RAFAKO S.A.

PBG GROUP

INTERIM CONDENSED FINANCIAL STATEMENTS

for the three months ended March 31st 2018

May 25th 2018

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(PLN '000)

Interim condensed statement of comprehensive income

for the three months ended March 31st 2018

	Note	*3 months ended March 31st 2018 (unaudited)*	*3 months ended March 31st 2017 (unaudited, restated)*
Continuing operations			
Revenue	11.1	**151,569**	**134,202**
Revenue from sale of goods and services		150,977	133,490
Revenue from sale of materials		592	712
Cost of sales	11.1	(125,993)	(113,847)
Profit/(loss) before tax		**25,576**	**20,355**
Other income	11.1	2,088	1,749
Distribution costs	11.1	(6,886)	(7,733)
Administrative expenses		(10,316)	(10,629)
Other expenses	11.1	(1,298)	(1,347)
Operating profit/(loss)		**9,164**	**2,395**
Finance income	11.1	1,148	141
Finance costs	11.1	(1,060)	(5,235)
Profit/(loss) before tax		**9,252**	**(2,699)**
Income tax expense	11.2	(6,853)	(6,070)
Net profit/(loss) from continuing operations	11.22	**2,399**	**(8,769)**

Racibórz, May 25th 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	Chief Accountant

(PLN ’000)

Interim condensed statement of comprehensive income
for the three months ended March 31st 2018

	Note	*3 months ended March 31st 2018 (unaudited)*	*3 months ended March 31st 2017 (unaudited, restated)*
Other comprehensive income for period		**(247)**	**45**
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Exchange differences on translating foreign operations		(65)	(98)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(65)**	**(98)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods			
Other comprehensive income due to actuarial gains/(losses)		(225)	177
Tax on other comprehensive income	11.2	43	(34)
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(182)**	**143**
Total comprehensive income for period		**2,152**	**(8,724)**
Weighted average number of shares	11.22	0.02	(0.10)
Basic/diluted earnings/(loss) per share, PLN	11.22	127,431,998	84,931,998

Racibórz, May 25th 2018

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President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN '000)

Interim condensed statement of financial position

as at March 31st 2018

	Note	*March 31st 2018 (unaudited)*	*December 31st 2017 (restated)*	*March 31st 2017 (restated)*
ASSETS				
Non-current assets				
Property, plant and equipment	11.4	138,616	140,364	146,866
Intangible assets		10,221	10,513	10,868
Long-term trade receivables, other receivables and prepayments		9,665	7,078	263
Trade receivables	11.6	7,814	5,294	59
Other receivables and prepayments	11.6	1,851	1,784	204
Non-current financial assets		74,520	71,651	70,743
Shares in subsidiaries	11.7	35,091	35,091	29,349
Shares in other entities	11.7	1,405	242	267
Long-term bonds	11.8	20,338	20,073	28,824
Other non-current financial assets	11.9	17,686	16,245	12,303
Deferred tax assets	11.2	31,385	38,195	44,813
		264,407	**267,801**	**273,553**
Current (short-term) assets				
Inventories	11.10	14,877	12,589	13,023
Long-term trade receivables, and other short-term receivables and prepayments	11.14	263,482	291,371	218,547
Trade receivables	11.14	120,491	189,338	118,910
Income tax receivable	11.14	–	–	11,910
Other receivables and prepayments	11.14	142,991	102,033	87,727
Gross amount due from customers for contract work and related prepayments and accrued income	10	168,899	155,014	191,921
Current financial assets		89,116	164,011	78,156
Derivative instruments		–	479	–
Short-term bonds	11.11	4,350	4,215	5,494
Short-term loans advanced		400	396	434
Another non-current financial assets		–	–	–
Cash and cash equivalents	11.13	84,366	158,921	72,228
		536,374	**622,985**	**501,647**
Non-current assets held for sale		90	108	12
TOTAL ASSETS		**800,871**	**890,894**	**775,212**

Racibórz, May 25th 2018

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(PLN '000)

Interim condensed statement of financial position

as at March 31st 2018

	Note	*March 31st 2018 (unaudited)*	*December 31st 2017 (restated)*	*March 31st 2017 (restated)*
EQUITY AND LIABILITIES				
Equity				
Share capital		254,864	254,864	169,864
Share premium	11.20	173,708	173,708	95,340
Reserve funds		69,061	69,061	131,301
Exchange differences on translating foreign operations		(402)	(337)	(167)
Retained earnings / Accumulated losses		(100,773)	(102,990)	(88,562)
		396,458	**394,306**	**307,776**
Non-current liabilities				
Finance lease liabilities	11.24	892	1,046	2,328
Employee benefit obligations	11.23, 17.2	20,583	20,448	22,160
Long-term trade and other payables		32,222	19,594	19,226
Trade payables	11.24	14,327	14,673	12,521
Amounts payable for tangible and intangible assets	11.24, 20	–	–	–
Other liabilities	11.24	17,895	4,921	6,705
		53,697	**41,088**	**43,714**
Current liabilities				
Trade and other payables	11.25	171,555	301,360	185,832
Trade payables	11.25	105,888	185,498	101,563
Amounts payable for tangible and intangible assets	11.25, 20	427	399	576
Other liabilities	11.25	65,240	115,463	83,693
Current portion of interest-bearing borrowings	15	111,306	98,568	147,901
Other financial liabilities and finance lease liabilities	11.25	1,596	1,696	1,646
Employee benefit obligations	11.23, 17.2	2,722	2,737	2,327
Amounts due to customers and provisions for contract work and deferred income	10	63,537	51,139	86,016
Amounts due to customers for contract work	10	52,096	28,543	69,761
Provisions for contract work	17	11,127	22,316	15,721
Grants		314	280	534
		350,716	**455,500**	**423,722**
Total liabilities		**404,413**	**496,588**	**467,436**
TOTAL EQUITY AND LIABILITIES		**800,871**	**890,894**	**775,212**

Racibórz, May 25th 2018

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President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN '000)

Interim condensed statement of cash flows
for the three months ended March 31st 2018

	Note	*3 months ended March 31st 2018 (unaudited)*	*3 months ended March 31st 2017 (unaudited, restated)*
Cash flows from operating activities			
Profit/(loss) before tax		9,252	(2,699)
Adjustments for:		(93,803)	13,089
Depreciation and amortisation		2,617	2,653
Foreign exchange gains/(losses)		(3)	21
Interest and dividends, net		812	946
(Gain)/loss from investing activities		(370)	638
Increase/(decrease) in liabilities under FX contracts		479	–
(Increase)/decrease in receivables	11.3	23,781	75,148
(Increase)/decrease in inventories		(2,288)	16
Increase/(decrease) in liabilities and provisions, excluding borrowings	11.3	(117,310)	(30,366)
Change in prepayments and accruals for contracts	11.3	(1,521)	(35,139)
Income tax (paid)/received		–	(857)
Other		–	29
Net cash from operating activities		**(84,551)**	**10,390**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		130	84
Purchase of property, plant and equipment and intangible assets	11.3	(392)	(1,652)
Purchase of financial assets		(1,209)	–
Dividends and interest		–	4
Loans advanced		–	3
Net cash from investing activities		**(1,471)**	**(1,561)**
Cash flows from financing activities			
Payment of finance lease liabilities		(461)	(459)
Proceeds from borrowings	11.3	12,604	–
Repayment of borrowings		–	(1,315)
Interest paid	11.3	(629)	(787)
Bank fees		(24)	(11)
Other		36	15
Net cash from financing activities		**11,526**	**(2,557)**
Net increase/(decrease) in cash and cash equivalents		(74,496)	6,272
Net foreign exchange differences		(59)	(91)
Cash at beginning of period	11.13	158,921	65,882
Cash at end of period	11.13	84,366	72,063

Racibórz, May 25th 2018

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(PLN '000)

Interim condensed statement of changes in equity

for the three months ended March 31st 2018

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total equity*
As at Jan 1 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(71,222)**	**426,074**
Adjustment of opening balance	–	–	–	–	(31,768)	(31,768)
As at Jan 1 2018 *(restated)*	**254,864**	**173,708**	**69,061**	**(337)**	**(102,990)**	**394,306**
Profit from continuing operations	–	–	–	–	2,399	2,399
Other comprehensive income	–	–	–	(65)	(182)	(247)
As at Mar 31 2018 *(unaudited)*	**254,864**	**173,708**	**69,061**	**(402)**	**(100,773)**	**396,458**
As at January 1st 2017	**169,864**	**95,340**	**131,301**	**(69)**	**(67,676)**	**328,760**
Adjustment of opening balance	–	–	–	–	(11,903)	(11,903)
As at Jan 1 2017 *(restated)*	**169,864**	**95,340**	**131,301**	**(69)**	**(79,579)**	**316,857**
Profit from continuing operations	–	–	–	–	(9,126)	(9,126)
Other comprehensive income	–	–	–	(98)	143	45
As at Mar 31 2017 *(unaudited, restated)*	**169,864**	**95,340**	**131,301**	**(167)**	**(88,205)**	**307,776**

Racibórz, May 25th 2018

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ADDITIONAL EXPLANATORY NOTES

1. General information

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

The Company was established for an indefinite term.

These interim condensed financial statements of the Company cover the three months ended March 31st 2018 and contain comparative data for the three months ended March 31st 2017 and as at December 31st 2017. The statement of comprehensive income and notes to the statement of comprehensive income contain data for the three months ended March 31st 2018 and the comparative data for the three months ended March 31st 2017 and have not been audited or reviewed by an auditor.

The Company's principal business activity includes:

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

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

These interim condensed financial statements for the three months ended March 31st 2018 were authorised for issue by the Company's Management Board on May 25th 2018.

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

The Company has also prepared interim condensed consolidated financial statements for the three months ended March 31st 2018, which were authorised for issue by the Company's Management Board on May 25th 2018.

2. Basis of preparation of the interim condensed financial statements

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, endorsed by the European Union ("IAS 34").

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

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

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

These interim condensed financial statements of the Company have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the reporting date, i.e. March 31st 2018.

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

When analysing the Company's financial position the following should be taken into consideration: in the three months ended March 31st 2018 the Company recognised revenue of PLN 152m and a net profit of PLN 2m, and as at March 31st 2018 the Company's net current assets were PLN 186m (including cash of PLN 84m). A year-on-year increase in revenue in the first three months of 2018 was primarily a consequence of further progress in the performance of major contracts secured in the second half of 2016 (the EUR 150m contract to construct a biomass-fired co-generation unit and the PLN 289.2m contract to deliver and install an SCR system and upgrade electrostatic precipitators).

In 2018, in line with its new strategy, the Company took steps to expand into new markets, which led to the following developments:

- On February 21st 2018, the Company procured the successful execution of a credit facility agreement between Bank Gospodarstwa Krajowego (BGK) and PT. PLN (PERSERO), secured with 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), thus leading to the satisfaction of one of the two conditions precedent of the contract with PT. PLN (PERSERO) for construction of two steam units in Indonesia;
- On March 20th 2018, the Company was notified that Elering AS had selected the Company's bid for the turnkey construction of the Paldiski and Puiatu gas compressor stations in Estonia. The value of Company's bid is EUR 50m. On March 29th 2018, the Company signed a contract for the design, delivery and assembly of an LNG tank in Finland. The contract value is EUR 13.4m.
- On April 27th 2018, the Company was notified that the Company's bid was selected as the best bid in the tender procedure for construction work to be carried out as part of the project to build the Goleniów-Płoty section of the DN 700 Szczecin-Gdańsk gas pipeline. The total value of the Company's bid is close to PLN 124.9m.

In addition, on April 27th 2018, the Company and HSBC Bank Polska S.A. entered into a bank guarantee facility agreement whereby the Company may request guarantees for the financing of contracts performed by the parent up to a guarantee limit of EUR 20.5m.

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

An important part of the analysis of the Company's financial condition is a forecast of profit or loss and cash flows for the 12 months following March 31st 2018 (and for subsequent periods), prepared by the Management Board. The key assumptions of the forecast are as follows:

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

In view of the year-on-year increase in revenue, net profit recorded in the three months ended March 31st 2018, the structure of the Company's net current assets, the available cash balance, the current order book, and cash-flow projections for the coming 12 months, as at the date of these financial statements the Management Board did not identify any material threats to the Company's ability to continue as a going concern in the foreseeable future. Accordingly, these financial statements of RAFAKO S.A. have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future.

3. Significant accounting policies

As in 2018 the Company made changes to the applied accounting policies as well as presentation adjustments, it restated the comparative data for the year ended December 31st 2017, as well as at March 31st 2017 and January 1st 2017 in accordance with the updated accounting policies as described below.

3.1. Changes to accounting policies applicable to recognition of provisions for warranty repairs

The Company recognised provisions for warranty repairs based on estimates of expected and measurable costs of oversight, repairs and warranty works related to contractual commitments of the Company arising from completed construction contracts. During the implementation of IFRS 15, the Company reviewed its practices in this respect and concluded that to more accurately reflect the actual financial result on a contract and the Company's equity, provisions should be recognised over time in accordance with the percentage-of-completion method, and not on completion of the contract.

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

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

a) Sales of goods

Contracts with customers provide for the design, manufacture, delivery, construction, installation, commissioning and maintenance of power generation facilities and equipment. If the contract provides for only one performance obligation (sale of goods), revenue is recognised when the customer obtains control of the goods.

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

i. Variable consideration

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

- Right of return

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

- Price adjustments

  The Company performs contracts containing inflation price adjustment clauses.

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

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

- Liquidated damages

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

ii. Warranties

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

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

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

Under IFRS 15, the transaction price of each performance obligations allocated on the basis of the relative stand-alone selling price. 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 has changed. The Company believes that the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs. Consequently, the Company transfers control of a good or service and satisfies a performance obligation over time. Considering the above, the Company continues to recognise revenue from the sale of services over time, in accordance with IFRS 15.

The Company recognises revenue in accordance with the percentage-of-completion method, with a corresponding entry in assets arising from construction contract work with related accruals and deferrals. In accordance with IFRS 15, if an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity must present the contract as a contract asset, excluding any amounts presented as a receivable.

c) Advance payments received from customers

The Company presents advance payments received from customers as amounts due to customers for construction contract work.

In accordance with IFRS 15, the Company assesses whether a contract includes a significant financing component. The Company 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. The Company does not include a significant financing component for short-term advance payments.

d) Other adjustments

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

Following the application of IFRS 15 as of January 1st 2018, the Company's retained earnings as at January 1st 2018 decreased by PLN 4.9m.

3.3. IFRS 9

The Company adopted IFRS 9 from its effective date, i.e. January 1st 2018, without restating comparative data.

The Company did not observe any material impact of IFRS 9 on its statement of financial position or equity, except the standard's effect on impairment. The Company recognised additional impairment losses with an adverse effect on equity. The classification of some financial instruments also changed as a result of application of IFRS 9.

a) Classification and measurement

The Company did not observe any material impact on its statement of financial position or equity as result of the application of IFRS 9 with respect to the classification and measurement of financial assets. All financial assets previously measured at fair value continue to be measured at fair value.

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

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

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

b) Impairment

The Company measures the impairment loss on expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses over the life of the financial instrument. In the case of trade receivables, the Company applies a simplified approach and measures the impairment loss on expected credit losses in the amount equal to expected credit losses over the full lifetime of the instrument.

c) Hedge accounting

As IFRS 9 does not change the general principles governing the Company's hedge accounting, the application of IFRS 9 does 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.

Following the application of IFRS 9 as of January 1st 2018, the Company's retained earnings as at January 1st 2018 decreased by PLN 16.9m.

(PLN '000)

3.4. Effect of changes on financial data in the Company's statement of financial position

The comparative data in the statement of financial position as at January 1st 2018 the presentation of which has changed compared with their presentation in the financial statements for 2017 have been adjusted as follows:

	Long-term bonds	*Deferred tax assets*	*Inventories*	*Current trade receivables*	*Other current receivables*	*Prepayments relating to accounting for contracts*	*Short-term bonds*	*Retained earnings / Accumulated losses*	*Other liabilities*	*Amounts due to customers for contract work*	*Provisions for contract work*
Before adjustment	**24,769**	**31,141**	**12,057**	**192,117**	**111,435**	**158,785**	**5,201**	**(71,222)**	**90,855**	**33,834**	**23,913**
IFRS 15	–	761	532	–	–	(2,425)	–	(4,940)	10,696	(5,291)	(1,597)
IFRS 9 (impairment on expected credit losses)	(4,696)	3,957	–	(2,779)	(9,402)	(1,346)	(986)	(16,869)	1,617	–	–
Provisions for warranty repairs	–	2,336	–	–	–	–	–	(9,959)	12,295	–	–
Adjusted	**20,073**	**38,195**	**12,589**	**189,338**	**102,033**	**155,014**	**4,215**	**(102,990)**	**115,463**	**28,543**	**22,316**

(PLN '000)

Had IAS 18 and IAS 11 been applied to recognise revenue in the first three months of 2018, the items reported in these financial statements would increase or decrease as follows:

Assets	
Deferred tax assets	(727)
Inventories	(527)
Assets and prepayments relating to accounting for contracts	3,350
Equity and liabilities	
Retained earnings / Accumulated losses, including:	3,311
profit/(loss) brought forward	4,940
net profit/(loss)	(1,629)
Trade and other payables	(13,904)
Amounts due to customers for contract work	13,611
Provisions for contract work	(922)
Statement of comprehensive income	
Revenue	(7,391)
Cost of sales	5,727
Profit/(loss) before tax	(1,664)
Income tax expense	34
Net profit/(loss)	(1,629)
Earnings/(loss) per share from continuing operations	(0.01)

3.5. Implementation of IFRS 16

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

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

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

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

The Company is a lessee with respect to lease agreements concerning office space, vehicles, and equipment.

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.

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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 Company has not elected to early adopt IFRS 16.

3.6. Change of presentation of income and expenses related to impairment losses on trade receivables in the statement of comprehensive income

The Company has changed the presentation of impairment losses on trade receivables. Impairment losses on trade receivables, previously recognised under distribution costs, are now presented under other income or other expenses. The Company believes that the change will improve the clarity of data and help market participants analyse it.

The comparative data in the statement of comprehensive income for the three months ended March 31st 2018 the presentation of which has changed compared with their presentation in the interim condensed financial statements for the three months ended March 31st 2017 have been adjusted as follows:

	Distribution costs	*Other income*
Before adjustment	**(7,524)**	**1,540**
change in the presentation of impairment losses on trade receivables	(209)	209
Adjusted	**(7,733)**	**1,749**

4. Material judgements and estimates

4.1. Professional judgement

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

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

Classification of leases where the Company is the lessee

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

Embedded derivatives

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

Consortium agreements

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

4.2. Uncertainty of estimates

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

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

Impairment of assets

At the end of a reporting period, the Company conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the recoverable amount of the cash-generating unit to which these assets belong. The recoverable amount is equal to the higher of two – value in use or fair value less costs to sell. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Company made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the three months ended March 31st 2018 there were no indications of impairment.

For further information on asset impairment as at the end of the reporting period, see Notes 11.10, 11.14, and 11.15 to these interim condensed financial statements.

Measurement of employee benefit obligations

Employee benefit obligations were estimated with actuarial methods. The underlying assumptions are presented in Note 11.23. The change in employee benefit obligations in the reporting period resulted from the recognition of current service costs, interest expense and benefits paid.

Deferred tax asset

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

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Company relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 13

Depreciation and amortisation rates

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

Revenue recognition

The Company recognises revenue in an amount of the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer.

The Company allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling price.

The Company estimates the variable amount of consideration to which the Company 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.

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 customer obtains control of the product or merchandise;

b) Revenue from the provision of construction services is recognised over time with use of the percentage of completion method; Revenue from construction contracts is recognised and disclosed in line with the policies discussed in Note 8.23.6 to the financial statements for 2017.

Provision for expected contract losses

At the end of each reporting period the Company remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. An expected loss on the contract 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 Note 10 to these interim condensed financial statements.

Provision for costs due to late performance of contracts

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

Provision for warranty repairs

Provisions for warranty repairs are estimated based on probability-weighted costs of current contracts assessed by the Company's Management Board. The provisions are maintained as long as it is probable that a warranty claim or a claim for repair work will arise, until the right to make such claim expires.

Provisions for warranty repairs are charged to contract costs, based on the proportion of direct expenditures already incurred to total estimated direct costs. The costs related to accrued provisions for warranty repairs are accounted for to the extent the contact has been performed to date.

Impairment losses on financial assets

At the end of the reporting period, the Company measures the impairment loss on expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses over the life of the financial instrument. External bank ratings and publicly available information from rating agencies' websites were used for the purpose of credit risk assessment. In the case of trade receivables, the Company applies a simplified approach and measures the impairment loss on expected credit losses in the amount equal to expected credit losses over the full lifetime of the instrument.

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Uncertainty related to tax settlements

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

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

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

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

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

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

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

5. Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	March 31st 2018	*December 31st 2017*	*March 31st 2017*
USD	3.4139	3.4813	3.9455
EUR	4.2085	4.1709	4.2198
GBP	4.7974	4.7001	4.9130
CHF	3.5812	3.5672	3.9461
SEK	0.4097	0.4243	0.4419
TRY	0.8625	0.9235	1.0853

6. Change in estimates

In the three months ended March 31st 2018 and as at March 31st 2018, there were no changes of estimates in significant areas of the Company's operations, as described in Note 4.2.

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7. Changes in Company structure

In the first quarter of 2018, there were no changes in the structure of the Company.

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

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

9. Operating segments

The Company operates in a single market segment of Power and Environmental Protection Facilities.

10. Construction contracts

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

The table below present the effects of accounting for construction contracts, including revenue and costs of running contracts as at March 31st 2018, December 31st 2017 and March 31st 2017, as well as gross amount due to customers for contract work and gross amount due from customers for contract work at the dates stated above.

	December 31st 2017	*Aarch 31st 2017 (unaudited)*
Contract costs incurred to date (cumulative)	3,025,587	2,593,467
Recognised profits less recognised losses to date (cumulative)	114,770	76,130
Contract revenue recognised by reference to the contract stage of completion (cumulative)	3,140,357	2,669,597
Contract revenue recognised based on stage of completion (for the period)	605,745	132,868
Progress billings (cumulative)	3,025,811	2,551,751
Gross amount due to customers for contract work (liability), including:	**(33,834)**	**(69,761)**
- advance payments received (liabilities arising from advances received)	(31,807)	(26,630)
- adjustment to advance payments received arising from amounts due from customers	19,736	24,834
- gross amount due to customers for contract work	(21,763)	(67,965)
Prepayments relating to accounting for construction contracts, including:	**158,785**	**191,921**
- gross amount due from customers for contract work (asset)	140,485	176,697
- contract acquisition cost and other accrued contract costs	18,300	15,224
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(8,069)	(2,562)
Provision for construction contract losses	(15,844)	(13,159)

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The Company performs service contracts, the revenue from which is recognised over time and the valuation of which as at the reporting date is based on the expected profit/(loss) on a contract as estimated by the Management Board:

	March 31st 2018 (unaudited)
Revenue initially agreed in contract	2,731,255
Change in revenue from contract	9,511
Aggregate revenue from contract	**2,740,766**
Contract costs incurred by reporting date	1,146,625
Costs expected to be incurred by contract completion date	1,394,827
Estimated aggregate contract costs	**2,541,452**
Estimated aggregate profit/(loss) on contracts, including:	**199,314**
profit	273,081
loss (-)	(73,767)

Assets (liabilities) arising under contracts are presented in the following table:

	March 31st 2018 (unaudited)
Contract costs incurred by reporting date	1,151,334
Cumulative profit by reporting date (+)	199,475
Cumulative loss by reporting date (+)	(73,767)
Cumulative revenue from contract by reporting date	1,277,042
Amounts invoiced by reporting date (progress billings)	1,128,688
Settlement of contracts (balance) as at the reporting date, including:	**148,355**
Contract assets	155,694
Contract liabilities	7,339

Material changes in assets and liabilities arising under contracts as at March 31st 2018 are attributable to:

- PLN 13,885 thousand increase in contract assets,
- PLN 37,911 thousand increase in prepayments received towards contracts,
- recognition of revenue of PLN 14,675 thousand presented as at the end of 2017 under gross amount due to customers for contract work,
- PLN 7,843 change in estimated costs with a bearing on provisions for contract losses.

10.1. Key contracts executed by the Company

10.1.1. Jaworzno Project

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

Accounting for the Jaworzno project:

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

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

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

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

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

10.1.2. Opole Project

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

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

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

Rules of accounting for the Opole Project:

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

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

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

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

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

In the three months ended March 31st 2018, the Company's revenue was PLN 151,569 thousand, i.e. PLN 17,367 thousand more than in the corresponding period of 2017, primarily on further progress in the performance of 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 289.2m contract to deliver and install an SCR system and upgrade electrostatic precipitators).

Cost of sales in the first three months of 2018 amounted to PLN 125,993 thousand, with gross profit at PLN 25,576 thousand (up by PLN 5,221 thousand on the first three months of 2017).

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

In the current reporting period, distribution costs of PLN 6,886 thousand recognised in the Company's comprehensive income for the three months ended March 31st 2018 comprised chiefly contract acquisition costs of PLN 2,964 thousand (March 31st 2017: PLN 1,270 thousand) and costs of PLN 3,922 thousand incurred by organisational units responsible for bidding for and performing contracts.

The largest components of other income included income of PLN 1,309 thousand from a surety provided to a subsidiary (March 31st 2017: PLN 1,295 thousand) and income from liquidated damages totalling PLN 485 thousand.

Other expenses chiefly included impairment losses on trade receivables of PLN 476 thousand, donations of PLN 130 thousand (March 31st 2017: PLN 629 thousand), recognition of a PLN 102 thousand impairment loss on credit losses, and costs of repairs of property, plant and equipment of PLN 73 thousand.

In the first three months of 2018, the Company's finance income was generated mainly from net foreign exchange gains of PLN 737 thousand, interest on security deposits of PLN 71 thousand (March 31st 2017: PLN 93 thousand), interest on financial instruments of PLN 78 thousand (March 31st 2017: PLN 8 thousand), as well as PLN 259 thousand resulting from a discount on long-term settlements.

Finance costs in the period chiefly included interest on financial instruments of PLN 816 thousand (March 31st 2017: PLN 807 thousand) and interest on employee benefit obligations of PLN 181 thousand (March 31st 2017: PLN 187 thousand).

(PLN '000)

11.2. Income tax

Income tax expense

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

	3 months ended March 31st 2018 (unaudited)	*3 months ended March 31st 2017 (unaudited)*
Statement of profit or loss		
Current income tax	–	136
Current income tax expense	–	–
Adjustments to current income tax from previous years	–	136
Deferred tax	(6,853)	(6,206)
Related to recognition and reversal of temporary differences	(6,853)	(6,206)
Adjustments to deferred tax from previous years	–	–
Income tax expense in the statement of profit or loss	**(6,853)**	**(6,070)**
Other comprehensive income		
Deferred tax on other comprehensive income	43	(34)
Related to recognition and reversal of temporary differences	43	(34)
Income tax expense recognised in other comprehensive income	**43**	**(34)**

(PLN '000)

Deferred income tax calculated as at March 31st 2018

Deferred income tax calculated as at March 31st 2018 relates to the following:

	Statement of financial position		*Statement of comprehensive income for three months ended*	
	March 31st 2018 (unaudited)	*December 31st 2017 (restated)*	*March 31st 2018 (unaudited)*	*March 31st 2017 (unaudited)*
- investment reliefs	(2)	(2)	–	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,342)	(15,742)	400	(77)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	2,569	2,637	(68)	256
- difference between tax base and carrying amount of loans and receivables	3,945	3,784	161	(104)
- difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts	(30,723)	(27,034)	(3,689)	(5,347)
- difference between tax base and carrying amount of inventories	2,054	2,110	(56)	(155)
- provisions	13,943	16,418	(2,475)	(2,064)
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	6	28	(22)	(11)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	32,850	33,552	(702)	1,789
- tax loss	17,418	17,418	–	–
- adjustment to costs of unpaid invoices	4,365	4,465	(100)	(759)
- other	302	561	(259)	232
Deferred tax expense/benefit			**(6,810)**	**(6,240)**
Net deferred tax asset/liability, including:	**31,385**	**38,195**		
Deferred tax assets	31,385	38,195		
Deferred tax liability	–	–		

As at March 31st 2018, the Company recognised a deferred tax asset on a tax loss of PLN 91,673 thousand, which will be offset against profits in future reporting periods.

In the three months of 2018, the Company recorded a tax loss of PLN 25,046 thousand. The Company assessed its ability to realise a deferred tax asset on account of a tax loss based on tax forecasts. In line with the prudent valuation principle, the Management Board decided not to recognise a deferred tax asset on the tax loss recorded in the three months ended March 31st 2018. The total amount of tax loss for 2015, 2016, 2017 and 2018 which was not recognised in deferred tax is PLN 176,171 thousand.

11.3. Significant items of the statement of cash flows

The PLN 23,781 thousand decrease in receivables disclosed in the statement of cash flows for the three months ended March 31st 2018 resulted mainly from:

- PLN 66,327 thousand decrease in trade receivables,
- PLN (6,280) thousand increase in receivables from the state budget (including VAT),
- PLN (52,243) thousand increase in prepayments made,
- PLN 17,538 thousand decrease in security deposits receivable,
- PLN (1,441) thousand increase in receivables under sureties,
- PLN 275 thousand decrease in Company Social Benefits Fund receivables,
- PLN (395) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the three months ended March 31st 2018, see Note 11.14.

The PLN 117,310 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (79,956) thousand decrease in trade payables,
- PLN (4,560) thousand decrease in the provision for warranty repairs,
- PLN 1,665 thousand increase in the provision for holiday entitlements,
- PLN (33,761) thousand decrease in VAT liabilities,
- PLN (105) thousand decrease in retirement benefit obligations (net of actuarial gains/(losses)),
- PLN (593) thousand decrease in other liabilities.

The PLN (1,521) thousand change in accruals and deferrals relating to accounting for construction contracts as disclosed in the statement of cash flows was mainly caused by:

- decrease in gross amount due from customers for contract work and the related accruals and deferrals of PLN (13,885) thousand,
- PLN 23,553 thousand increase in provisions for contract work,
- PLN (11,189) thousand decrease in gross amount due to customers for construction contract work, including:
  PLN 37,911 thousand increase in advance payments,

The cash flows of PLN 392 thousand relating to acquisition of property, plant and equipment and intangible assets resulted from purchase of property, plant and equipment for PLN 326 thousand and of intangible assets for PLN 66 thousand.

Cash flows from financing activities were mainly affected by a PLN 12,604 thousand increase in debt outstanding under the overdraft facility and working capital facility advanced by PKO BP S.A.

(PLN '000)

11.4. Property, plant and equipment

For the three months ended March 31st 2018 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 2018	**9,232**	**79,329**	**46,303**	**5,495**	**5**	**140,364**
Acquisitions	–	–	–	–	533	533
Liquidation/sale	–	(5)	(22)	(6)	–	(33)
Transfers from property, plant and equipment under construction	–	–	188	–	(188)	–
Depreciation for period	–	(657)	(1,282)	(321)	–	(2,260)
Impairment loss for period	–	–	–	(6)	–	(6)
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	18	–	–	18
Net carrying amount as at March 31st 2018 (unaudited)	**9,232**	**78,667**	**45,205**	**5,162**	**350**	**138,616**

*tangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.16.1.

March 31st 2018 *(unaudited)*	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2017	**9,280**	**81,093**	**49,383**	**6,987**	**1,225**	**147,968**
Acquisitions	–	–	–	–	1,161	1,161
Lease agreements	–	–	–	110	–	110
Liquidation/sale			(1)		–	(1)
Transfers from property, plant and equipment under construction	–	254	659		(913)	–
Exchange differences on translating foreign operations	–	–	(1)	–	–	(1)
Depreciation for period	–	(647)	(1,360)	(360)	–	(2,367)
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	1	(5)	–	(4)
Net carrying amount as at Mar 31 2017 *(unaudited)*	**9,280**	**80,700**	**48,681**	**6,732**	**1,473**	**146,866**

(PLN '000)

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

	3 months ended March 31st 2018 (unaudited)	*3 months ended March 31st 2017 (unaudited)*
Purchase of property, plant and equipment and intangible assets*	598	1,270
Proceeds from sale of property, plant and equipment	50	2

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

The Company's capital expenditure on property, plant and equipment comprised chiefly expenditure on construction infrastructure, purchase and modernisation of production plant and equipment and purchase of computer hardware. The expenditure was financed with internally generated funds and finance leases.

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

	March 31st 2018 (unaudited)	*December 31st 2017*
Trade receivables, including:	7,814	5,294
Trade receivables from related entities	–	–
Trade receivables from other entities	7,814	5,294
Other receivables and prepayments, including:	1,851	1,784
Receivables on sale of property, plant and equipment and intangible assets	1,706	1,689
Security deposits	145	95
Total receivables (net)	**9,665**	**7,078**
Impairment loss on receivables	–	–
Gross receivables	**9,665**	**7,078**

11.7. Shares in subsidiaries and other entities

	March 31st 2018 (unaudited)	*December 31st 2017*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	35,091	35,091
Shares in other listed companies	178	223
Shares in other non-listed companies	1,227	19
	36,496	**35,333**

*Shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.16.3

(PLN '000)

11.8. Long-term bonds

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

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

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

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

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

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

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

3. PBG S.A. agreed to arrange for the Bonds to be converted into book-entry form and listed on the WSE ATS Market or Bondspot ATS Market within three months of their issue. By a decision of the Warsaw Stock Exchange Management Board dated March 9th 2017, the first listing of Series B, C, D, E, F, G, H and I bearer bonds of PGB S.A. in the Catalyst alternative trading system took place on March 10th 2017.

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

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

According to information obtained by the Company from PBG S.A., the bonds outstanding as at March 31st 2018 (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 March 31st 2018), shares in PBG Oil and Gas Sp. z o.o. (100%), and a registered pledge over receivables from a property development project in Ukraine. In the opinion of the Management Board, the provided collateral and the total amount payable under the bonds as at the date of these financial statements are sufficient to consider the receivables as recoverable.

(PLN '000)

Following the entry into force of IFRS 9 and in accordance with its requirements, as at January 1st 2018 the Company recognised a PLN 5,682 thousand impairment loss on the bonds. The effect of the new standard on the statement of financial position is presented in Note 3 and Note 11.15.

The total net value of the bonds as at March 31st 2018 was PLN 24,688 thousand.

11.9. Other non-current financial assets

	March 31st 2018 (unaudited)	*December 31st 2017*
Other non-current financial assets, including:	17,686	16,245
Receivables under sureties provided to related entities	17,686	16,245
	17,686	**16,245**

11.10. Inventories

	March 31st 2018 (unaudited)	*December 31st 2017 (restated)*
Materials (at net realisable value)	14,877	12,589
At cost	25,689	23,694
At net realisable value	14,877	12,589
Total inventories, at the lower of cost and net realisable value	**14,877**	**12,589**

*Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.16.4

Inventory write-downs

	3 months ended March 31st 2018 (unaudited)	*3 months ended March 31st 2017 (unaudited)*
At beginning of period	(11,105)	(11,978)
- write-down recognised	–	(796)
- write-down reversed	–	–
- write-down used	293	1,669
At end of period	**(10,812)**	**(11,105)**

11.11. Short-term bonds

As at March 31st 2018, the Company held PLN 4,350 thousand worth of bonds with maturity of less than one year (December 31st 2017: PLN 4,215 thousand), as described in detail in Note 11.8 to these interim condensed financial statements.

(PLN '000)

11.12. Other current financial assets

	March 31st 2018 (unaudited)	*December 31st 2017*
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)
	–	–

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

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

11.13. Cash and cash equivalents

	March 31st 2018 (unaudited)	*December 31st 2017*	*March 31st 2017 (unaudited)*
Cash at bank and in hand	83,921	158,567	27,558
Short-term deposits for up to 3 months	445	354	44,670
	84,366	**158,921**	**72,228**

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

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

(PLN '000)

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

	March 31st 2018 (unaudited)	*December 31st 2017 (restated)*
Trade receivables, including:	120,491	189,338
Trade receivables from related entities	938	517
Trade receivables from other entities	119,553	188,821
Income tax receivable	–	–
Other receivables and prepayments, including:	142,991	102,033
Advance payments to related parties	28,446	11,978
Advance payments to other entities	42,213	6,438
Receivables from the state budget	13,833	7,553
Settlement of property insurance costs	265	351
Settlements with the Company Social Benefits Fund	–	275
Disputed receivables*	11,063	11,063
Prepaid expenses	2,402	2,022
Receivables on sale of property, plant and equipment and intangible assets	112	192
Security deposits	44,378	61,916
Other	279	245
Total receivables (net)	**263,482**	**291,371**
Impairment loss on receivables	45,816	45,336
Gross receivables	**309,298**	**336,707**

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

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

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

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

Short-term trade receivables of PLN 120,491 thousand recognised in the statement of financial position as at March 31st 2018 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 44,378 thousand disclosed in the statement of financial position as at March 31st 2018 relate mainly to the following projects:

- construction of a coal-fired steam unit – PLN 10,521 thousand,
- installation of a SCR system – PLN 8,603 thousand,
- manufacture of pressure parts of a boiler – PLN 5,652 thousand.

The change in security deposits in the first three months of 2018 was primarily attributable to a PLN 18,452 thousand cash security deposit returned in connection with the construction of a coal-fired steam unit.

A significant item of other receivables were advance payments, which amounted to PLN 70,659 thousand as at March 31st 2018 and included:

- advance payment of PLN 14,433 thousand under a contract for a biomass heating system;
- advance payment of PLN 13,398 thousand under a contract for the construction of fuel storage tanks.

(PLN ’000)

11.15. Impairment of assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Prepayments relating to accounting for contracts*	*Receivables****
January 1st 2018	**(4,973)**	**(10,500)**	**(5,676)**	**(11,105)**	**–**	**(33,155)**
Adjustment of opening balance	–	(5,682)	–	–	(1,346)	(12,181)
January 1st 2018 *(restated)*	**(4,973)**	**(16,182)**	**(5,676)**	**(11,105)**	**(1,346)**	**(45,336)**
Recognised	(45)	–	–	–	(102)	(546)
Used	–	–	–	293	–	–
Reversed	–	–	–	–	–	66
March 31st 2018 *(unaudited)*	**(5,018)**	**(16,182)**	**(5,676)**	**(10,812)**	**(1,448)**	**(45,816)**
January 1st 2017	**(24,363)**	**(10,500)**	**(5,676)**	**(11,978)**	**–**	**(31,834)**
Recognised	–	–	–	–	–	(8)
Used	40	–	–	812	–	327
Reversed						
March 31st 2018 *(unaudited)*	**(24,323)**	**(10,500)**	**(5,676)**	**(11,166)**	**–**	**(31,515)**

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

(PLN '000)

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

11.16.1. Property, plant and equipment pledged as security

As at March 31st 2018, property, plant and equipment pledged as security for the Company's liabilities amounted to PLN 133,425 thousand. The property, plant and equipment are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

	March 31st 2018 (unaudited)	*December 31st 2017*
Mortgaged property, plant and equipment, including:	87,714	88,384
land	9,210	9,208
buildings and structures	78,504	79,176
Property, plant and equipment encumbered with registered pledge, including:	45,711	47,035
plant and equipment	44,708	45,983
motor vehicles	1,003	1,052
	133,425*	**135,419***

*The disclosed amounts include property, plant and equipment of PLN 90 thousand classified as held for sale (December 31st 2017: PLN 108 thousand).

11.16.2. Intangible items pledged as security

As at March 31st 2018, intangible assets worth PLN 10,190 thousand were pledged as security for the Company's liabilities (December 31st 2017: PLN 9,815 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.16.3. Shares pledged as security

As at March 31st 2018, PLN 36,496 thousand (December 31st 2017: PLN 35,333 thousand) worth of shares in companies were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over the shares held in E003B7 Sp. z o.o.).

11.16.4. Inventories pledged as security

As at March 31st 2018, inventories worth PLN 14,877 thousand were pledged as security for the Company's liabilities (December 31st 2017: PLN 12,589 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.16.5. Trade receivables pledged as security

As at March 31st 2018, trade receivables of PLN 9,773 thousand were pledged as security for guarantees and borrowings received by the Group (December 31st 2017: PLN 96,482 thousand).

11.17. Share capital

In the three months ended March 31st 2018, RAFAKO S.A.'s share capital remained unchanged and as at March 31st 2018 amounted to PLN 254,864 thousand.

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

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

11.18. Par value per share

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

11.19. Shareholders' rights

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

11.20. Share premium

In the three months ended March 31st 2018, there were no changes in the share premium, and as at March 31st 2018 the share premium was PLN 173,708 thousand.

11.21. Dividends paid

In the three months ended March 31st 2018, the Company did not pay dividend and the Management Board did not declare dividend.

11.22. Earnings /(loss) per share

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

(PLN '000)

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

	3 months ended March 31st 2018 (unaudited)	*3 months ended March 31st 2017 (unaudited)*
Net profit/(loss) from continuing operations	2,399	(8,769)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	2,399	(8,769)
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	2,399	(8,769)
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	84,931,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares applied to calculate diluted earnings/(loss) per share	**127,431,998**	**84,931,998**
Earnings/(loss) per share		
– basic/diluted earnings/(loss) from profit/(loss) for period	0.02	(0.10)

The Company does not present diluted earnings per share for the three months ended March 31st 2018 as it did not issue any dilutive financial instruments.

11.23. Post-employment and other benefits

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

	March 31st 2018 (unaudited)	*December 31st 2017*
As at January 1st	23,185	23,767
Interest expense	181	770
Current service costs	114	450
Actuarial (gains)/losses	225	(324)
Benefits paid	(400)	(2,538)
Recognition/reversal of provision for employee benefit obligations	–	1,060
Closing balance	**23,305**	**23,185**
Long-term provisions	20,583	20,448
Short-term provisions	2,722	2,737

(PLN '000)

The main assumptions adopted by the actuary as at March 31st 2018 and for the three months ended March 31st 2018 as well as for the 12 months ended December 31st 2017 to determine the amount of the obligation were as follows:

	March 31st 2018 (unaudited)	*December 31st 2017*
Discount rate (%)	3.2	3.2
Expected inflation rate (%)*	–	–
Employee turnover rate	7	7
Expected growth of salaries and wages (%)**	2	2

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

11.24. Long-term trade and other payables

	March 31st 2018 (unaudited)	*December 31st 2017 (restated)*
Trade payables		
Payables to related entities	33	24
Payables to other entities	14,294	14,649
	14,327	**14,673**
Financial liabilities		
Finance lease liabilities	892	1,046
	892	**1,046**
Other liabilities		
Provisions for warranty repairs	17,473	4,272
Amounts payable under voluntary redundancy programme	–	153
Unpaid bonus accrual	422	496
	17,895	**4,921**

(PLN '000)

11.25. Short-term provisions, trade and other payables

	March 31st 2018 (unaudited)	*December 31st 2017 (restated)*
Trade payables		
Payables to related entities	9,067	11,162
Payables to other entities	96,821	174,336
	105,888	**185,498**
Other financial liabilities		
Measurement of derivative instruments		
Finance lease liabilities	1,596	1,696
	1,596	**1,696**
Capital commitments	427	399
	427	**399**

	March 31st 2018 (unaudited)	*December 31st 2017 (restated)*
Other liabilities		
VAT	–	33,761
Personal income tax	1,754	1,914
Social security	6,778	6,565
Other taxes, customs duties and insurance payable	6	7
Salaries and wages payable	6,335	6,223
Accrued holiday entitlements	5,539	3,874
Unpaid bonus accrual	544	622
Provisions for warranty repairs	7,751	25,512
Accrual for costs of uninvoiced materials and services	20,185	20,261
Accrual for audit fees	147	75
Provision for credit losses on sureties	1,618	1,618
Provisions for other liabilities and disputed claims	3,983	3,936
Amounts payable under voluntary redundancy programme	1,255	1,443
Other amounts payable to employees	107	143
Restructuring provision	7,886	8,368
Security deposits	387	397
Other	965	744
	65,240	**115,463**

12. Objectives and policies of financial risk management

The objectives and policies of financial risk management have not changed relative to those published in the most recent full-year financial statements for 2017.

13. Financial instruments

The following tables show the carrying amounts of various classes and categories of financial instruments as at March 31st 2018 and December 31st 2017.

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

(PLN '000)

Classes and categories of financial assets	*Carrying amount March 31st 2018*	*Carrying amount December 31st 2017*
Assets at fair value through profit or loss	**178**	**479**
Derivative instruments	–	479
Long-term shareholdings	178	223
Assets measured at amortised cost	**226,520**	**308,540**
Long-term bonds	20,338	20,073
Short-term bonds	4,350	4,215
Trade receivables	128,305	194,632
Other receivables*	55,441	72,979
Loans advanced	400	396
Other non-current financial assets	17,686	16,245
Other current financial assets	–	–
Cash and cash equivalents	**84,366**	**158,921**
	311,064	**467,940**

* For a detailed description of changes, see Note 11.6

(PLN '000)

Classes and categories of financial liabilities	*Carrying amount March 31st 2018*	*Carrying amount December 31st 2017*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**231,948**	**299,138**
Borrowings	111,306	98,568
Trade payables (including capital commitments)	120,642	200,570
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**2,488**	**2,742**
Liabilities under leases and rental contracts with purchase option	2,488	2,742
	234,436	**301,880**

14. Derivative instruments

As at March 31st 2018, the Company did not carry any open currency forward contracts.

As at March 31st 2018, the Company did not carry any other derivative instruments.

The Company does not apply hedge accounting, but the transactions it concludes are not speculative and their purpose is to effectively hedge foreign currency purchase/sale contracts.

(PLN '000)

15. Borrowings

As at March 31st 2018, the Company's liabilities under borrowings were PLN 111,306 thousand.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						March 31st 2018	*December 31st 2017*
Short-term borrowings:							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	current account overdraft facility of up to PLN 70m***	PLN	1M WIBOR + margin	30.06.2018****	69,655	55,137
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****	41,651	43,419
						111,306	**98,556**
Short-term non-bank borrowings:							
PGL - DOM Sp. z o.o.*****	blank promissory note with a promissory note declaration	cash loan agreement for financing of day-to-day operations	PLN	1M WIBOR + margin	Dec 31 2017******	–	12
						–	**12**

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

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

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

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

***** A subsidiary.

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

(PLN ’000)

16. Capital management

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

	March 31st 2018 (unaudited)	*December 31st 2017*
Total	396,458	426,074
Borrowed funds (bank and non-bank borrowings)	111,306	55,149
Total equity and liabilities	800,871	904,942
Capitalisation ratio	**0.50**	**0.47**

17. Provisions for costs

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

During the three months ended March 31st 2018, the Company reviewed the amounts of recognised provisions for delay damages (including delays in meeting contractual obligations and the terms of assessing damages) under current contracts.

During the three months ended March 31st 2018, the Company utilised a provision of PLN 3,404 thousand for costs of late performance.

(PLN '000)

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

	*Provision for expected contract losses **	*Provision for jubilee benefits , retirement gratuity and Company Social Benefits Fund*	*Provision for holiday entitlements***	*Provisions for warranty repairs***	*Provision for contractual penalties*	*Employee benefit obligations***	*Provision for credit losses on sureties*	*Provision for voluntary redundancy programme*	*Restructuring provision*	*Provision for other costs***	*Other provisions*
January 1st 2018	**15,843**	**23,185**	**3,874**	**17,489**	**8,069**	**1,118**	**–**	**1,596**	**8,368**	**3,936**	**75**
adjustment of opening balance	(3,292)	–	–	12,295	1,696	–	1,618	–	–	–	–
January 1st 2018 *(restated)*	**12,551**	**23,185**	**3,874**	**29,784**	**9,765**	**1,118**	**1,618**	**1,596**	**8,368**	**3,936**	**75**
Provision recognised	870	520	1,665	4,121	57	69	–	–	–	88	72
Reversal of provision	(8,712)	–	–	–	–	(202)	–	(4)	–	3	–
Utilised	–	(400)	–	(8,681)	(3,404)	(19)	–	(337)	(482)	(44)	–
March 31st 2018 *(unaudited)*	**4,709**	**23,305**	**5,539**	**25,224**	**6,418**	**966**	**1,618**	**1,255**	**7,886**	**3,983**	**147**
January 1st 2017	**19,239**	**23,767**	**3,553**	**19,653**	**4,856**	**7,296**	**–**	**7,094**	**–**	**6,502**	**56**
Provision recognised	–	720	884	1,605	10	–	–	–	–	30	72
Reversal of provision	–	–	–	–	(2,304)	–	–	–	–	(3,641)	–
Utilised	(6,080)	–	–	(2,637)	–	(226)	–	(3,383)	–	–	(56)
March 31st 2018 *(unaudited)*	**13,159**	**24,487**	**4,437**	**18,621**	**2,562**	**7,070**	**–**	**3,711**	**–**	**2,891**	**72**

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

(PLN '000)

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

In the three months ended March 31st 2018, the Company did not issue, redeem or repay any debt or equity securities.

19. Dividends paid or declared

In the three months ended March 31st 2018, the Company did not pay dividend and the Management Board did not declare dividend.

20. Capital commitments

As at March 31st 2018, the Company had commitments related to purchase of property, plant and equipment of PLN 427 thousand. As at March 31st 2018, the Company had not signed agreements envisaging any capital expenditure to be made in 2017 and not disclosed in the accounting books at the end of the reporting period.

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

	March 31st 2018 (unaudited)	*December 31st 2017*
Off-balance-sheet items under financial guarantees received mainly as security for performance of contracts, including:	191,965	182,715
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	19,537	18,823
- from related entities	12,073	11,286
Letters of credit		46
	211,502	**201,584**

	March 31st 2018 (unaudited)	*December 31st 2017*
Off-balance sheet items under financial guarantees issued mainly as security for performance of contracts, including:	292,002	320,431
- to related entities	–	–
Liabilities under sureties, including:	1,294,375	1,294,375
- to related entities	1,294,375	1,294,375
Promissory notes issued as security, including:	15,076	15,076
- to related entities	–	–
Letters of credit	–	–
	1,601,453	**1,629,882**

In the first three months of 2018, RAFAKO S.A.'s contingent liabilities fell by PLN 28,429 thousand, mainly due to a decrease in guarantees. In the first three months of 2018, 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 11,513 thousand and bid bonds of PLN 4,840 thousand. In this category of liabilities, the largest item was a performance bond of PLN 3,880 thousand, issued in March 2018. As at the end of March 2017, liabilities under sureties issued were PLN 1,294,375 thousand. In this category of liabilities, the largest item was the sureties covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to develop new coal-fired generation capacities at TAURON Wytwarzanie S.A. – construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II. The largest item among guarantees which expired in the first three months of 2018 was a USD 2m bid bond.

In the first three months of 2018, the Company's contingent receivables rose by PLN 9,918 thousand (mainly performance bonds), including an increase of PLN 9,250 thousand in receivables under bank and insurance guarantees, an increase of PLN 714 thousand in receivables under promissory notes, and a PLN 46 thousand decrease in receivables under letters of credit opened for the Company. The largest item among the guarantees received in the first three months of 2018 was a EUR 1,123 thousand performance bond. The largest item among the guarantees which expired in the first three months of 2018 was a EUR 391 thousand advance payment guarantee.

22. Litigation and disputes

As at the date of these interim condensed financial statements, the Company was involved in litigation both as a defendant and a plaintiff.

22.1. Court proceedings against Mostostal Warszawa S.A.

On October 11th 2016, the Company filed a claim against Mostostal Warszawa S.A. with the Regional Court of Gliwice, demanding payment of PLN 8,042,475 plus statutory interest accrued from August 3rd 2016 as a refund of 70% of the amounts retained by Mostostal as a performance bond. The grounds for the claim were that the parties terminated their cooperation under the subcontractor agreement for design, delivery and erection of a grid, boiler and flue gas treatment system for two lines of the Thermal Waste Treatment Plant in Szczecin, concluded on December 18th 2012 (eventually, on July 7th 2016, RAFAKO submitted a notice of termination of the subcontractor agreement due to Mostostal Warszawa S.A.'s fault). As cooperation on the project had been discontinued, Mostostal Warszawa S.A. was obliged to refund the amounts retained as a performance bond, because the contractual basis for providing a performance bond had ceased to exist. On October 19th 2016, the Regional Court of Gliwice issued a payment order for the full amount claimed by RAFAKO S.A. On November 25th 2016, the Court received an objection against the payment order, lodged by Mostostal Warszawa S.A. On June 30th 2017, the Regional Court of Gliwice awarded the entire sum demanded by the Company. On August 28th 2017, Mostostal Warszawa S.A. filed an appeal against the ruling of the court of first instance. At the present moment, after RAFAKO S.A. submitted a response to the appeal on October 5th 2017, the parties are waiting for the court to schedule a hearing. As at December 31st 2017, the Company presented the contested contingent receivable, of PLN 8m, under 'Other receivables and prepayments'. In the opinion of the law firm which represents the Company in these proceedings, Mostostal Warszawa S.A. is obligated to return the amounts retained as a performance bond. In view of the current status of the court proceedings and the ruling issued in the first instance, which is favourable to the Company, as well as the position presented by the law firm representing the Company, in the opinion of the Company's Management Board, as at the date of these financial statements, the risk of non-recovery of the receivables is marginal, therefore no impairment loss was recognised for these contingent receivables.

(PLN '000)

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

On March 20th 2017, the Company filed with the Regional Court of Gliwice a joint and several claim against Mostostal Warszawa S.A. and Zakład 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 the invoice issued for the work performed by the Company and not paid by Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o. under the subcontract concerning the Thermal Waste Treatment Plant in Szczecin. RAFAKO considers the claim to be well-founded and, to support it, the Company carried out a relevant survey of the work performed and delivered the results to the debtors. On March 29th 2017, the court issued a non-final order for payment of the claimed amounts. On April 19th 2017, the defendants lodged with the court objections against the payment order. On July 27th 2017, RAFAKO S.A. filed a pleading which, in addition to the reply to the defendants' objections, extended the claim by PLN 3,021,268, to a total of PLN 16,157,215. So far, one preliminary hearing was held in this case, on October 6th 2017. The defendants submitted to the court a response to the plaintiff's pleading of July 27th 2017, in which the claim was extended. Since the subject matter of the dispute is very complicated, it is difficult to predict its closing date. In the course of the court proceedings, the Company was given the right to inspect the survey of work performed as part of the project, prepared by a court expert at the request of the court investigating the dispute between Mostostal Warszawa S.A. and Zakład Termicznego Unieszkodliwiania Odpadów sp. z o.o. concerning final settlement of contract performance after termination of the contract. The Company compared the results of that survey against its own survey of work and found no significant discrepancies. In the Company's opinion, the defendants may challenge the amount of RAFAKO's claim (determined by the Company based on the surveyed scope of work and the contractual remuneration agreed for specific work), because the claim will be subject to award by the court and may ultimately be dependent on the results of the survey prepared by a court expert. As at March 31st 2018, the Company presented this disputed receivable, net of a prudentially recognised impairment loss, at PLN 11.1m in 'Other receivables and prepayments'. In the opinion of the law firm representing the Company in these proceedings, the claim as such is legitimate (the chances that the case will be resolved in favour of the Company are about 90%), whereas any assessment of the legitimacy of its amount depends on the results of the evidentiary proceedings, in particular the opinion of the court expert. In view of the current status of the court proceedings and the position presented by the law firm representing the Company, in the opinion of the Company's Management Board as at the date of these financial statements the risk of non-recovery of the above receivables in the disclosed net amount is marginal.

23. Company's Management Board and Supervisory Board

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

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

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

In the three months ended March 31st 2018 and by the date of these interim condensed financial statements, no changes took place in the composition of the Company's Supervisory Board.

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

Jerzy Wiśniewski	– Chairman of the Supervisory Board,
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.

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

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

In the reporting and comparable periods, the Company did not enter into any transactions with members of its Management or Supervisory Boards, other than the transactions described in Note 25.

(PLN '000)

25. Related-party transactions

In the first three months of 2018 and 2017, the Company did not enter into any material related-party transactions on non-arm's length terms. Total amounts of related-party transactions in the reporting period:

Related party		*Sales to related parties in three months ended Mar 31 2018/Mar 31 2017*	*Purchases from related parties for the three months ended Mar 31 2018/Mar 31 2017*	*Receivables from related parties as at Mar 31 2018/Dec 31 2017*	*Liabilities to related parties as at Mar 31 2018/Dec 31 2017*
Parent:					
PBG S.A.	2018	206	811	30,454*	419
	2017	206	1,302	30,054*	298
PBG Group companies:					
PBG oil and gas Sp. z o.o. (formerly HBP DROGI Sp. z o.o.)	2018	20	3,074	13,573	3,992
	2017	21	534	10,502	149
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	2018	18	–	15	–
	2017	18	–	8	–
PBG DOM Sp. z o.o.	2018	1	–	2	
	2017	–	–	1	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	2018	62	162	34	129
	2017	–	14	–	3
RAFAKO Engineering Sp. z o. o.	2018	147	3,374	1,713	3,460
	2017	278	1,599	2,107	8,778
RAFAKO Engineering Solution doo.	2018	–	–	–	–
	2017	–	125	–	61
RAFAKO Hungary Sp. z o.o.	2018	–	–	421	–
	2017	–	–	834	–
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	2018	22	721	21	815
	2017	19	2,840	10	1,562
E001RK Sp. z o.o.	2018	–	72	–	30
	2017	2	60	–	29
E003B7 Sp. z o.o.	2018	527	–	17,919	–
	2017	558	–	17,112	–
RENG-Nano Sp. z o.o.	2018	1,434	–	–	–
	2017	3	–	–	–

Related party	*Sales to related parties in three months ended Mar 31 2018/Mar 31 2017*	*Purchases from related parties for the three months ended Mar 31 2018/Mar 31 2017*	*Receivables from related parties as at March 31st 2018/ Dec 31 2017*	*Liabilities to related parties as at March 31st 2018/ Dec 31 2017*

Entities related through personal links:					
PBG Foundation	2018	–	6	–	8
	2017	–	180	–	30
SWGK CONSULTING Sp. z o.o.	2018	–	–	–	–
	2017	–	13	–	–
Corporate Finance & IT Sp. z o.o.	2018	–	–	–	–
	2017	62	–	–	–
BPIL Grzegorz Kiczor	2018	–	30	–	37
	2017	–	70	–	41
Dwór w Smólsku Sp. z o.o.	2018	–	60	–	25
	2017	–	60	–	49
SWGK Księgowość Sp. z o.o.	2018	–	150	–	62
	2017			–	124
Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o.	2018	–	–	516	–
	2017	–	–	516	–
Economic Chamber of Energy and Environmental Protection	2018	–	7	–	–
	2017	–	–	–	7
Polimex-Mostostal S.A.	2018	–	–	–	117
	2017	–	–	–	117
PONER Sp. z o.o.	2018	–	–	13,399	–
	2017	–	–	–	–

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

The Company did not publish forecasts for 2018.

27. Brief description of the Company's material achievements and failures in Q1 2018

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

On January 9th 2018, the Polish Financial Supervision Authority approved Supplement No. 2 ("Supplement No. 2") to the Company's prospectus prepared for the public offering of 42,500,000 Series K ordinary bearer shares with a par value of PLN 2 (two zloty) per share (the "New Shares"), offered with pre-emptive rights of the existing shareholders retained, and in connection with the seeking of admission and introduction of 84,931,998 individual pre-emptive rights, up to 42,500,000 allotment certificates for New Shares, and up to 42,500,000 New Shares to trading on the main market of the Warsaw Stock Exchange. Supplement No. 2 was prepared in connection with the conclusion by the Company as a consortium member, on December 29th 2017, of a conditional agreement to construct two coal-fired steam units (2x50 MW) on the island of Lombok in Indonesia. The Company provided detailed information on the execution and terms and conditions of the agreement in Current Report No. 66/2017 of December 29th 2017. Supplement No. 2 will be made available to the public in the same manner as the prospectus, i.e. in electronic form on the Company's website at (www.rafako.com.pl) and also, for information purposes, on the websites of Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie (www.dm.pkobp.pl) and Trigon Dom Maklerski S.A. (www.trigon.pl).

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

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

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

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

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

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

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

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

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

Total costs: PLN 6,632 thousand.

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

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

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

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

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

On April 5th 2018 the Management Board of RAFAKO S.A. approved the RAFAKO Group's updated Growth Strategy for 2018−2020 (the "Strategy"), which had received a favourable opinion of the Supervisory Board. The decision to update the Strategy was prompted by changes in the main market of the Company's business, as well as growth prospects in the new business area, which includes EPC and general contractor services in the natural gas, crude oil and fuels sector. This growth direction is to diversify revenue sources and ensure further development of the Group's business.

The strategic objectives of RAFAKO S.A. are to:

1. Strengthen the Company's position in the domestic power construction market, by delivering and participating in Poland's largest capital investment projects, capturing a market share in services related to power and heat infrastructure modernisation and ensuring compliance with the BAT regulations;
2. Enter the natural gas, crude oil and fuels sector by leveraging the capabilities, experience and credentials of the PBG Group;
3. Expand the business in foreign markets in both of the Group's core segments;
4. Develop the Group's solutions, especially its proprietary technologies;
5. Capture a market share in industrial construction;
6. Optimise contract financing and contract performance security;
7. Improve profitability through control and mitigation of project risks;
8. Achieve dividend distribution capacity in 2020.

(PLN '000)

These objectives are feasible provided the Group is properly organised and focused on the provision of EPC project management and general contracting services in both strategic business segments. Internal reorganisation of the Group will, on the one hand, involve acquisition of EPC capabilities in the natural gas, crude oil and fuels sector, and on the other – separation of services from manufacturing through planned spin-off (within the RAFAKO Group) of an organised part of business, namely the Steam Generator Plant, and RAFAKO's subsequent in-kind contribution of the organised part of business to a subsidiary. The acquisition of capabilities in the new business area will take place through merger of RAFAKO Engineering Sp. z o.o. (in which a 51% interest is held by RAFAKO and 49% – by PBG oil and gas Sp. o.o.) with PBG oil and gas Sp. z o.o. (a wholly-owned subsidiary of PBG S.A., the parent of the PBG Group). Additionally, PGL Dom Sp. z o.o. (a wholly-owned subsidiary of RAFAKO) will be included in the transaction, with a view to strengthening the balance sheet and thus the borrowing capacity of the combined entity, in which RAFAKO will acquire a majority interest. This will increase the RAFAKO Group's capacity to bid for and deliver projects within the areas of its expanded capabilities and will naturally facilitate its business growth by leveraging synergies between the merged companies. The merger will be contingent upon obtaining consents from RAFAKO S.A.'s creditors (i.e. financing institutions) and PBG's creditors (i.e. bondholders). The consents will be sought shortly. The spin-off of the Steam Generator Plant within the RAFAKO Group is designed to better orient this business towards the market, enhance competitiveness through rightsizing, and streamline the organisational structure. Separating the organised part of business from RAFAKO will also require consents of the Company's creditors.

Under the updated Strategy, the RAFAKO Group assumes generating annual revenue of PLN 300m in the natural gas, crude oil and fuels segment within the next three years. The Strategy was developed taking into account significant changes in the RAFAKO Group's business environment and trends in the power, industrial, as well as natural gas, crude oil and fuels sectors. A presentation of the Strategy has been included in the 2017 Directors' Reports on the operations of RAFAKO and the RAFAKO Group.

28. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO S.A.

Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A. are presented in Note 29 to the interim condensed consolidated financial statements for the three months ended March 31st 2018.

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

	Company name	*As at Jan 1 2018*	*Increase*	*Decrease*	*As at May 25 2018*
Member of the management staff					
Agnieszka Wasilewska-Semail, President of the Management Board	RAFAKO S.A.	–	20,245	–	20,245
Edward Kasprzak Vice President of the Management Board	RAFAKO S.A.	3,000	21,450	–	24,450
Jarosław Dusiło Vice President of the Management Board	RAFAKO S.A.	–	20,000	–	20,000
Member of the supervisory staff	–	–	–	–	–

30. Factors with a material bearing on the Group's performance in Q2 2018

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts being executed for the delivery of products and services), which may have a positive or negative effect on the results after March 31st 2018;
- The adequacy of provisions and impairment losses for current contracts;
- The risk that provisions may need to be recognised for contractual penalties for time overruns or failure to meet guaranteed technical specifications of certain contracts;
- The risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs;
- Currency movements − substantial changes in the PLN/EUR exchange rate may have a material effect on the profitability of EUR-denominated contracts;
- Costs of the ongoing restructuring of the Company;
- Risk of failure to obtain financial guarantees required to acquire and perform contracts.

31. Events after the reporting period

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

On April 27th 2018, the Company and HSBC Bank Polska S.A. of Warsaw executed a bank guarantee facility agreement. As of the date of the agreement, the Bank provided RAFAKO S.A. with a bank guarantee facility under which RAFAKO S.A. may instruct the Bank to issue guarantees within a facility limit of EUR 20,475,000. The facility may only be used to finance RAFAKO's day-to-day operations related to the performance of contracts by the Company, in the form of guarantees issued upon RAFAKO's instructions. The following types of guarantees may be issued under the facility:

a) Bid bonds
b) Advance payment guarantees
c) Performance and warranty bonds.

The facility is a revolving facility, which means that whenever a guarantee issued by the Bank expires, the available facility amount is increased by the amount of the expired guarantee. The expiry date of a guarantee issued by the Bank must be a date falling on or before April 24th 2024.

On April 27th 2018, the RAFAKO S.A. Management Board was notified that Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. of Warsaw had selected the Company's bid as the best bid in the tender procedure for construction work to be carried out as part of the project to build the Goleniów-Płoty section of the DN 700 Szczecin-Gdańsk pipeline. The value of Company's bid totals approximately PLN 124.9m, VAT exclusive (PLN 153.6m VAT inclusive). The project completion deadline is 24 months from the contract date. The tender procedure provides for a 10-day period for filing appeals against the Employer's decision.

(PLN ’000)

These interim condensed financial statements of the Company were authorised for issue on May 25th 2018 by resolution of the RAFAKO S.A. Management Board of May 25th 2018.

Signatures:

May 25th 2018	Agnieszka Wasilewska-Semail	President of the Management Board	....
May 25th 2018	Jarosław Dusiło	Vice President of the Management Board	
May 25th 2018	Edward Kasprzak	Vice President of the Management Board	
May 25th 2018	Karol Sawicki	Vice President of the Management Board	
May 25th 2018	Tomasz Tomczak	Vice President of the Management Board	
May 25th 2018	Jolanta Markowicz	Chief Accountant	....