future minimum lease payments under finance leases and rental contracts with purchase option and the net present value of minimum lease payments were as follows:

	<i>Dec 31 2017</i>		<i>Dec 31 2016</i>	
	<i>Minimum payments</i>	<i>Present value</i>	<i>Minimum payments</i>	<i>Present value</i>
up to 1 year	2,618	2,445	2,938	2,045
from 1 to 5 years	2,313	2,106	3,686	3,540
<b>Total minimum lease payments</b>	<b>4,931</b>	<b>4,551</b>	<b>6,624</b>	<b>5,585</b>
Less finance costs	<b>(380)</b>	–	<b>(1,039)</b>	–
<b>Present value of minimum lease payments, including:</b>	<b>4,551</b>	<b>4,551</b>	<b>5,585</b>	<b>5,585</b>
short-term	2,445	2,445	2,045	2,045
long-term	2,106	2,106	3,540	3,540

### 38. Litigation and disputes

#### 38.1. Court proceedings concerning compensation from Donetskoblenenergo of Ukraine

In a material litigation to which the parent is a party, RAFAKO S.A. is seeking compensation from Donetskoblenenergo of Ukraine. RAFAKO S.A. demands the compensation following the customer's final decision to abandon a steam-generator construction project. On August 6th 2010, the Company received a decision issued by the Judicial Chamber for business cases of the Supreme Court of Ukraine granting a cassation appeal lodged by RAFAKO S.A. on March 2nd 2010 and upholding the ruling of the Donetsk Commercial Court of Appeals of December 23rd 2008, whereby RAFAKO S.A. was awarded UAH 56.7m (approximately USD 11.5m) in compensation, default interest, court expenses and legal representation costs. As the enforceability of the decision remains uncertain, RAFAKO S.A. did not recognise the awarded amount in revenue. RAFAKO S.A.'s attorney notified the parent that in July 2012 the Commercial Court for the Donetsk region resumed the examination of the case having received Donetskoblenenergo's petition to declare the agreement of May 16th 1994 void. According to the attorney, there are no new arguments or evidence to grant the petition. In view of the political situation in Ukraine and the fact that full documentation of the case is missing from one of the courts in the country, all of which makes it impossible to seek protection of RAFAKO S.A.'s rights and interests in court, the Management Board of the Company, having analysed a legal opinion concerning the possibility to further pursuing claims from Donieckoblenenergo, decided to abandon the case.

#### 38.2. Court proceedings against Mostostal Warszawa S.A.

On October 11th 2016, the parent filed a claim against Mostostal Warszawa S.A. with the Regional Court of Gliwice, demanding payment of PLN 8,042,475 plus statutory interest accrued from August 3rd 2016 as a refund of 70% of the amounts retained by Mostostal as a performance bond. The grounds for the claim were that the parties terminated their cooperation under the subcontractor agreement for design, delivery and erection of a grid, boiler and flue gas treatment system for two lines of the Thermal Waste Treatment Plant in Szczecin, concluded on December 18th 2012 (eventually, on July 7th 2016, RAFAKO submitted a notice of termination of the subcontractor agreement due to Mostostal Warszawa S.A.'s fault). As cooperation on the project had been discontinued, Mostostal Warszawa S.A. was obliged to refund the amounts retained as a performance bond, because the contractual basis for providing a performance bond had ceased to exist. On October 19th 2016, the Regional Court of Gliwice issued a payment order for the full amount claimed by RAFAKO S.A. On November 25th 2016, the Court received an objection against the payment order, lodged by Mostostal Warszawa S.A. On June 30th 2017, the Regional Court of Gliwice awarded the entire sum demanded by the Company. On August 28th 2017, Mostostal Warszawa S.A. filed an appeal against the ruling of the court of first instance. At the present moment, after RAFAKO S.A. submitted a response to the appeal on October 5th 2017, the parties are waiting for the court to schedule a hearing.

As at December 31st 2017, the parent presented the contested contingent receivable, of PLN 8m, under 'Other receivables and prepayments'. In the opinion of the law firm which represents the parent in these proceedings, Mostostal Warszawa S.A. is obligated to return the amounts retained as a performance bond. In view of the current status of the court proceedings and the ruling issued in the first instance, which is favourable to RAFAKO S.A., as well as the position presented by the law firm representing the Company, in the opinion of the parent's Management Board, as at the date of these consolidated financial statements, the risk of non-recovery of the receivables is marginal, therefore no impairment loss was recognised for these contingent receivables.

### **38.3. Court proceedings against Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o.**

On March 20th 2017, the parent filed with the Regional Court of Gliwice a joint and several claim against Mostostal Warszawa S.A. and Zakład Termicznego Unieszkodliwiania Odpadów Sp. z o.o. for payment of PLN 13,136,446.57 plus statutory interest accrued from November 18th 2016, based on an invoice issued for the work performed by RAFAKO and not paid by Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o. under the subcontract concerning the Thermal Waste Treatment Plant in Szczecin. RAFAKO considers the claim to be well-founded and, to support it, the parent carried out a relevant survey of the work performed and delivered the results to the debtors. On March 29th 2017, the court issued a non-final order for payment of the claimed amounts. On April 19th 2017, the defendants lodged with the court objections against the payment order. On July 27th 2017, RAFAKO S.A. filed a pleading which, in addition to the reply to the defendants' objections, extended the claim by PLN 3,021,268, to a total of PLN 16,157,215. So far, one preliminary hearing was held in this case, on October 6th 2017. The defendants submitted to the court a response to the plaintiff's pleading of July 27th 2017, in which the claim was extended. Since the subject matter of the dispute is very complicated, it is difficult to predict its closing date. In the course of the court proceedings, the parent was given the right to inspect the survey of work performed as part of the project, prepared by a court expert at the request of the court investigating the dispute between Mostostal Warszawa S.A. and Zakład Termicznego Unieszkodliwiania Odpadów sp. z o.o. concerning final settlement of contract performance after termination of the contract. RAFAKO S.A. compared the results of that survey against the survey of work prepared internally by RAFAKO S.A., and found no significant discrepancies. In the parent's opinion, the defendants may challenge the amount of RAFAKO's claim (determined by the Company based on the surveyed scope of work and the contractual remuneration agreed for specific work), because the claim will be subject to award by the court and may ultimately be dependent on the results of the survey prepared by a court expert. As at December 31st 2017, the parent presented this disputed receivable, net of a prudentially recognised impairment loss, at PLN 12m in 'Other receivables and prepayments'. In the opinion of the law firm representing RAFAKO S.A. in these proceedings, the claim as such is legitimate (the chances that the case will be resolved in favour of the Company are about 90%), whereas any assessment of the legitimacy its amount depends on the results of the evidentiary proceedings, in particular the opinion of the court expert. In view of the current status of the court proceedings and the position presented by the law firm representing the Company, in the opinion of the parent's Management Board as at the date of these financial statements the risk of non-recovery of the above receivables in the disclosed net amount is marginal.

### **39. Arrangement receivables from related entity**

In 2017, the parent converted its arrangement receivables from PBG S.A., a related entity, into bonds, as described in detail in Note 24 to these consolidated financial statements.

#### 40. Changes in off-balance sheet items

	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Off-balance sheet items under bank guarantees received mainly as security for performance of contracts, including:	669,672	667,316
- from related entities	-	-
Receivables under sureties received, including:	-	-
- from related entities	-	-
Promissory notes received as security, including:	24,507	24,865
- from related entities	13,864	9,280
Letters of credit	-	-
	<b>694,179</b>	<b>692,181</b>
	<b>694,179</b>	<b>692,181</b>
	<i>Dec 31 2017</i>	<i>Dec 31 2016</i>
Off-balance sheet items under bank guarantees issued mainly as security for performance of contracts, including:	326,438	200,609
- to related entities	-	-
Liabilities under sureties, including:	1,294,375	1,394,668
- to related entities	-	-
Promissory notes issued as security, including:	15,374	10,736
- to related entities	1,884	-
Letters of credit	-	-
	<b>1,636,187</b>	<b>1,606,013</b>
	<b>1,636,187</b>	<b>1,606,013</b>

In 2017, the RAFAKO Group's contingent liabilities increased by PLN 30,174 thousand, mainly due to an increase in the amount of bank guarantees provided for the benefit of the Group. A number of guarantees were issued by banks and insurance companies to the Group's trading partners upon the parent's instructions, including mainly performance bonds of PLN 144,278 thousand and bid bonds of PLN 47,766 thousand. In this category of liabilities, the largest item was a performance bond of EUR 11,972 thousand, issued in May 2017. As at December 31st 2017, liabilities under sureties issued, of PLN 1,294,375 thousand, comprised a surety covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the Jaworzno project (construction of a supercritical 910 MW power generation unit at Jaworzno III Power Plant). The largest item among the guarantees which expired in 2017 was a EUR 2,993 thousand performance bond.

In 2017, the Group's contingent receivables increased by PLN 1,998 thousand (mainly performance bonds), including an increase of PLN 2,356 thousand in receivables under bank and insurance guarantees, and an increase of PLN 358 thousand in receivables under promissory notes. The largest item among the guarantees received in 2017 was a PLN 7,048 thousand performance bond. The largest item among expired guarantees in 2017 was a performance bond of EUR 4,152 thousand.

#### 41. Guarantees provided by the Group

As at December 31st 2017, the Group carried contingent liabilities under bank and insurance guarantees with a total amount of PLN 326,438 thousand, including:

No.	Guarantee provider	Guarantee amount (PLN '000)	Type of guarantee
1.	AXA	808	warranty bond
2.	ALLIANZ	10,282	performance bond, warranty bond, advance payment guarantee, bid bond
3.	Euler HERMES	16,471	performance bond, warranty bond, bid bond
4.	Ergo Hestia S.A.	73,396	performance bond, warranty bond, advance payment guarantee, bid bond
5.	PKO BP	87,782	performance bond, warranty bond, advance payment guarantee, bid bond, retention, payment guarantee
6.	UNIQA	1,698	performance bond, warranty bond, bid bond
7.	WARTA	2,120	warranty bond
8.	Generali	30,316	performance bond, warranty bond, advance payment guarantee, bid bond
9.	InterRisk S.A.	22,503	performance bond, warranty bond, bid bond
10.	KUKE	81,062	performance bond, warranty bond
	<b>TOTAL</b>	<b>326,438</b>	

In most cases, the insurers' claims under the provided guarantees are secured by blank promissory notes with promissory note declarations, while the banks' claims are secured mainly with the security provided under the multi-purpose credit facility agreement, voluntary submissions to enforcement, blank promissory notes with promissory note declarations, and cash security deposits.



## 42. Related parties

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

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

<i>Related party</i>		<i>Sales to related parties in twelve months ended Dec 31 2017/Dec 31 2016</i>	<i>Purchases from related parties in twelve months ended Dec 31 2017/Dec 31 2016</i>	<i>Receivables from related parties as at Dec 31 2017/Dec 31 2016</i>	<i>Liabilities to related parties as at Dec 31 2017/Dec 31 2016</i>
<b>Parent:</b>					
PBG S.A.	2017	2,389	5,491	30,538*	558
	2016	2,918	4,180	35,869*	155
<b>PBG Group companies:</b>					
PBG Oil and Gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.)	2017	4,650	3,462	33,162	720
	2016	11,015	54,499	4,018	1,081
PBG Avatia Sp. z o.o.	2017	–	–	–	–
	2016	–	–	–	12
PBG ERIGO Sp. z o.o.	2017	–	–	–	–
	2016	14	–	7	–
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	2017	73	–	8	–
	2016	75	–	8	–
PBG DOM Sp. z o.o.	2017	8	–	1	–
	2016	–	–	–	–
<b>Entities related through personal links:</b>					
PBG Foundation	2017	–	350	–	33
	2016	–	476	–	7
SWGK CONSULTING Sp. z o.o.	2017	–	150	–	49
	2016	–	74	–	7
SWGK KSIĘGOWOŚĆ Sp. z o.o.	2017	–	2,407	–	295
	2016	–	1,734	–	172
Mostostal Energomontaż Gliwice S.A.	2017	–	–	–	–
	2016	–	–	–	102
MIKO-TECH S.A.	2017	28	22,817	1	708
	2016	55	35,326	4	7,787

\*The receivables from PBG S.A. described in Note 38.1

<i>Related party</i>		<i>Sales to related parties in twelve months ended Dec 31 2017/Dec 31 2016</i>	<i>Purchases from related parties in twelve months ended Dec 31 2017/Dec 31 2016</i>	<i>Receivables from related parties as at Dec 31 2017/Dec 31 2016</i>	<i>Liabilities to related parties as at Dec 31 2017/Dec 31 2016</i>
Dwór w Smólsku Sp. z o.o.	2017	1	243		49
	2016	–	220	–	25
BPIL Grzegorz Kiczor	2017	–	213	–	41
	2016	–	155	–	–
Economic Chamber of Energy and Environmental Protection	2017		29		7
	2016	–	–	–	6
FCS Business Solutions Sp. z o.o.	2017	2	–	–	–
	2016	2	–	–	–
NRG Solutions Sp. z o.o.	2017	18	3	6	3
	2016	5	–	6	–
PONER Sp. z o.o.	2017	472		130	
	2016	–	17	–	–
SWGK Podatki Sp. z o.o.	2017	–	80	–	–
	2016	–	–	–	–
Polimex-Mostostal S.A.	2017	–	–	–	117
	2016	–	39	–	137

### 43. Group's parent

RAFAKO is the parent of the RAFAKO Group.

As at the date of these consolidated financial statements, the parent of the RAFAKO Group is PBG S.A.

As at December 31st 2017, PBG S.A. of Wysogotowo held 33.33% of ordinary shares in the Company (6.02% of shares held directly, and 27.31% of shares held indirectly).

### 44. Joint ventures

The Group is not engaged in any joint ventures.

### 45. Related-party transactions

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

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

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

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

#### 47. Shares held by members of management and supervisory bodies

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

	<i>Company name</i>	<i>Total number of shares</i>	<i>Par value per share (PLN)</i>
<b><i>Management staff member</i></b>			
Edward Kasprzak	RAFAKO S.A.	3,000	6,000
Jarosław Dusiło	PBG S.A.	100	2
Tomasz Tomczak	PBG S.A.	3,250	65
<b><i>Supervisory staff member</i></b>			
Małgorzata Wiśniewska	PBG S.A.	3,279	65.58
Jerzy Wiśniewski	PBG S.A.	189,902,366	7,798,047.32

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

The Group does not operate any employee stock option programme.

#### 49. Remuneration of the Group's senior management staff

	<i>12 months ended Dec 31 2017</i>	<i>12 months ended Dec 31 2016</i>
Short-term employee benefits (salaries and overheads)	16,290	14,228
Length-of-service awards	16	31
Termination benefits	169	92
Other employee benefits	141	-
Total cost of remuneration paid to key management staff	<b>16,616</b>	<b>14,351</b>

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

PLN '000

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

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

PLN '000

	<i>Base pay</i>	<i>Awards</i>	<i>Other</i>
<b>Management Board</b>	<b>3,120</b>	<b>1,248</b>	<b>191</b>
Agnieszka Wasilewska-Semail	720	288	38
Krzysztof Burek	600	240	6
Jarosław Dusiło	600	240	8
Edward Kasprzak	600	240	5
Wiesław Różacki	–	–	103
Tomasz Tomczak	600	240	31
<b>Supervisory Board</b>	<b>1,008</b>	–	<b>1,344</b>
Jerzy Wiśniewski	240	–	600
Dariusz Sarnowski	228	–	–
Piotr Wawrzynowicz	–	–	504
Małgorzata Wiśniewska	108	–	240
Przemysław Schmidt	108	–	–
Adam Szyszka	108	–	–
Dariusz Szymański	108	–	–
Krzysztof Gerula	108	–	–
<b>TOTAL</b>	<b>4,128</b>	<b>1,248</b>	<b>1,535</b>

The remuneration paid to members of the management and supervisory boards of PGL-DOM Sp. z o.o. (a subsidiary) for the year ended December 31st 2017 was as follows:

PLN '000

	<i>Base pay</i>	<i>Awards</i>	<i>Other</i>
<b>Management Board</b>	<b>118</b>	<b>40</b>	<b>10</b>
Mirosław Dziedzic	99	40	10
Rafał Damasiewicz	19	-	-
<b>Supervisory Board</b>	<b>178</b>	<b>-</b>	<b>-</b>
Mariusz Łożyński	54	-	-
Jolanta Markowicz	43	-	-
Adam Górnicki	43	-	-
Wojciech Byczkowski	38	-	-
<b>TOTAL</b>	<b>296</b>	<b>40</b>	<b>10</b>

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

PLN '000

	<i>Base pay</i>	<i>Awards</i>	<i>Other</i>
<b>Management Board</b>	<b>107</b>	<b>30</b>	<b>-</b>
Mirosław Dziedzic	107	30	-
<b>Supervisory Board</b>	<b>169</b>	<b>-</b>	<b>-</b>
Mariusz Łożyński	51	-	-
Jolanta Markowicz	41	-	-
Adam Górnicki	41	-	-
Wojciech Byczkowski	36	-	-
<b>TOTAL</b>	<b>276</b>	<b>30</b>	<b>-</b>

The remuneration paid to members of the management and supervisory boards of RAFAKO Engineering Sp. z o.o. (a subsidiary) for the year ended December 31st 2017 was as follows:

PLN '000

	<i>Base pay</i>	<i>Awards</i>	<i>Other</i>
<b>Management Board</b>	<b>221</b>	<b>-</b>	<b>265</b>
Albert Kępa	220	-	200
Rafał Damasiewicz	1	-	65
<b>Supervisory Board</b>	<b>126</b>	<b>-</b>	<b>-</b>
Małgorzata Wiśniewska	44	-	-
Jarosław Dusiło	44	-	-
Agnieszka Wasilewska-Semail	38	-	-
<b>TOTAL</b>	<b>347</b>	<b>-</b>	<b>265</b>

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

PLN '000

	<i>Base pay</i>	<i>Awards</i>	<i>Other</i>
<b>Management Board</b>	<b>231</b>	–	–
Albert Kępka	171	–	–
Rafał Damasiewicz	60	–	–
<b>Supervisory Board</b>	<b>120</b>	–	–
Małgorzata Wiśniewska	42	–	–
Jarosław Dusiło	42	–	–
Agnieszka Wasilewska-Semail	36	–	–
<b>TOTAL</b>	<b>351</b>	–	–

The remuneration paid to members of the management and supervisory boards of ENERGOTECHNIKA ENGINEERING Sp. z o.o. (a subsidiary) for the year ended December 31st 2017 was as follows:

PLN '000

	Base pay	Awards	Other
<b>Management Board</b>	<b>338</b>	–	<b>103</b>
Justyna Mirek	182	–	54
Norbert Lejeune	156	–	49
<b>Supervisory Board</b>	<b>56</b>	–	–
Krzysztof Burek	15	–	–
Tomasz Tomczak	15	–	–
Małgorzata Wiśniewska	26	–	–
<b>TOTAL</b>	<b>394</b>	–	<b>103</b>

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

PLN '000

	Base pay	Awards	Other
<b>Management Board</b>	<b>489</b>	<b>133</b>	-
Jan Miodek	252	42	-
Justyna Mirek	85	91	-
Norbert Lejeune	152	-	-
<b>Supervisory Board</b>	<b>52</b>	-	-
Krzysztof Burek	15	-	-
Tomasz Tomczak	15	-	-
Małgorzata Wiśniewska	22	-	-
<b>TOTAL</b>	<b>541</b>	<b>133</b>	-

The remuneration paid to members of the management and supervisory boards of E001RK Sp. z o.o. (a subsidiary) for the year ended December 31st 2017 was as follows:

PLN '000

	Base pay	Awards	Other
<b>Management Board</b>	<b>168</b>	-	-
Jakub Sitek	108	-	-
Rafał Damasiewicz	60	-	-
<b>Supervisory Board</b>	-	-	-
<b>TOTAL</b>	<b>168</b>	-	-

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

PLN '000

	Base pay	Awards	Other
<b>Management Board</b>	<b>168</b>	<b>120</b>	-
Jakub Sitek	108	60	-
Rafał Damasiewicz	60	60	-
<b>Supervisory Board</b>	-	-	-
<b>TOTAL</b>	<b>168</b>	<b>120</b>	-

The remuneration paid to members of the management and supervisory boards of E003B7 Sp. z o.o. (a subsidiary) for the year ended December 31st 2017 was as follows:

PLN '000

	<i>Base pay</i>	<i>Awards</i>	<i>Other</i>
<b>Management Board</b>	<b>1,587</b>	<b>1,812</b>	-
Jarosław Dusiło	490	564	-
Edward Kasprzak	610	684	-
Alfred Seń	487	564	-
<b>Supervisory Board</b>	<b>1,112</b>	<b>960</b>	-
Agnieszka Wasilewska-Semail	248	240	-
Tomasz Tomczak	248	240	-
Krzysztof Burek	248	120	-
Jerzy Wiśniewski	368	360	-
<b>TOTAL</b>	<b>2,699</b>	<b>2,772</b>	-

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

PLN '000

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

The remuneration paid to members of the management and supervisory boards of Reng Nano Sp. z o.o. (a subsidiary) for the year ended December 31st 2017 was as follows:

PLN '000

	<i>Base pay</i>	<i>Awards</i>	<i>Other</i>
<b>Management Board</b>	<b>270</b>	-	-
Andrzej Szmatloch	45	-	-
Maria Manowska	45	-	-
Marek Buzanowski-Konakry	180	-	-
<b>Supervisory Board</b>	-	-	-
<b>TOTAL</b>	<b>270</b>	-	-

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

The Group has not published any forecasts for 2017.



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

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

Type of service	<i>Year ended Dec 31 2017*</i>	<i>Year ended Dec 31 2016*</i>
Mandatory audit of the parent's separate and consolidated financial statements	235	200
Other services**	232	-
<b>TOTAL</b>	<b>467</b>	<b>200</b>

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

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

## 52. Objectives and policies of financial risk management

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

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

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

In 2017, the parent was party to a PLN 150m overdraft facility agreement and a PLN 80m credit facility agreement with PKO BP S.A., exposing it to interest rate risk that will impact the amount of finance costs paid by the parent in the following periods. However, the exposure to interest rate risk decreased following as the nominal amount of the credit facility was reduced. Moreover, the credit facility's reference interest rate remained relatively low and constant.

Other types of financial risks to which the Group was exposed in the reporting period and continues to be exposed to currently are currency risk and interest rate risk. An overview of the risks is presented in Note 52.2

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

### 52.1. Interest rate risk

As at December 31st 2017, the Group was party to a credit facility agreement which was a source of potential interest rate risk. Changes in market interest rates may trigger changes in the amount of interest charged on the credit facility, as well as the amount of interest earned by the Group 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, lease payments). The effect on the Group's equity is not presented.

Increase/ decrease	Effect on pre-tax
--------------------	-------------------

	(percentage points)	profit/loss
<b>Period ended Dec 31 2017</b>		
PLN	+ 1%	2,767
EUR	+ 1%	609
USD	+ 1%	215
HUF	+ 1%	23
PLN	- 1%	(2,767)
EUR	- 1%	(609)
USD	- 1%	(215)
HUF	- 1%	(23)
<b>Period ended Dec 31 2016</b>		
PLN	+ 1%	7,385
EUR	+ 1%	332
HUF	+ 1%	1
RSD	+ 1%	20
PLN	- 1%	(7,385)
EUR	- 1%	(332)
HUF	- 1%	(1)
RSD	- 1%	(20)

## 52.2. Currency risk

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

In the reporting period, more than 6.2% of the Group's invoiced revenue was denominated in foreign currencies, primarily in EUR.

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

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

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

	<i>Increase /decrease in exchange rate</i>	<i>Effect on pre- tax profit/loss</i>	<i>Effect on net profit/loss</i>
Dec 31 2017 – EUR	+10%	5,202	4,214
	-10%	(5,202)	(4,214)
Dec 31 2017 – USD	+10%	2,237	1,812
	-10%	(2,237)	(1,812)
Dec 31 2017 – HUF	+10%	95	77
	-10%	(95)	(77)
Dec 31 2017 – TRY	+10%	1	1
	-10%	(1)	(1)
Dec 31 2016 – EUR	+10%	3,320	2,689
	-10%	(3,320)	(2,689)
Dec 31 2016 – TRY	+10%	1	1
	-10%	(1)	(1)
Dec 31 2016 – HUF	+10%	7	6
	-10%	(7)	(6)
Dec 31 2016 – RSD	+10%	204	165
	-10%	(204)	(165)

### 52.3. Commodity price risk

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

### 52.4. Credit risk

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

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

For detailed information on receivables involving higher credit risk, see Notes 38 and 24.

### 52.5. Liquidity risk

The Group is exposed to liquidity risk arising from the mismatch of cash flow maturities under current contracts. The Group seeks to ensure positive cash flows, which – assuming timely payment of receivables – significantly reduces liquidity risk. The nominal amount of credit facilities available to the Group is sufficient to effectively prevent any negative

consequences of potential delays in payment of receivables. Since 2013, the parent has used external sources of financing. The credit limits available at banks, used to a significant extent, were sufficient to finance the Group's operations.

The Group's financial liquidity (going concern) in 2017 is discussed at length in Note 6 to these consolidated financial statements.

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

<i>Dec 31 2017</i>	<i>Payable on demand</i>	<i>Up to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 year to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Interest-bearing borrowings	–	–	98,728	–	–	98,728
Lease liabilities	–	595	1,850	2,106	–	4,551
Derivative instruments	–	–	–	–	–	–
Trade and other payables	95,403	183,880	21,334	36,892	–	337,509
	<b>95,403</b>	<b>184,475</b>	<b>121,912</b>	<b>38,998</b>	–	<b>440,788</b>

<i>Dec 31 2016</i>	<i>Payable on demand</i>	<i>Up to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 year to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Interest-bearing borrowings	147,107	–	–	–	–	147,107
Lease liabilities	–	522	1,523	3,540	–	5,585
Derivative instruments	–	–	–	–	–	–
Trade and other payables	61,157	372,108	30,159	52,611	243	516,278
	<b>61,157</b>	<b>372,630</b>	<b>31,682</b>	<b>56,151</b>	<b>243</b>	<b>521,863</b>

### 53. Derivative instruments

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

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

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

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

## 54. Financial instruments

### 54.1. Carrying amounts of various classes and categories of financial instruments

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

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

<i>Classes and categories of financial assets</i>	<i>Carrying amount Dec 31 2017</i>	<i>Carrying amount Dec 31 2016</i>
<b>Assets at fair value through profit or loss</b>	<b>479</b>	–
Investment fund units	–	–
Derivative instruments	479	–
<b>Available-for-sale financial assets</b>	<b>223</b>	<b>209</b>
Long-term shareholdings	223	209
<b>Assets held to maturity</b>	<b>29,970</b>	–
Long-term bonds	24,769	–
Short-term bonds	5,201	–
<b>Loans and receivables</b>	<b>483,735</b>	<b>738,597</b>
Trade receivables	391,276	621,080
Other receivables*	82,449	82,207
Loans advanced	10,010	35
Short-term deposits	–	74
Other non-current financial assets	–	24,071
Other current financial assets	–	11,130
<b>Cash and cash equivalents</b>	<b>180,291</b>	<b>107,524</b>
	<b>694,698</b>	<b>846,330</b>

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

<i>Classes and categories of financial liabilities</i>	<i>Carrying amount Dec 31 2017</i>	<i>Carrying amount Dec 31 2016</i>
<b>Financial liabilities at fair value through profit or loss</b>	–	–
Derivative instruments	–	–
<b>Financial liabilities at amortised cost</b>	<b>436,237</b>	<b>662,555</b>
Borrowings	98,728	147,107
Trade payables (including capital commitments)	337,509	515,448
Other financial liabilities	–	–
<b>Liabilities under guarantees and factoring and liabilities excluded from the scope of IAS 39</b>	<b>4,551</b>	<b>5,585</b>
Liabilities under leases and rental contracts with purchase option	4,551	5,585
	<b>440,788</b>	<b>668,140</b>

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

<i>Dec 31 2017</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<b>Assets at fair value through profit or loss</b>	–	<b>479</b>	–
Investment fund units	–	–	–
Derivative instruments	–	479	–
<b>Available-for-sale financial assets</b>	<b>223</b>	–	–
Long-term shareholdings	223	–	–
<b>Financial liabilities at fair value through profit or loss</b>	–	–	–
Derivative instruments	–	–	–
 <i>Dec 31 2016</i>	 <i>Level 1</i>	 <i>Level 2</i>	 <i>Level 3</i>
<b>Assets at fair value through profit or loss</b>	–	–	–
Investment fund units	–	–	–
Derivative instruments	–	–	–
<b>Available-for-sale financial assets</b>	<b>209</b>	–	–
Long-term shareholdings	209	–	–
<b>Financial liabilities at fair value through profit or loss</b>	–	–	–
Derivative instruments	–	–	–

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

12 months ended Dec 31 2017	IAS 39 category	Interest income/(ex pense)	Foreign exchange gains/(losses)	Reversal/(recog nition) of impairment losses	Gains/(losse s) on remeasur ement	Gains/(losses) on sale of financial instruments	Discount	Other	Total
<i>Financial assets</i>									
Available-for-sale financial assets (non-current), including:	Available for sale	-	-	-	15	-	-	-	15
- shares	Available for sale	-	-	-	15	-	-	-	15
Other financial assets (non-current), including:		-	-	-	-	-	429	-	429
- receivables from related entities	Receivables and loans	-	-	-	-	-	429	-	429
Other current financial assets including:		16	(24)	-	-	-	-	-	(8)
- short-term deposits	Receivables and loans	5	-	-	-	-	-	-	5
- short-term loans	At fair value through profit or loss	11	(24)	-	-	-	-	-	(13)
Trade and other receivables	Receivables and loans	573	(6,921)	(4,228)	-	-	(6,590)	-	(17,166)
Derivative financial instruments		-	-	-	479	360	-	-	839
Cash and cash equivalents	Receivables and loans	1,466	(1,563)	-	-	-	-	-	(97)
<b>TOTAL</b>		<b>2,055</b>	<b>(8,508)</b>	<b>(4,228)</b>	<b>494</b>	<b>360</b>	<b>(6,161)</b>	<b>-</b>	<b>(15,988)</b>

12 months ended Dec 31 2017	IAS 39 category	Interest income/(e xpense)	Foreign exchange gains/(losses)	Reversal/(recog nition) of impairment losses	Gains/(losse s) on remeasur ement	Gains/(losses) on sale of financial instruments	Discount	Other	Total
<i>Financial liabilities</i>									
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(2,524)	-	-	-	-	-	(932)	(3,456)
- non-current, bearing interest at variable rates	Other financial liabilities at amortised cost	-	-	-	-	-	-	-	-
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(2,524)	-	-	-	-	-	(932)	(3,456)
Other financial liabilities, including:	Other financial liabilities at amortised cost	(220)	(3)	-	-	-	-	-	(223)
- liabilities under finance leases and rental contracts with purchase option	Other financial liabilities at amortised cost	(220)	(3)	-	-	-	-	-	(223)



	Other financial liabilities at amortised cost								
Trade and other payables		(856)	1,986	-	-	-	5,108	-	6,238
- trade payables		(87)	2,010	-	-	-	5,109	-	7,032
- other liabilities		(769)	(24)	-	-	-	(1)	-	(794)
<b>TOTAL</b>		<b>(3,600)</b>	<b>1,983</b>	-	-	-	<b>5,108</b>	<b>(932)</b>	<b>2,559</b>

12 months ended Dec 31 2016	IAS 39 category	Interest income/(ex pense)	Foreign exchange gains/(losses)	Reversal/(recog nition) of impairment losses	Gains/(losse s) on remeasur ement	Gains/(losses) on sale of financial instruments	Discount	Other	Total
<i>Financial assets</i>									
Available-for-sale financial assets (non-current), including:	Available for sale	-	-	154,057	(2)	-	-	-	(2)
- shares	Available for sale	-	-	-	(2)	-	-	-	(2)
Other financial assets (non-current), including:		-	-	-	-	-	(481)	-	(481)
- receivables from related entities	Receivables and loans	-	-	154,057	-	-	(481)	-	(481)
Other current financial assets including:		10	15	-	-	-	-	-	25
- short-term deposits	Receivables and loans	8	-	-	-	-	-	-	8
- certificates of deposit	At fair value through profit or loss	2	15	-	-	-	-	-	17
Trade and other receivables	Receivables and loans	955	2,395	(78)	-	-	508	-	3,780
Cash and cash equivalents	Receivables and loans	1,459	456	-	-	-	-	-	1,915
<b>TOTAL</b>		<b>2,424</b>	<b>2,866</b>	<b>153,979</b>	<b>(2)</b>	<b>-</b>	<b>27</b>	<b>-</b>	<b>5,237</b>

12 months ended Dec 31 2016	IAS 39 category	Interest income/(e xpense)	Foreign exchange gains/(losses)	Reversal/(rec ognition) of impairment losses	Gains/(losses) on remeasurement	Gains/(losses ) on sale of financial instruments	Discount	Other	Total
<i>Financial liabilities</i>									
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(3,132)	-	-	-	-	-	(887)	(4,019)
- non-current, bearing interest at variable rates	Other financial liabilities at amortised cost	-	-	-	-	-	-	-	-
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(3,132)	-	-	-	-	-	(887)	(4,019)
Other financial liabilities, including:	Other financial liabilities at amortised cost	(281)	(4)	-	-	-	-	-	(285)

	Other financial liabilities at amortised cost								
- liabilities under finance leases and rental contracts with purchase option		(281)	(4)	-	-	-	-	-	(285)
	Other financial liabilities at amortised cost	(847)	(1,485)	(241)	-	-	(110)	-	(2,683)
Trade and other payables		(134)	(1,459)		-	-	(105)	-	(1,698)
- trade payables		(713)	(23)	(241)	-	-	(5)	-	(985)
- other liabilities									
<b>TOTAL</b>		<b>(4,260)</b>	<b>(1,489)</b>	<b>(241)</b>	<b>-</b>	<b>-</b>	<b>(110)</b>	<b>(887)</b>	<b>(6,987)</b>

### 54.3. Interest rate risk

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

#### Dec 31 2017

<i>Fixed interest rate</i>	<i>&lt;1 year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>&gt;5 years</i>	<i>Total</i>
Long-term deposits	-	-	-	-	-	-	-
Short-term deposits	-	-	-	-	-	-	-
<i>Variable interest rate</i>							
Cash and cash equivalents	180,291	-	-	-	-	-	180,291
Loans advanced	10,010	-	-	-	-	-	10,010
Liabilities under finance leases and rental contracts with purchase option	2,445	1,684	419	3	-	-	4,551
Bank overdrafts	98,728	-	-	-	-	-	98,728
	=====	=====	=====	=====	=====	=====	=====

**Dec 31 2016**

<i>Fixed interest rate</i>	<i>&lt;1 year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>&gt;5 years</i>	<i>Total</i>
Long-term deposits	-	-	-	-	-	-	-
Short-term deposits	74	-	-	-	-	-	74
<i>Variable interest rate</i>							
Cash and cash equivalents	107,524	-	-	-	-	-	107,524
Loans advanced	35	-	-	-	-	-	35
Liabilities under finance leases and rental contracts with purchase option	2,045	2,422	894	224	-	-	5,585
Bank overdrafts	149,107	-	-	-	-	-	149,107
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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

## 55. Employment

In 2017, the average workforce in the Group was 2,159.

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

## 56. Events after the reporting period

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

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

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

Supplement No. 2 was prepared in connection with the conclusion by RAFAKO S.A. as a consortium member, on December 29th 2017, of a conditional agreement to construct two coal-fired steam units (2x50 MW) on the island of Lombok in Indonesia. The parent provided detailed information on the execution and terms and conditions of the agreement in Current Report No. 66/2017 of December 29th 2017. Supplement No. 2 will be made available to the public in the same manner as the prospectus, i.e. in electronic form on the parent's website at ([www.rafako.com.pl](http://www.rafako.com.pl)) and also, for information purposes, on the websites of Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie ([www.dm.pkobp.pl](http://www.dm.pkobp.pl)) and Trigon Dom Maklerski S.A. ([www.trigon.pl](http://www.trigon.pl)).

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

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

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

1. Resolution No. 40/2018 setting the last listing date for the allotment certificates on Series K ordinary bearer shares in RAFAKO S.A. on the WSE Main Market, whereby the WSE Management Board set January 17th 2018 as the last listing date for 42,500,000 (forty-two million, five hundred thousand) allotment certificates on Series K ordinary bearer shares in the parent with a par value of PLN 2 (two zloty) per share, assigned ISIN code PLRAFAK00091 by the Central Securities Depository of Poland ("CSDP");

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

On January 18th 2018, RAFAKO S.A. (the parent) received the following notifications:

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

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

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

1. Total costs classified as costs of issue of Series K shares, itemised as follows:
  - a) costs of preparing and carrying out the offering: PLN 6,039 thousand;
  - b) costs of preparing the prospectus (including advisory services): PLN 573 thousand;
  - c) marketing costs: PLN 20 thousand;Total costs: PLN 6,632 thousand.
2. Method of recognition of the costs in RAFAKO S.A.'s accounting records: the costs of issue of Series K shares were accounted for by reducing the share premium.
3. Method of recognition of the costs in the Group's financial statements: in the financial statements, the costs will be recognised under "Share premium".
4. Average cost of the subscription per share available for subscription: PLN 0.16.

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

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



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

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

These consolidated financial statements were authorised for issue on April 5th 2017 by virtue of RAFAKO Management Board's resolution dated April 5th 2017.

Signatures:

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