# RAFAKO S.A.

**PBG GROUP**

# INTERIM CONDENSED FINANCIAL STATEMENTS

# for the nine months ended September 30th 2018

November 27th 2018

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(PLN '000)

# Interim condensed statement of comprehensive income

**for the nine months ended September 30th 2018**

| | *Note* | *9 months ended Sep 30 2018* | *9 months ended Sep 30 2017 (restated)* | *3 months ended Sep 30 2018* | *3 months ended Sep 30 2017 (restated)* |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Revenue** | 11.1 | **444,691** | **450,750** | **130,390** | **164,016** |
| Revenue from sale of goods and services | | 442,614 | 448,837 | 129,436 | 163,413 |
| Revenue from sale of materials | | 2,077 | 1,913 | 954 | 603 |
| Cost of products and services sold | 11.1 | (396,246) | (389,358) | (118,484) | (137,776) |
| Cost of materials sold | | (1,114) | (1,046) | (360) | (462) |
| **Profit/(loss) before tax** | | **47,331** | **60,346** | **11,546** | **25,778** |
| Other income | 11.1 | 13,755 | 4,478 | 4,122 | 1,334 |
| Distribution costs | 11.1 | (18,347) | (24,722) | (5,657) | (8,139) |
| Administrative expenses | | (30,481) | (32,855) | (9,426) | (11,985) |
| Other expenses | 11.1 | (2,896) | (6,939) | (407) | (950) |
| **Operating profit/(loss)** | | **9,362** | **308** | **178** | **6,038** |
| Finance income | 11.1 | 5,883 | 592 | 324 | 287 |
| Finance costs | 11.1 | (3,816) | (6,645) | (1,509) | 31 |
| **Profit/(loss) before tax** | | **11,429** | **(5,745)** | **(1,007)** | **6,356** |
| Income tax expense | 11.2 | (9,431) | (14,765) | 1,340 | (8,356) |
| **Net profit/(loss) from continuing operations** | | **1,998** | **(20,510)** | **333** | **(2,000)** |

Racibórz, November 27th 2018

| | | | |
|---|---|---|---|
| Jerzy Wiśniewski | Jarosław Dusiło | Agnieszka Wasilewska-Semail | Jolanta Markowicz |
| 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 nine months ended September 30th 2018**

| | Note | *9 months ended Sep 30 2018* | *9 months ended Sep 30 2017 (restated)* | *3 months ended Sep 30 2018* | *3 months ended Sep 30 2017 (restated)* |
|---|---|---|---|---|---|
| **Other comprehensive income for period** | | **(1,505)** | **(964)** | **(995)** | **(912)** |
| *Items to be reclassified to profit/(loss) in subsequent reporting periods* | | | | | |
| Exchange differences on translating foreign operations | | (347) | (161) | (223) | (28) |
| **Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods** | | **(347)** | **(161)** | **(223)** | **(28)** |
| *Items not subject to reclassification to profit/(loss) in subsequent reporting periods* | | | | | |
| Other comprehensive income due to actuarial gains/(losses) | | (1,429) | (991) | (954) | (1,091) |
| Tax on other comprehensive income | 11.2 | 271 | 188 | 182 | 207 |
| **Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods** | | **(1,158)** | **(803)** | **(772)** | **(884)** |
| **Total comprehensive income for period** | | **493** | **(21,474)** | **(662)** | **(2,912)** |
| Weighted average number of shares | | 127,431,998 | 84,931,998 | 127,431,998 | 84,931,998 |
| Basic/diluted earnings/(loss) per share, PLN | 11.20 | 0.02 | (0.24) | 0.00 | (0.02) |

Racibórz, November 27th 2018

| Jerzy Wiśniewski | Jarosław Dusiło | Agnieszka Wasilewska-Semail | Jolanta Markowicz |
|---|---|---|---|
| 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 September 30th 2018**

| | *Note* | *Sep 30 2018* | *Dec 31 2017 (restated)* | *Sep 30 2017 (restated)* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 11.4 | 135,641 | 140,364 | 142,761 |
| Goodwill | | 1,774 | 1,774 | 1,774 |
| Intangible assets | | 7,859 | 8,739 | 8,978 |
| Long-term trade and other receivables | 11.6 | 4,762 | 5,389 | 3,425 |
| Shares | 11.7 | 36,490 | 35,333 | 29,642 |
| Non-current financial assets | 11.8 | 36,979 | 33,945 | 40,757 |
| Deferred tax assets | 11.2 | 28,960 | 38,444 | 36,256 |
| Long-term accruals and deferrals | | 9,678 | 1,689 | – |
| | | **262,143** | **265,677** | **263,593** |
| **Current (short-term) assets** | | | | |
| Inventories | 11.9 | 26,144 | 26,320 | 13,411 |
| Short-term trade and other receivables | 11.12 | 299,196 | 289,002 | 151,276 |
| Gross amount due from customers for contract work | 10 | 204,972 | 137,583 | 147,502 |
| Derivative instruments | | – | 479 | 13 |
| Other current financial assets | 11.10 | 5,465 | 4,747 | 6,112 |
| Short-term loans advanced | | 408 | 396 | 411 |
| Cash and cash equivalents | 11.11 | 14,491 | 158,921 | 50,921 |
| Short-term accruals and deferrals | 11.13 | 9,729 | 20,669 | 19,461 |
| | | **560,405** | **638,117** | **389,107** |
| **Non-current assets held for sale** | | 66 | 108 | 9 |
| **TOTAL ASSETS** | | **822,614** | **903,902** | **652,709** |

Racibórz, November 27th 2018

| Jerzy Wiśniewski | Jarosław Dusiło | Agnieszka Wasilewska-Semail | Jolanta Markowicz |
|---|---|---|---|
| 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 September 30th 2018**

| | Note | *Sep 30 2018* | *Dec 31 2017 (restated)* | *Sep 30 2017 (restated)* |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 11.16 | 254,864 | 254,864 | 169,864 |
| Share premium | 11.19 | 165,119 | 173,708 | 95,340 |
| Reserve funds | | 11,600 | 69,061 | 69,061 |
| Translation reserve | | (684) | (337) | (230) |
| Retained earnings/accumulated losses, including: | | (37,156) | (104,046) | (38,652) |
| Profit/(loss) brought forward | | (39,154) | (37,997) | (18,142) |
| Net profit/(loss) for period | | 1,998 | (66,049) | (20,510) |
| | | **393,743** | **393,250** | **295,383** |
| **Non-current liabilities** | | | | |
| Finance lease liabilities | | 1,371 | 1,046 | 1,378 |
| Employee benefit obligations and provisions | 11.22 | 21,127 | 21,096 | 23,365 |
| Long-term trade and other payables | 11.21 | 10,703 | 14,674 | 10,009 |
| Other long-term provisions | 11.24 | 17,377 | 16,567 | 6,022 |
| | | **50,578** | **53,383** | **40,774** |
| **Current liabilities** | | | | |
| Current portion of interest-bearing borrowings | 15 | 109,634 | 98,568 | 83,986 |
| Finance lease liabilities | | 1,358 | 1,696 | 1,949 |
| Short-term trade and other payables | 11.25 | 212,217 | 280,712 | 147,448 |
| Employee benefit obligations and provisions | 11.26 | 23,278 | 21,465 | 26,411 |
| Gross amount due to customers for contract work | | 22,663 | 16,543 | 24,154 |
| Other short-term provisions | 11.27 | 8,226 | 37,930 | 31,296 |
| Short-term accruals and deferrals | | 142 | 75 | 145 |
| Grants | | 775 | 280 | 1,163 |
| | | **378,293** | **457,269** | **316,552** |
| **Total liabilities** | | **428,871** | **510,652** | **357,326** |
| **TOTAL EQUITY AND LIABILITIES** | | **822,614** | **903,902** | **652,709** |

Racibórz, November 27th 2018

| Jerzy Wiśniewski | Jarosław Dusiło | Agnieszka Wasilewska-Semail | Jolanta Markowicz |
|---|---|---|---|
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(PLN '000)

# Interim condensed statement of cash flows

**for the nine months ended September 30th 2018**

| | Note | *9 months ended Sep 30 2018* | *9 months ended Sep 30 2017 (restated)* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before tax | | 11,429 | (5,745) |
| Adjustments for: | | (164,347) | 57,339 |
| Depreciation and amortisation | | 8,096 | 7,903 |
| Foreign exchange gains/(losses) | | 1 | 13 |
| Interest and dividends, net | | 3,043 | 1,632 |
| (Gain)/loss from investing activities | | (3,479) | (474) |
| Increase/(decrease) in liabilities under FX contracts | | 479 | 163 |
| (Increase)/decrease in receivables | 11.3 | (14,161) | 121,336 |
| (Increase)/decrease in inventories | | 176 | (372) |
| Increase/(decrease) in liabilities and provisions, excluding borrowings | 11.3 | (71,688) | (22,631) |
| Change in provisions, accruals and deferrals | 11.3 | (25,877) | (7,345) |
| Change in gross amounts due to and from customers for contract work | 11.3 | (61,269) | (42,330) |
| Income tax (paid)/received | | 324 | (857) |
| Other | | 8 | 301 |
| **Net cash from operating activities** | | **(152,918)** | **51,594** |
| **Cash flows from investing activities** | | | |
| Sale of property, plant and equipment and intangible assets | | 391 | 232 |
| Purchase of property, plant and equipment and intangible assets | | (1,171) | (3,016) |
| Purchase of financial assets | | (1,249) | – |
| Sale of financial assets | | 4,139 | 3,685 |
| Dividends and interest | | – | 5 |
| Other | | (2) | 34 |
| **Net cash from investing activities** | | **2,108** | **940** |
| **Cash flows from financing activities** | | | |
| Payment of finance lease liabilities | | (1,879) | (1,360) |
| Proceeds from borrowings | | 11,334 | – |
| Repayment of borrowings | | – | (64,573) |
| Interest paid | | (2,140) | (1,980) |
| Bank fees | | (1,091) | (84) |
| Other | | 503 | 656 |
| **Net cash from financing activities** | | **6,727** | **(67,341)** |
| Net increase/(decrease) in cash and cash equivalents | | (144,083) | (14,807) |
| Net foreign exchange gains (losses) | | (347) | (154) |
| Cash at beginning of period | | 158,921 | 65,882 |
| Cash at end of period | 11.11 | 14,491 | 50,921 |

Racibórz, November 27th 2018

| Jerzy Wiśniewski | Jarosław Dusiło | Agnieszka Wasilewska-Semail | Jolanta Markowicz |
|---|---|---|---|
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(PLN '000)

# Interim condensed statement of changes in equity
**for the nine months ended September 30th 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 to opening balance | – | – | – | – | (32,824) | (32,824) |
| **As at Jan 1 2018** *(restated)* | **254,864** | **173,708** | **69,061** | **(337)** | **(104,046)** | **393,250** |
| Profit/(loss) from continuing operations | – | – | – | – | 1,998 | 1,998 |
| Other comprehensive income | – | – | – | (347) | (1,158) | (1,505) |
| Distribution of retained earnings | – | (8,589) | (57,461) | – | 66,050 | – |
| **As at Sep 30 2018** | **254,864** | **165,119** | **11,600** | **(684)** | **(37,156)** | **393,743** |
| **As at Jan 1 2017** | **169,864** | **95,340** | **131,301** | **(69)** | **(67,676)** | **328,760** |
| Adjustment to opening balance | – | – | – | – | (11,903) | (11,903) |
| **As at Jan 1 2017** *(restated)* | **169,864** | **95,340** | **131,301** | **(69)** | **(79,579)** | **316,857** |
| Profit/(loss) from continuing operations | – | – | – | – | (20,510) | (20,510) |
| Other comprehensive income | – | – | – | (161) | (803) | (964) |
| Distribution of retained earnings | – | – | (62,240) | – | 62,240 | – |
| **As at Sep 30 2017** *(restated)* | **169,864** | **95,340** | **69,061** | **(230)** | **(38,652)** | **295,383** |

Racibórz, November 27th 2018

| Jerzy Wiśniewski | Jarosław Dusiło | Agnieszka Wasilewska-Semail | Jolanta Markowicz |
|---|---|---|---|
| President of the Management Board | Vice President of the Management Board | Vice President of the Management Board | Chief Accountant |

# NOTES

## 1. General information

RAFAKO S.A. (the “Company”) is a 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 nine months ended September 30th 2018 and contain comparative data for the nine months ended September 30th 2017 and as at December 31st 2017. The statement of comprehensive income and the notes to the statement of comprehensive income contain data for the three months ended September 30th 2018 and the comparative data for the three months ended September 30th 2017 which have not been audited or reviewed by an auditor.

The Company’s principal business activity is engineering activities in the power sector and related technical consultancy (PKD 71.12.Z);

The Company provides general contractor services offering its proprietary technological solutions to the oil and gas industry and the power sector. It designs and manufactures steam generators, including supercritical steam generators, as well as environmental protection equipment, including flue gas desulfurization and NOx reduction units.

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. Following completion of the projects for the execution of which the branch had been established, the Company’s Management Board resolved to liquidate the branch.

These interim condensed financial statements for the nine months ended September 30th 2018 were authorised for issue by the Company’s Management Board on November 27th 2018.

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

The Company also prepared interim condensed consolidated financial statements for the nine months ended September 30th 2018, which were authorised for issue by the Company’s Management Board on November 27th 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 2018.

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.

For the Company to continue as a going concern, it is of key importance to secure an order book with a value enabling the Company to achieve positive financial performance, and to ensure access to financing necessary for the execution of contracts.

As at the end of September 2018, the value of the Company's order book was PLN 2.17bn (compared with PLN 1.43m as at the end of September 2017). In the pursuit of its strategy, from the beginning of the year to the issue date for these financial statements, the Company won new contracts worth PLN 800m, including PLN 617m in the power sector and PLN 183m in the oil and gas sector (the new strategic business area). Among the key contracts won in 2018 are: the contract to construct the FGD system II at Ostrołęka Power Plant B, with a VAT-exclusive value of PLN 199.2m (PLN 245m VAT inclusive), of which the Company's share is PLN 126.2m; the contract to upgrade FGD systems at units 3, 4, 5 and 6 at the Bełchatów Power Plant, with a VAT-exclusive value of PLN 181.6m (PLN 223.4m VAT inclusive), and the contract to construct the Goleniów-Płoty section of the DN 700 Szczecin-Gdańsk pipeline, with a VAT-exclusive value of PLN 124.9m (PLN 153.6m VAT inclusive). The Company makes every effort to ensure that the value of contracts in the order book enables it to secure revenue necessary to cover its operating expenses and generate profit in the long term, also after the completion of the contract to construct the 910 MW power generation unit in Jaworzno. In line with the adopted growth directions, the Company is actively involved in tender procedures and expects to acquire new major contracts, including for the construction of the Kędzierzyn gas compressor station and flue gas desulfurization units.

A key factor that may affect the ability to win new contracts is securing access to financing, including primarily such financial instruments as performance bonds and advance payment guarantees. To this end, in April 2018, the Company and HSBC Bank Polska S.A. entered into a EUR 20.5m guarantee facility agreement whereby the Company may obtain guarantees to finance the contracts it performs. Furthermore, in June 2018, the Company signed an annex to the multi-purpose credit facility agreement with PKO BP S.A. Under the annex, the availability period of the facility was extended until June 2019, and limits were set for the credit products advanced to the Company, including: PLN 70m for the overdraft facility, PLN 80m for the revolving credit facility, PLN 150m for bank guarantees, with the proviso that the aggregate amount utilised under these instruments may not exceed PLN 200m. The current amount of credit and guarantee facilities provided to the Company is used on an ongoing basis and, given the plans to expand the order book, the Company is seeking additional guarantee facilities.

The Company's current order book requires the Company to commit working capital, including from internally generated funds. The committed funds will be released gradually as contracts are completed and consecutive milestones are reached, in accordance with contractual provisions, schedules and budgets. The Company will be able to use the released funds as additional working capital required for new projects. Based on the analyses carried out by the Company, its liquidity position is stable, therefore the financial statements have been prepared on the assumption that the Company will continue as a going concern.

## 3. Significant accounting policies

In 2018, the Company made changes to the applied accounting policies as well as presentation adjustments, and therefore it restated the comparative data for the year ended December 31st 2017, the nine months ended September 30th 2017 and as at January 1st 2017 in accordance with the revised 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 rather than 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 adopted 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 its initial application, being January 1st 2018.

The Company provides general contracting services for turn-key construction projects for the power sector and the oil and gas industry.

a) Revenue from sale of products

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 it will be entitled in exchange for transferring the promised goods or services to the customer; the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that no significant reversal in the amount of cumulative revenue recognised will 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.

ii. Warranties

The Group provides warranties for the goods sold. As a rule, a warranty is an assurance provided to the customer that a product complies with the specifications agreed upon by the parties, and does not constitute an additional service. Accordingly, the majority of existing warranties will continue to be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* No non-standard extended warranties were identified by the 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 contract asset and related accruals and deferrals. In accordance with IFRS 15, if an entity performs an obligation by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity must present a contract asset, excluding any amounts presented as amounts due from customers.

c) Advance payments received from customers

The Company presents advance payments received from customers under trade and other payables.

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 4.5m.

### 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 identify 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 carries expected impairment losses on loans at amounts equal to expected 12-month credit losses or credit losses expected 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 18.4m.

### 3.4. Adjustment to the presentation of certain items in the statement of financial position

The Company reviewed the method of financial data presentation under assets, equity and liabilities in the statement of financial position. It decided to change the presentation method by separating accruals and deferrals, aggregating amounts due to and from employees, and separately presenting liabilities and provisions. These changes are expected to make the statement easier to comprehend.

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### 3.5. 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 was changed compared with their presentation in the financial statements for 2017 has been adjusted as follows:

| | *Non-current financial assets* | *Long-term trade and other receivables* | *Long-term prepayments and accrued income* | *Deferred tax asset* | *Inventories* | *Short-term trade and other receivables* | *Short-term prepayments and accrued income* | Gross amount due from customers for contract work | *Other current financial assets* |
|---|---|---|---|---|---|---|---|---|---|
| **Before adjustment** | **41,014** | **7,078** | – | **31,141** | **12,057** | **303,552** | – | **158,785** | **5,201** |
| **Adjustments to opening balance** | | | | | | | | | |
| IFRS 15 | – | – | – | 661 | 14,263 | – | – | (1,561) | – |
| IFRS 9 (impairment due to expected credit losses) | (7,069) | – | – | 4,306 | – | (12,181) | – | (1,341) | (454) |
| Provisions for warranty repairs | – | – | – | 2,336 | – | | – | – | – |
| **Presentation adjustments** | | | | | | | | | |
| Long-term accruals and deferrals | – | (1,689) | 1,689 | – | – | – | – | – | – |
| Short-term accruals and deferrals | – | – | – | – | – | (2,369) | 20,669 | (18,300) | – |
| **Adjusted** | **33,945** | **5,389** | **1,689** | **38,444** | **26,320** | **289,002** | **20,669** | **137,583** | **4,747** |

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| | *Retained earnings / accumulated losses* | *Long-term trade and other payables* | *Long-term employee benefit obligations and provisions* | *Other long-term provisions* | *Short-term trade and other payables* | *Gross amount due to customers for contract work* | *Employee benefit obligations and provisions* | *Other short-term provisions* | *Short-term accruals and deferred income* |
|---|---|---|---|---|---|---|---|---|---|
| **Before adjustment** | **(71,222)** | **19,594** | **20,448** | **–** | **276,752** | **57,747** | **2,737** | **–** | **–** |
| **Adjustments to opening balance** | | | | | | | | | |
| IFRS 15 | (4,509) | – | – | – | 22,291 | (4,356) | – | (63) | – |
| IFRS 9 (impairment due to expected credit losses) | (18,356) | – | – | – | 1,617 | – | – | – | – |
| Provisions for warranty repairs | (9,959) | – | – | 12,295 | – | – | – | – | – |
| **Presentation adjustments** | | | | | | | | | |
| Provision for voluntary redundancy programme | – | (153) | 153 | – | (1,443) | – | 1,443 | – | – |
| Provision for bonuses | – | (495) | 495 | – | (621) | – | 621 | – | – |
| Provision for holiday entitlements | – | – | – | – | (3,875) | – | 3,875 | – | – |
| Provision for warranty repairs | – | (4,272) | – | 4,272 | (13,216) | – | – | 13,216 | – |
| Advance payments received from customers | – | – | – | – | 12,071 | (12,071) | | – | – |
| Accrued salaries and wages | – | – | – | – | (6,224) | – | 6,224 | – | – |
| Accrued social security | – | – | – | – | (6,565) | – | 6,565 | – | – |
| Provisions for losses | – | – | – | – | – | (15,844) | – | 15,844 | – |
| Provision for liquidated damages | – | – | – | – | – | (8,069) | – | 8,069 | – |
| Audit provision | – | – | – | – | (75) | – | – | – | 75 |
| Provision for future costs | – | – | – | – | – | (864) | – | 864 | – |
| **Adjusted** | **(104,046)** | **14,674** | **21,096** | **16,567** | **280,712** | **16,543** | **21,465** | **37,930** | **75** |

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

| | |
|---|---|
| **Assets** | |
| Deferred tax asset | 684 |
| Inventories | (339) |
| Contract asset and related accruals and deferrals | (2,180) |
| **Equity and liabilities** | |
| Retained earnings / accumulated losses, including: | (2,914) |
| profit/(loss) brought forward | 4,509 |
| net profit/(loss) | (7,424) |
| Trade and other payables | (9,042) |
| Gross amount due to customers for contract work | 11,515 |
| Provisions for contract work | (1,393) |
| **Statement of comprehensive income** | |
| Revenue | (23,457) |
| Cost of sales | 14,688 |
| Profit/(loss) before tax | (8,769) |
| Income tax expense | 1,345 |
| Net profit/(loss) | (7,424) |
| Earnings/(loss) per share from continuing operations | (0.06) |

### 3.6. 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 inception 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 under lease contracts 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 leases.

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

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

IFRS 16 is effective for annual periods beginning on or after January 1st 2019. Early 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.

### 3.7. Adjustment to the 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 nine months ended September 30th 2017 the presentation of which was changed compared with its presentation in the interim condensed financial statements for the nine months ended September 30th 2017 has been adjusted as follows:

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| | *Distribution costs* | *Other expenses* | *Cost of products and services sold* | *Costs of merchandise and materials sold* |
|---|---|---|---|---|
| **Before adjustment** | **(27,833)** | **(3,828)** | **(390,200)** | – |
| Adjustment to presentation of impairment losses on trade receivables | 3,111 | (3,111) | – | – |
| Adjustment to presentation of cost of merchandise and materials sold | – | – | 1,046 | (1,046) |
| Provisions for warranty repairs | – | – | (204) | – |
| **Adjusted** | **(24,722)** | **(6,939)** | **(389,358)** | **(1,046)** |

## 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 contracts. 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 Company's management makes an assessment to determine whether any contracts that have been signed have the economic characteristics and risks of an embedded derivative in a foreign currency which would be closely related to the economic characteristics and risks of the host contract.

*Consortium agreements*

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

### 4.2. Uncertainty of estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that carry a significant risk of causing a material adjustment to the carrying amounts of 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 nine months ended September 30th 2018 there were no such indications.

For further information on asset impairment as at the end of the reporting period, see Notes 11.6 and 11.14 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 Company 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 at a point in time, i.e. when the customer obtains control of the goods;

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 due to late contract completion if the probability of being charged for late 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 consolidated financial statements. 10

*Provision for warranty repairs*

The provision for warranty repairs is estimated based on probability-weighted costs of running 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.

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

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

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

## 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:

| | *Sep 30 2018* | *Dec 31 2017* | *Sep 30 2017* |
|---|---|---|---|
| USD | 3.6519 | 3.4813 | 3.4139 |
| EUR | 4.3091 | 4.1709 | 4.2085 |
| GBP | 4.8842 | 4.7001 | 4.7974 |
| CHF | 3.7619 | 3.5672 | 3.5812 |
| SEK | 0.4492 | 0.4243 | 0.4097 |
| TRY | 1.0269 | 0.9235 | 0.8625 |

## 6. Change in estimates

In the nine months ended September 30th 2018 and as at September 30th 2018, there were changes of estimates in significant areas of the Company's operations, discussed in Notes 3 and 4.2

## 7. Changes in Company structure

No changes occurred in the Company structure in the nine months ended September 30th 2018.

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## 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. Contracts

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

The table below presents the effects of accounting for contracts, including revenue and costs of running contracts recognised in accordance with IFSR 15 as at September 30th 2018 and as at December 31st 2017, as well as gross amount due to customers for contract work and gross amount due from customers for contract work.

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Revenue initially agreed in contract | 3,333,471 | 2,421,422 |
| Change in contract revenue | 37,186 | (1,513) |
| **Aggregate contract revenue** | **3,370,657** | **2,419,909** |
| Contract costs incurred as at reporting date | 1,231,318 | 1,252,044 |
| Costs expected to be incurred by contract completion date | 1,856,144 | 1,016,538 |
| **Estimated aggregate contract costs** | **3,087,462** | **2,268,582** |
| **Estimated aggregate profit/(loss) on contracts, including:** | **283,195** | **151,327** |
| profit | 334,406 | 272,512 |
| loss (-) | (51,211) | (121,185) |

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

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Prepayments received as at reporting date | 71,572 | 30,819 |
| Prepayments that can be set off against amounts due from customers for construction contract work | 12,045 | 7,882 |
| Contract costs incurred as at reporting date | 1,232,756 | 1,266,135 |
| Cumulative profit as at reporting date (+) | 199,399 | 186,350 |
| Cumulative loss as at reporting date (+) | (51,211) | (121,186) |
| Cumulative contract revenue as at reporting date | 1,380,944 | 1,331,299 |
| Amounts invoiced as at reporting date (progress billings) | 1,184,688 | 1,210,796 |
| **Settlement of contracts (balance) as at the reporting date, including:** | **196,256** | **112,621** |
| Contract assets less prepayments that can be set off | 206,875 | 138,923 |
| Contract liabilities | 22,663 | 26,302 |

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Material changes in assets and liabilities arising under contracts as at September 30th 2018 are attributable to changes in the following items in comparison with the data as at December 31st 2017:

- PLN 67,952 thousand increase in contract assets,
- PLN 36,590 thousand increase in advance payments received from customers under contracts,
- recognition of revenue of PLN 6,120 thousand presented as at the end of 2017 under gross amount due to customers for contract work,
- PLN 12,651 change in estimated costs with a bearing on provisions for expected contract losses.

The table below presents the effects of accounting for contracts, including revenue and costs of running contracts recognised in accordance with IAS 11 as at September 30th 2017, as well as gross amount due to customers for contract work and gross amount due from customers for contract work.

| | *September 30th 2017* |
|---|---|
| Contract costs incurred to date (cumulative) | 2,857,082 |
| Recognised profits less recognised losses to date (cumulative) | 126,978 |
| Contract revenue recognised by reference to the contract stage of completion (cumulative) | 2,984,059 |
| Contract revenue recognised by reference to the contract stage of completion (for the period) | 451,547 |
| Progress billings (cumulative) | 2,843,590 |
| | |
| **Gross amount due to customers for contract work (liability), including:** | **(41,299)** |
| - advance payments received (liabilities arising from advances received) | (49,143) |
| - adjustment to advance payments received arising from amounts due from customers | 49,140 |
| - gross amount due to customers for contract work | (41,296) |
| **Prepayments and deferred income from construction contracts, including:** | **163,501** |
| - gross amount due from customers for contract work (asset) | 147,503 |
| - contract acquisition cost and other contract costs accounted for over time | 15,998 |
| | |
| Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters | (4,795) |
| Provision for construction contract losses | (10,084) |

## 10.1. Key contracts executed by the Company

### 10.1.1. Jaworzno Project

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A. is performing the contract for the 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 high-pressure boiler parts and a dust removal unit), scheduled mainly for 2015–2017.

For the purposes of the project, RAFAKO S.A. and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/insurance guarantees with an aggregate amount of PLN 646m, required for the project execution; under the same agreements, security for the guarantees was established over the assets of RAFAKO S.A. and E003B7 Sp. z o.o. On March 1st 2017, RAFAKO S.A. signed an annex to the contract 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 guarantee providers, RAFAKO S.A. does not plan for E003B7 sp. z o.o. to pay any dividend before the expiry of the guarantee agreements as this could result in an adverse response from the guarantee providers.

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 S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A., executed a PLN 9.4bn (PLN 11.6bn with VAT included) contract with PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. − the "employer") for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No. 5 and power unit No. 6 at the Opole Power Plant, together with equipment and devices as well as all related buildings and structures.

The subsidiary E001RK Sp. z o.o. ("SPV-Rafako") was appointed by RAFAKO S.A. as its subcontractor in charge of the entire scope of work and services related to the construction of the power generating units at Elektrownia Opole. SPV-RAFAKO's VAT-exclusive consideration for the performance of the work and services is PLN 3.96bn (PLN 4.9bn VAT inclusive).

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 receivables and liabilities under the contract have no effect on the amounts 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.

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## 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 nine months ended September 30th 2018, the Company reported revenue of PLN 444,691 thousand, roughly on a par with the figure posted for the first nine months of 2017.

Cost of sales in the reporting period amounted to PLN 397,360 thousand. Considering the Company's revenue and cost of sales, gross profit reached PLN 47,331 thousand.

In the current reporting period, distribution costs of PLN 18,347 recognised in the statement of profit or loss comprise costs of bid preparation and costs of PR and marketing activities.

Other income chiefly included reversal of provisions for the voluntary redundancy programme, for restructuring costs totalling PLN 5,857 thousand, and for other costs related to the prescription of one of the Company's trading partner's claims of PLN 2,550 thousand. Over the first nine months of 2018, the Company generated revenue of PLN 4,033 thousand from a surety provided to a subsidiary (September 30th 2017: PLN 3,948 thousand).

Other expenses mainly included: 1. impairment losses on other receivables of PLN 661 thousand and trade receivables of PLN 276 thousand, 2. recognition of a provision for other expenses of PLN 513 thousand, 3. donations of PLN 231 thousand (September 30th 2017: PLN 1,895 thousand), 4. costs of repairs of property, plant and equipment of PLN 157 thousand (September 30th 2017: PLN 172 thousand).

In the first nine months of 2018, the Company's finance income was generated mainly from a discount on long-term settlements of PLN 3,641 thousand, net foreign exchange gains of PLN 1,851 thousand, and interest on financial instruments of PLN 323 thousand (September 30th 2017: PLN 389 thousand).

Finance costs in the period chiefly included interest on financial instruments of PLN 2,218 thousand (September 30th 2017: PLN 2,041 thousand) and interest on employee benefit obligations of PLN 552 thousand (September 30th 2017: PLN 573 thousand), as well as commissions on bank borrowings of PLN 843 thousand (September 30th 2017: PLN 654 thousand).

### 11.2. Income tax

**Income tax expense**

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

| | *9 months ended Sep 30 2018* | *9 months ended Sep 30 2017* |
|---|---|---|
| **Statement of profit or loss** | | |
| *Current tax* | 323 | 136 |
| Current income tax expense | – | – |
| Adjustments to current income tax from previous years | 323 | 136 |
| *Deferred tax* | (9,754) | (14,901) |
| Related to recognition and reversal of temporary differences | (9,754) | (14,901) |
| Adjustments to deferred tax from previous years | – | – |
| **Income tax expense in the statement of profit or loss** | **(9,431)** | **(14,765)** |

(PLN '000)

| | *9 months ended Sep 30 2018* | *9 months ended Sep 30 2017* |
|---|---|---|
| **Other comprehensive income** | | |
| *Deferred tax on other comprehensive income* | 271 | 188 |
| Related to recognition and reversal of temporary differences | 271 | 188 |
| **Income tax expense recognised in other comprehensive income** | **271** | **188** |

**Deferred income tax calculated as at September 30th 2018**

Deferred income tax calculated as at September 30th 2018 relates to:

| | *Statement of financial position* | | *Statement of comprehensive income for nine months ended* | |
|---|---|---|---|---|
| | *Sep 30 2018* | *Dec 31 2017 (restated)* | *Sep 30 2018* | *Sep 30 2017* |
| - investment reliefs | (2) | (2) | – | – |
| - difference between tax base and carrying amount of property, plant and equipment and intangible assets | (14,995) | (15,742) | 747 | (104) |
| - difference between tax base and carrying amount of assets measured at fair value through profit or loss | 2,332 | 2,986 | (654) | 67 |
| - difference between tax base and carrying amount of loans and receivables | 3,957 | 3,784 | 173 | 278 |
| - difference between tax base and carrying amount of receivables and accruals and deferrals relating to accounting for construction contracts | (37,141) | (24,688) | (12,453) | (9,442) |
| - difference between tax base and carrying amount of inventories | 2,018 | 2,110 | (92) | (76) |
| - provisions | 11,153 | 16,442 | (5,288) | (4,268) |
| - difference between tax base and carrying amount of financial liabilities measured at amortised cost | 24 | 28 | (4) | (23) |
| - difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts | 40,272 | 31,082 | 9,190 | (113) |
| - tax loss | 16,179 | 17,418 | (1,239) | – |
| - adjustment to costs of unpaid invoices | 4,465 | 4,465 | – | (1,529) |
| - other | 698 | 561 | 137 | 497 |
| Deferred tax expense/benefit disclosed in the statement of profit or loss | | | (9,754) | (14,901) |
| Deferred tax expense/benefit disclosed in other comprehensive income | | | 271 | 188 |
| | | | (9,483) | (14,713) |
| Net deferred tax asset/(liability) including: | **28,960** | **38,444** | | |
| Deferred tax assets | 28,960 | 38,444 | | |
| Deferred tax liability | – | – | | |

As at September 30th 2018, the Company recognised a single deferred tax asset on a tax loss of PLN 85,146 thousand, which will be offset against profits in future reporting periods.

In the nine months ended September 30th 2018, the Company recorded a tax loss of PLN 34,825 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 nine months ended September 30th 2018. The total amount of tax loss for 2015, 2016, 2017 and 2018 which was not recognised in deferred tax is PLN 192,522 thousand.

(PLN '000)

### 11.3. Significant items of the statement of cash flows

The PLN 14,161 thousand increase in receivables disclosed in the statement of cash flows for the nine months ended September 30th 2018 resulted mainly from:

| | |
|---|---|
| – PLN 86,011 thousand | decrease in trade receivables, |
| – PLN (1,393) thousand | increase in receivables from the state budget (including VAT), |
| – PLN (65,361) thousand | increase in prepayments made, |
| – PLN (28,681) thousand | increase in security deposits receivable, |
| – PLN (4,416) thousand | increase in receivables under sureties, |
| – PLN (321) thousand | increase in other receivables. |

For a detailed description of changes in security deposits and disputed receivables in the nine months ended September 30th 2018, see Note 11.12

The PLN 71,688 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

| | |
|---|---|
| – PLN (72,387) thousand | decrease in trade payables, |
| – PLN 36,590 thousand | increase in advance payments received, |
| – PLN (24,933) thousand | decrease in taxes and other duties payable, |
| – PLN 3,120 thousand | increase in employee benefits obligations and provisions actuarial gains/(losses) of PLN 1,844 thousand, |
| - PLN (12,802) thousand | decrease in other liabilities. |

The PLN (61,269) thousand change in gross amounts due to and from customers for contract work disclosed in the statement of cash flows was caused primarily by:

| | |
|---|---|
| – PLN (67,389) thousand | increase in amounts due from customers for contract work, |
| – PLN 6,120 thousand | increase in gross amounts due to customers for contract work, |

The PLN (25,877) thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

| | |
|---|---|
| – PLN (6,267) thousand | decrease in the provision for warranty repairs, |
| – PLN (12,652) thousand | decrease in the provision for expected contract losses, |
| – PLN (9,760) thousand | decrease in the provision for liquidated damages, |
| – PLN 3,017 thousand | change in accruals and deferrals, |
| – PLN (215) thousand | change in other provisions. |

The cash flows of PLN 1,171 thousand relating to the purchase of property, plant and equipment and intangible assets resulted from acquisition of property, plant and equipment for PLN 942 thousand and of intangible assets for PLN 229 thousand.

Cash flows from financing activities were mainly affected by a PLN 11,334 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 nine months ended September 30th 2018** | *Land* | *Buildings* | *Plant and equipment* | *Vehicles* | *Other* | *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 | – | – | – | – | – | 579 | 579 |
| Lease agreements | – | – | 179 | 1,603 | – | – | 1,782 |
| Liquidation/sale | (48) | (5) | (37) | (13) | – | – | (103) |
| Transfers from property, plant and equipment under construction | – | 57 | 463 | – | – | (520) | – |
| Exchange differences on translating foreign operations | – | – | (11) | – | – | – | (11) |
| Depreciation for period | – | (1,972) | (3,891) | (1,124) | – | – | (6,987) |
| Impairment loss for period | – | – | 5 | (3) | – | – | 2 |
| Other, including reclassification of property, plant and equipment to/from assets held for sale | – | – | 18 | (3) | – | – | 15 |
| **Net carrying amount as at Sep 30 2018** | **9,184** | **77,409** | **43,029** | **5,955** | **–** | **64** | **135,641** |

* Property, plant and equipment pledged as security for the Company’s liabilities as at the reporting date are presented in Note 11.15.1

(PLN ’000)

| **for the nine months ended September 30th 2017** | *Land* | *Buildings* | *Plant and equipment* | *Vehicles* | *Other* | *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 | – | – | – | – | – | 1,878 | 1,878 |
| Lease agreements | – | – | – | 110 | – | – | 110 |
| Liquidation/sale | | | (1) | (148) | – | – | (149) |
| Transfers from property, plant and equipment under construction | – | 821 | 2,273 | – | – | (3,094) | – |
| Exchange differences on translating foreign operations | – | – | (1) | – | – | – | (1) |
| Depreciation for period | – | (1,938) | (4,063) | (1,041) | – | – | (7,042) |
| Impairment loss for period | – | – | – | – | – | – | – |
| Other, including reclassification of property, plant and equipment to/from assets held for sale | – | – | – | (3) | – | – | (3) |
| **Net carrying amount as at Sep 30 2017** | **9,280** | **79,976** | **47,591** | **5,905** | **–** | **9** | **142,761** |

(PLN '000)

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

| | *9 months ended Sep 30 2018* | *9 months ended Sep 30 2017* |
|---|---|---|
| Purchase of property, plant and equipment and intangible assets* | 2,591 | 2,543 |
| Proceeds from sale of property, plant and equipment | 214 | 164 |

* 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 involved chiefly expenditure on purchases and upgrades of production plant and equipment and computer hardware as well as purchases of vehicles. The expenditure was financed with internally generated funds and finance leases.

### 11.6. Long-term trade and other receivables

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Financial receivables | | |
| Trade receivables | 4,530 | 5,294 |
| Impairment losses on trade receivables (-) | – | – |
| Net trade receivables | **4,530** | **5,294** |
| Security deposits | 232 | 95 |
| **Total long-term receivables, net** | **4,762** | **5,389** |

### 11.7. Shares in subsidiaries and other entities

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Shares in listed subsidiaries | – | – |
| Shares in non-listed subsidiaries | 35,132 | 35,091 |
| Shares in other listed companies | 131 | 223 |
| Shares in other non-listed companies | 1,227 | 19 |
| | **36,490** | **35,333** |

* Shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.15.3

In the nine months ended September 30th 2018, the Company purchased one (1) share in KIC InnoEnergy SE with a view to expanding the existing cooperation and in order to obtain the status of a formal partner.

In the nine months ended September 30th 2018, a new company – RAFAKO MANUFACTURING Sp. z o.o. – was established. The shares in the company's share capital were acquired by RAFAKO S.A. for cash contributions. For a detailed description, see Note 27.27

### 11.8. Non-current financial assets

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Long-term bonds | 16,318 | 17,700 |
| Receivables under sureties provided to related entities | 20,661 | 16,245 |
| | **36,979** | **33,945** |

(PLN '000)

### 11.8.1. Bonds

On November 9th 2016, following the execution of annexes to restructuring documents, PBG S.A. announced that it had commenced the procedure to issue bonds, which were subsequently offered to creditors, including to RAFAKO S.A., whose claims were satisfied by PBG S.A. in accordance with the Arrangement (the "Bonds").

As a consequence, on January 20th 2017 the Company submitted a statement of acceptance of the invitation to purchase Bonds issued by PBG S.A. in seven series: from Series B1 to Series I1 (the Second Issue of PBG Bonds). RAFAKO S.A. acquired a total of 388,492 Bonds with a total nominal value of PLN 38,849,200.00. The Bonds were acquired through a set-off of the amounts owed to RAFAKO S.A. under the PBG arrangement against the issue price of the Bonds.

On February 9th 2017, the Bonds were allotted to RAFAKO S.A. The key terms and conditions of the bonds and their redemption by PBG S.A. are as follows:

1. As at the date of issue of these financial statements, the Bonds issued by PBG S.A. will be redeemed on the following dates and in the following amounts:

| **Redemption Date** | Dec 31 2018 | Jun 30 2019 | Dec 31 2019 | Jun 30 2020 |
|---|---|---|---|---|
| **Series** | F and F1 | G and G1 | H and H1 | I and I1 |
| **Amount of Bonds to be redeemed** | PLN 14,949,700 | PLN 60,758,000 | PLN 45,985,000 | PLN 231,613,200 |
| ***including Bonds acquired by RAFAKO S.A.*** | *PLN 1,229,400* | *PLN 4,996,100* | *PLN 3,781,300* | *PLN 19,045,000* |

2. In accordance with the terms of issue, the bonds issued by PGB S.A. have been and 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 (currently representing 33.3% of RAFAKO's share capital), mortgages over the PBG Group's properties, registered pledges over other selected assets of the PBG Group, including over shares in selected companies of the PBG Group (including PBG oil and gas Sp. z o.o), sureties and declarations of voluntary submission to enforcement up to PLN 1,065,000,000.00.
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 (from the date of each Bond Issue). By decisions of the Warsaw Stock Exchange Management Board of March 9th 2017 and April 19th 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 and the first listing of Series B1, C1, D1, G1, H1 and I1 bonds – on April 20th 2017.

As at the date of these interim condensed financial statements, the parent PBG S.A. redeemed Series B1, C1, D1 and E1 bonds worth in aggregate PLN 9,797,400 as scheduled.

As at the date of these interim condensed financial statements, in accordance with the terms and conditions for the Bonds acquired by the Company and issued by PBG S.A., the outstanding bonds of PBG S.A. (with a total value of PLN 353.3m) were secured with the above security interests, including in particular a registered pledge over RAFAKO shares held directly and indirectly by PBG S.A.

In the opinion of the Company's Management Board, the provided security and the total amount payable under the Bonds as at the date of these financial statements are sufficient to consider the receivables as recoverable.

Following the entry into force of IFRS 9 and in accordance with its requirements, as at January 1st 2018 the Company recognised a PLN 7,522 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 11.14.3

The total net value of the bonds as at September 30th 2018 was PLN 21,783 thousand.

(PLN '000)

### 11.9. Inventories

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Materials (at net realisable value) | 26,144 | 26,320 |
| At cost | 37,263 | 37,425 |
| At net realisable value | 26,144 | 26,320 |
| Total inventories, at the lower of cost and net realisable value | **26,144** | **26,320** |

* Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.9.

### 11.10. Other current financial assets

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Short-term bonds* | 5,465 | 4,747 |
| | **5,465** | **4,747** |

* For a detailed description of bonds, see Note 11.8.1

### 11.11. Cash and cash equivalents

| | *Sep 30 2018* | *Dec 31 2017 (restated)* | *Sep 30 2017 (restated)* |
|---|---|---|---|
| Cash at bank and in hand | 14,430 | 158,567 | 50,856 |
| Short-term deposits for up to 3 months | 61 | 354 | 65 |
| | **14,491** | **158,921** | **50,921** |

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 holds restricted cash, including cash from grants (held in separate bank accounts), which may be used to pay amounts due under running projects.

(PLN '000)

## 11.12. Short-term trade and other receivables

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| **Financial receivables** | | |
| Trade receivables | 122,319 | 207,062 |
| Impairment losses on trade receivables (-) | (18,228) | (17,724) |
| Net trade receivables | **104,091** | **189,338** |
| Receivables on sale of property, plant and equipment and intangible assets | 14 | 192 |
| Security deposits | 90,761 | 62,217 |
| Receivables under court proceedings* | 24,507 | 24,507 |
| Other financial receivables | 10,485 | 10,483 |
| Impairment losses on financial receivables (-) | (24,330) | (24,228) |
| **Total financial receivables, net** | **205,528** | **262,509** |
| **Non-financial receivables** | | |
| Receivables under prepayments and advance payments | 83,777 | 18,416 |
| Receivables from the state budget | 8,946 | 7,553 |
| Other non-financial receivables | 4,097 | 3,908 |
| Impairment losses on non-financial receivables (-) | (3,152) | (3,384) |
| **Total non-financial receivables, net** | **93,668** | **26,493** |
| **Total short-term receivables, net** | **299,196** | **289,002** |

* 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 104,091 thousand recognised in the statement of financial position as at September 30th 2018 relate to trading contracts with domestic and foreign contractors.

Security deposits of PLN 90,756 thousand disclosed in the statement of financial position relate mainly to projects implemented in the following areas:

- Upgrade of the flue gas desulfurization systems – PLN 22,337 thousand;
- Construction of a gas pipeline (PLN 15,362 thousand);
- Construction of a coal-fired steam unit – PLN 10,679 thousand;
- SCR system – PLN 8,666 thousand;
- Manufacture of high-pressure parts of a boiler for the incineration plant (PLN 5,736 thousand).

The change in security deposits in the nine months ended September 30th 2018 was primarily attributable to a PLN 15,423 thousand cash deposit returned in connection with the construction of a coal-fired steam unit, a PLN 22,337 thousand cash deposit paid in connection with the upgrade of a flue gas desulfurization system, and a PLN 15,362 thousand cash deposit paid in connection with gas pipeline construction.

(PLN ’000)

A significant item of other receivables were advance payments, which as at September 30th 2018 amounted to PLN 83,777 thousand and included:

- Advance payment of PLN 44,101 thousand under a contract to construct fuel storage tanks;
- Advance payment of PLN 14,433 thousand under a contract to construct a biomass boiler island;
- Advance payment of PLN 8,074 thousand under a contract for gas pipeline construction;
- Advance payment of PLN 5,837 thousand under a contract to construct an LNG storage tank;

### 11.13. Short-term prepayments and accrued income

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| **Prepayments and accrued income** | | |
| Costs of bank and insurance guarantees | 3,953 | 9,204 |
| Costs of obtaining contracts | 3,778 | 9,065 |
| Other costs | 1,998 | 2,369 |
| **Prepayments and accrued income** | **9,729** | **20,669** |

(PLN '000)

### 11.14. Impairment of assets

| | *Shares** | *Property, plant and equipment* | *Other financial assets*** ** | *Other non-financial assets*** ** | *Inventories*** | *Prepayments and accrued income relating to accounting for construction contracts* | *Receivables**** |
|---|---|---|---|---|---|---|---|
| **Jan 1 2018** | **(4,973)** | **(68)** | **(10,500)** | **(5,676)** | **(11,105)** | **–** | **(33,155)** |
| Adjustment to opening balance | – | – | – | – | – | (1,341) | (12,181) |
| **Jan 1 2018** *(restated)* | **(4,973)** | **(68)** | **(10,500)** | **(5,676)** | **(11,105)** | **(1,341)** | **(45,336)** |
| Recognised | (92) | (8) | – | – | (464) | (562) | (751) |
| Used | 61 | 10 | – | – | 450 | – | – |
| Reversed | – | – | – | – | – | – | 377 |
| **Sep 30 2018** | **(5,004)** | **(66)** | **(10,500)** | **(5,676)** | **(11,119)** | **(1,903)** | **(45,710)** |
| **Jan 1 2017** | **(24,363)** | **(27)** | **(10,500)** | **(5,676)** | **(11,978)** | **–** | **(31,834)** |
| Recognised | – | – | – | – | (796) | – | (4,533) |
| Used | 19,375 | – | – | – | 1,194 | – | 2,430 |
| Reversed | 66 | – | – | – | – | – | 755 |
| **Sep 30 2017** *(restated)* | **(4,922)** | **(27)** | **(10,500)** | **(5,676)** | **(11,580)** | **–** | **(33,182)** |

* 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 liquidated damages, disputed receivables and security deposits.
**** The Company's Management Board estimates that financial assets covered by an agreement concluded in 2012 are exposed to a significant risk of non-recoverability and has upheld its decision to recognise an impairment loss for the full amount of the project.

(PLN '000)

## 11.15. Assets pledged as security for the Company's liabilities

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

As at September 30th 2018, property, plant and equipment pledged as security for the Company's liabilities amounted to PLN 130,444 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 Project (a second-ranking registered pledge over a set of movables and rights).

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Mortgaged property, plant and equipment, including: | 86,411 | 88,384 |
| land | 9,162 | 9,208 |
| buildings and structures | 77,249 | 79,176 |
| Property, plant and equipment encumbered with registered pledge, including: | 44,033 | 47,035 |
| plant and equipment | 42,587 | 45,983 |
| vehicles | 1,446 | 1,052 |
| | **130 444*** | **135 419*** |

*The disclosed amounts include property, plant and equipment of PLN 66 thousand classified as held for sale (December 31st 2017: PLN 108 thousand).

### 11.15.2. Intangible items pledged as security

As at September 30th 2018, intangible assets worth PLN 9,582 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 implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

### 11.15.3. Shares pledged as security

As at September 30th 2018, PLN 36,490 thousand (December 31st 2017: PLN 35,333 thousand) worth of shares 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 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.).

### 11.15.4. Inventories pledged as security

As at September 30th 2018, inventories worth PLN 26,144 thousand were pledged as security for the Company's liabilities
(December 31st 2017: PLN 26,320 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, a registered and financial pledge over shares in E003B7 Sp. z o.o.).

#### 11.15.5. Trade receivables pledged as security

As at September 30th 2018, trade receivables of PLN 20,072 thousand were pledged as security for guarantees and borrowings received by the Group (December 31st 2017: PLN 96,482 thousand).

### 11.16. Share capital

In the nine months ended September 30th 2018, the RAFAKO S.A.'s share capital remained unchanged and as at September 30th 2018 was worth 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.

### 11.17. Par value per share

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

### 11.18. Shareholders' rights

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

### 11.19. Share premium

In the nine months ended September 30th 2018, the share premium changed due to the coverage of loss brought forward, and as at September 30th 2018 stood at PLN 165,119 thousand.

### 11.20. Earnings /(loss) per share

Basic earnings/(loss) per share is calculated as the quotient of net profit/(loss) for an 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:

| | *9 months ended Sep 30 2018* | *9 months ended Sep 30 2017* |
|---|---|---|
| Net profit/(loss) from continuing operations | 1,998 | (20,510) |
| Profit/(loss) from discontinued operations | – | – |
| Net profit/(loss) | 1,998 | (20,510) |
| Net profit/(loss) attributable to holders of ordinary shares used to calculate earnings/(loss) per share | 1,998 | (20,510) |
| 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 used 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 | (0.24) |

The Company does not present diluted earnings per share for the nine months ended September 30th 2018 as it did not issue any dilutive financial instruments.

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

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| **Financial liabilities** | | |
| Trade payables | 10,683 | 14,674 |
| | **10,683** | **14,674** |
| Other liabilities | 20 | – |
| | **20** | – |

(PLN '000)

### 11.22. Long-term employee benefit obligations

| | Sep 30 2018 | Dec 31 2017 (restated) |
|---|---|---|
| Amounts payable under voluntary redundancy programme | – | 153 |
| Unpaid bonus accrual | 4 | 495 |
| Provision for retirement severance payments | 6,408 | 5,901 |
| Provision for length-of-service awards | 10,851 | 10,601 |
| Provision for other employee benefits | 3,864 | 3,946 |
| | **21,127** | **21,096** |

### 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 retirement severance payments, length-of-service awards 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:

| | Sep 30 2018 | Dec 31 2017 (restated) |
|---|---|---|
| As at January 1st | 23,185 | 23,767 |
| Interest expense | 552 | 770 |
| Current service costs | 343 | 450 |
| Actuarial (gains)/losses | 1,429 | (324) |
| Benefits paid | (1,851) | (2,538) |
| Recognition/reversal of provision for employee benefit obligations | – | 1,060 |
| **Closing balance** | **23,658** | **23,185** |
| Long-term provisions | 21,123 | 20,448 |
| Short-term provisions | 2,535 | 2,737 |

The main assumptions adopted by the actuary as at September 30th 2018 and for the nine months ended September 30th 2017, as well as for the 12 months ended December 31st 2017 to determine the amount of the obligation were as follows:

| | Sep 30 2018 | Dec 31 2017 (restated) |
|---|---|---|
| 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. Other long-term provisions

| | Sep 30 2018 | Dec 31 2017 (restated) |
|---|---|---|
| Provision for warranty repairs | 17,377 | 16,567 |
| | **17,377** | **16,567** |

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### 11.25. Short-term trade and other payables

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Financial liabilities | | |
| Trade payables | 117,102 | 185,498 |
| Amounts payable for tangible and intangible assets | 36 | 399 |
| Retentions (security deposits) | 254 | 397 |
| Other financial liabilities | 198 | – |
| **Total financial liabilities** | **117,590** | **186,294** |
| Non-financial liabilities | | |
| Taxes and other duties payable | 17,314 | 42,247 |
| Advance payments received from customers | 59,527 | 22,937 |
| Other non-financial liabilities | 17,786 | 29,234 |
| **Total non-financial liabilities** | **94,627** | **94,418** |
| | **212,217** | **280,712** |

### 11.26. Short-term employee benefit obligations

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Social security | 6,327 | 6,565 |
| Salaries and wages payable | 6,302 | 6,223 |
| Amounts payable under voluntary redundancy programme | 478 | 1,443 |
| Accrued holiday entitlements | 3,190 | 3,875 |
| Unpaid bonus accrual | 4,446 | 622 |
| Provision for retirement severance payments | 729 | 763 |
| Provision for length-of-service awards | 1,430 | 1,582 |
| Provision for other employee benefits | 376 | 392 |
| | **23,278** | **21,465** |

### 11.27. Other short-term provisions

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Provision for warranty repairs | 6,140 | 13,217 |
| Provision for expected contract losses | 1,438 | 14,090 |
| Provision for liquidated damages | – | 9,760 |
| Other provisions | 648 | 863 |
| | **8,226** | **37,930** |

(PLN '000)

## 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 September 30th 2018 and December 31st 2017.

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

| *Classes and categories of financial assets* | *Carrying amount Sep 30 2018* | *Carrying amount Dec 31 2017 (restated)* |
|---|---|---|
| **Assets at fair value through profit or loss** | **131** | **702** |
| Derivative instruments | – | 479 |
| Long-term shareholdings | 131 | 223 |
| **Assets measured at amortised cost** | **232,480** | **290,741** |
| Bonds | 21,783 | 22,447 |
| Trade receivables | 108,621 | 194,632 |
| Receivables on sale of property, plant and equipment and intangible assets | 14 | 192 |
| Other financial receivables* | 101,654 | 73,074 |
| Loans advanced | 408 | 396 |
| **Cash and cash equivalents** | **14,491** | **158,921** |
| | **247,102** | **450,364** |

* For a detailed description of changes, see Note11.12

| *Classes and categories of financial liabilities* | *Carrying amount Sep 30 2018* | *Carrying amount Dec 31 2017 (restated)* |
|---|---|---|
| **Financial liabilities at fair value through profit or loss** | – | – |
| Derivative instruments | – | – |
| **Financial liabilities at amortised cost** | **237,907** | **299,536** |
| Borrowings | 109,634 | 98,568 |
| Trade payables (including capital commitments) | 127,821 | 200,571 |
| Other financial liabilities | 452 | 397 |
| **Liabilities under guarantees, factoring and excluded from the scope of IFRS 9** | **2,729** | **2,742** |
| Liabilities under leases and rental contracts with purchase option | 2,729 | 2,742 |
| | **240,636** | **302,278** |

## 14. Derivative instruments

As at September 30th 2018, the Company did not carry any open currency forward contracts.

As at September 30th 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.

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## 15. Borrowings

As at September 30th 2018, the Company's liabilities under bank and non-bank borrowings were PLN 109,634 thousand.

| *Short-term borrowings* | *Security* | *Other* | *Currency* | *Effective interest rate* | *Maturity* | *Liabilities under borrowings* | |
|---|---|---|---|---|---|---|---|
| | | | | | | *Sep 30 2018* | *Dec 31 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 cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising the entire business of the Company , a revolving overdraft facility of up to PLN 70m*** | | PLN | 1M WIBOR + margin | Jun 30 2019**** | 66,334 | 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 or 1M EURIBOR + margin | Jun 30 2019**** | 43,300 | 43,419 |
| | | | | | | **109,634** | **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 29th 2018 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.

****As at the date of issue of these financial statements, in accordance with the annex of June 29th 2018 to the multi-purpose credit facility agreement, the term of the facility and its repayment date were extended until June 30th 2019.

***** 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 Company's equity in its total equity and liabilities).

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Equity | 393,743 | 393,250 |
| External capital (bank and non-bank borrowings) | 109,634 | 98,568 |
| Total equity and liabilities | 822,614 | 903,902 |
| **Capitalisation ratio** | **0.48** | **0.44** |

## 17. Provisions for costs

### 17.1. Provision for liquidated damages due to late contract completion or failure to meet technical specifications guaranteed under contracts

During the nine months ended September 30th 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 nine months ended September 30th 2018, the Company used PLN 3,404 thousand of the provision.

(PLN ’000)

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

| | *Provision for expected losses on contracts** | *Provision for length-of-service awards, retirement severance payments and Company Social Benefits Fund* | *Provision for unused holiday entitlement *** | *Provision for warranty repairs*** | *Provision for for liquidated damages* | *Employee benefit obligations*** | *Provision for credit losses on sureties* | *Provision for voluntary redundancy programme* | *Restructuring provision* | *Provision for other costs*** | *Other provisions* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Jan 1 2018** | **15,843** | **23,185** | **3,875** | **17,489** | **8,069** | **1,118** | **–** | **1,596** | **8,368** | **3,936** | **75** |
| Adjustment to opening balance | (1,754) | – | – | 12,295 | 1,691 | – | 1,618 | – | – | – | – |
| **Jan 1 2018 *(restated)*** | **14,089** | **23,185** | **3,875** | **29,784** | **9,760** | **1,118** | **1,618** | **1,596** | **8,368** | **3,936** | **75** |
| Provision recognised | 1,313 | 2,516 | – | 11,264 | – | 3,842 | – | – | – | 542 | 177 |
| Reversed | (9,556) | (191) | – | (4,807) | (6,361) | (413) | – | (110) | (5,747) | (2,749) | – |
| Utilised | (4,408) | (1,852) | (685) | (12,724) | (3,399) | (97) | – | (1,008) | (2,588) | (119) | (148) |
| **Sep 30 2018** | **1,438** | **23,658** | **3,190** | **23,517** | **–** | **4,450** | **1,618** | **478** | **33** | **1,610** | **104** |
| **Jan 1 2017** | **19,239** | **23,767** | **3,553** | **19,653** | **4,856** | **7,296** | **–** | **7,094** | **–** | **6,502** | **56** |
| Provision recognised | 2,977 | 3,011 | – | 7,697 | 4,823 | 299 | – | – | – | 6,480 | 198 |
| Reversed | – | – | – | – | (678) | (177) | – | – | – | (6,444) | – |
| Utilised | (12,132) | (1,805) | (107) | (10,718) | (4,206) | (466) | – | (4,980) | – | (1,985) | (56) |
| **Sep 30 2017** | **10,084** | **24,973** | **3,446** | **16,632** | **4,795** | **6,952** | **–** | **2,114** | **–** | **4,553** | **198** |

*Amounts resulting from accounting for the construction contracts described in Note 10.10
**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 nine 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 first nine months of 2018, the Company did not pay any dividend, nor did the Management Board declare any dividend payment.

## 20. Capital commitments

As at September 30th 2018, the Company had commitments related to purchase of property, plant and equipment of PLN 36 thousand. As at September 30th 2018, the Company had no signed agreements envisaging any capital expenditure to be made in 2018 and not disclosed in the accounting books at the end of the reporting period.

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

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Off-balance sheet items under financial guarantees received mainly as security for performance of contracts, including: | 194,984 | 182,715 |
| - from related entities | – | – |
| Receivables under sureties received, including: | – | – |
| - from related entities | – | – |
| Promissory notes received as security, including: | 41,874 | 18,823 |
| - from related entities | 33,365 | 11,286 |
| Letters of credit | – | 46 |
| | **236,858** | **201,584** |

| | *Sep 30 2018* | *Dec 31 2017 (restated)* |
|---|---|---|
| Off-balance sheet items under financial guarantees issued mainly as security for performance of contracts, including: | 367,498 | 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: | 19,378 | 15,076 |
| - to related entities | – | – |
| Letters of credit | – | – |
| | **1,681,251** | **1,629,882** |

In the first nine months of 2018, RAFAKO S.A. recorded a PLN 51,369 thousand increase in contingent liabilities, which resulted from an increase in guarantees granted and an increase in promissory notes issued as security. In the first nine months of 2018, a number of guarantees were issued by banks and insurance companies to RAFAKO S.A.'s trading partners upon RAFAKO S.A.'s instruction, including mainly performance bonds of PLN 76,224 thousand and bid bonds of PLN 53,761 thousand. In this category of liabilities, the largest item was a performance bond of PLN 15,529 thousand, issued in July 2018. As at the end of September 2018, liabilities under sureties in issue 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 of guarantees which expired in the first nine months of 2018 was a PLN 9,000 thousand bid bond.

In the first nine months of 2018, the Company's contingent receivables (mainly under performance bonds) rose by PLN 35,274 thousand, including an increase of PLN 12,269 thousand in receivables under bank and insurance guarantees and an increase of PLN 23,051 thousand in receivables under promissory notes. The largest guarantee received in the first nine months of 2018 was a EUR 1,123 thousand performance bond. The largest guarantee which expired in the first nine months of 2018 was a EUR 431 thousand advance payment guarantee.

(PLN '000)

## 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.

For a detailed description of key court cases, see the Company's financial statements for the year ended December 31st 2017, available at:

*http://www.rafako.com.pl/relacje-inwestorskie/raporty-okresowe*

Relative to the description presented there, there have been no changes which would materially affect the Company's financial standing.

As at the date of issue of these financial statements, no material developments occurred in the two largest disputes with Mostostal Warszawa S.A, i.e. in the action brought by RAFAKO S.A. against Mostostal Warszawa S.A. for payment of PLN 8,042,475.00 as reimbursement of 70% of the amounts retained as a performance bond, and in the action for payment of PLN 13,136,446.57 (currently, after the extension of claim, the value of the dispute is PLN 16,157,214.28) under invoice No. FHO/16100098 issued by RAFAKO S.A. for the services provided by RAFAKO S.A. and not paid for by Mostostal Warszawa S.A. and Zakład Termiczny Unieszkodliwiania Odpadów sp. z o.o. The parties are still waiting for the competent courts to set the dates for hearings.

The Company's Management Board upholds its opinion, presented in the financial statements for 2017, that the claims are legitimate and expects the disputes to be resolved in favour of the Company.

RAFAKO S.A. is also in dispute with Energomontaż Zachód Wrocław sp. z o.o. (EZW). Two court proceedings are pending (notified to RAFAKO S.A. in June and July 2018) with the total claims amounting to PLN 1,859 thousand, with respect to invoices issued by Energomontaż Zachód Wrocław Sp. z o.o. which were not paid by RAFAKO S.A and whose amounts were set off against liquidated damages claimed by RAFAKO S.A. for a delay in EZW's performance under the contract. RAFAKO S.A. believes that the set-off were legitimate and is effective; therefore, it expects favourable judgments. Both cases are in their early stages.

## 23. Management Board and Supervisory Board

In the nine months ended September 30th 2018 and by the date of these interim condensed financial statements, there were no 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. On October 30th 2018, changes were made in the Company's governing bodies, resulting from the implementation of the Company's strategy and the internal reorganisation of RAFAKO S.A.:

- Mr Edward Kasprzak, Mr Tomasz Tomczak and Mr Karol Sawicki tendered their resignations as members of the Management Board of RAFAKO S.A.;
- The Supervisory Board decided that the Company's Management Board would be composed of three members;
- The Supervisory Board removed Ms Agnieszka Wasilewska-Semail from the position of President of the Management Board, appointing her as Vice President of the Management Board;
- The Supervisory Board appointed Mr Jerzy Wiśniewski to the Company's Management Board as its President.

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

| | |
|---|---|
| Jerzy Wiśniewski | – President of the Management Board |
| Jarosław Dusiło | – Vice President of the Management Board |
| Agnieszka Wasilewska-Semail | – Vice President of the Management Board |

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In the nine months ended September 30th 2018 and by the date of these interim condensed financial statements, changes took place in the composition of the Company's Supervisory Board. On October 30th 2018, Mr Jerzy Wiśniewski resigned as member of the Company's Supervisory Board. In the exercise of its special right referred to in Art. 17.3 and Art. 17.4 of the Company's Articles of Association, PBG S.A. (a shareholder) appointed Ms Helena Fic to the Supervisory Board as its Chair.

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

| | |
|---|---|
| Helena Fic | – Chairwoman of the Supervisory Board |
| Małgorzata Wiśniewska | – Deputy Chairwoman 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), |

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

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

In the reporting and comparative periods, the Company did not enter into any transactions with members of its Management or Supervisory Boards, other than the transactions described in Note25.

## 25. Related-party transactions

In the first nine 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 nine months ended Sep 30 2018/ Sep 30 2017* | *Purchases from related parties in nine months ended Sep 30 2018/ Sep 30 2017* | *Receivables from related parties as at Sep 30 2018/ Dec 31 2017* | *Liabilities to related parties as at Sep 30 2018/ Dec 31 2017* |
|---|---|---|---|---|---|
| **Parent:** | | | | | |
| PBG S.A. | 2018 | 2,417 | 2,974 | 24 269* | 521 |
| | 2017 | 617 | 3,828 | 30 054* | 298 |
| **PBG Group companies:** | | | | | |
| PBG oil and gas Sp. z o.o. | 2018 | 265 | 22,181 | 27,390 | 2,377 |
| | 2017 | 61 | 957 | 10,502 | 149 |
| PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA | 2018 | 55 | – | 15 | – |
| | 2017 | 55 | – | 8 | – |
| PBG DOM Sp. z o.o. | 2018 | 3 | – | 2 | – |
| | 2017 | 7 | – | 1 | – |
| **Subsidiaries:** | | | | | |
| PGL-DOM Sp. z o.o. | 2018 | 257 | 471 | 37 | 260 |
| | 2017 | 11 | 45 | – | 3 |
| RAFAKO Engineering Sp. z o.o. | 2018 | 493 | 14,689 | 298 | 1,600 |
| | 2017 | 742 | 6,612 | 2,107 | 8,778 |
| RAFAKO Engineering Solution doo. | 2018 | 355 | 222 | – | 244 |
| | 2017 | – | 653 | – | 61 |
| RAFAKO Hungary Sp. z o.o. | 2018 | – | – | – | – |
| | 2017 | 3,325 | – | 834 | – |

| Related party | *Sales to related* | *Purchases from* | *Receivables from* | *Liabilities to* |
|---|---|---|---|---|

| | | *parties in nine months ended Sep 30 2018/Sep 30 2017* | *related parties in nine months ended Sep 30 2018/Sep 30 2017* | *related parties as at Sep 30 2018 Dec 31 2017* | *related parties as at Sep 30 2018 Dec 31 2017* |
|---|---|---|---|---|---|
| ENERGOTECHNIKA ENGINEERING Sp. z o.o. | 2018 | 52 | 1,928 | 6 | 1,539 |
| | 2017 | 52 | 5,419 | 10 | 1,562 |
| E001RK Sp. z o.o. | 2018 | – | 216 | – | 30 |
| | 2017 | 5 | 182 | – | 29 |
| E003B7 Sp. z o.o. | 2018 | 1,034 | 3 | 215 | – |
| | 2017 | 1,225 | – | 17,112 | – |
| RENG-NANO Sp. z o.o. | 2018 | – | – | – | – |
| | 2017 | 8 | – | – | – |
| **Entities related through personal links:** | | | | | |
| PBG Foundation | 2018 | – | 129 | – | – |
| | 2017 | – | 261 | – | 30 |
| SWGK CONSULTING Sp. z o.o. | 2018 | – | 10 | – | – |
| | 2017 | – | 138 | – | – |
| BPIL Grzegorz Kiczor | 2018 | – | 115 | – | 25 |
| | 2017 | – | 145 | – | 41 |
| Dwór w Smólsku Sp. z o.o. | 2018 | 1 | 200 | – | 25 |
| | 2017 | – | 180 | – | 49 |
| SWGK Księgowość Sp. z o.o. | 2018 | – | 450 | – | 123 |
| | 2017 | – | 250 | – | 124 |
| Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o. | 2018 | – | – | 509 | – |
| | 2017 | – | – | 516 | – |
| Economic Chamber of Energy and Environmental Protection | 2018 | – | 2 | – | 14 |
| | 2017 | – | 23 | – | 7 |
| Polimex-Mostostal S.A. | 2018 | – | 241 | – | 270 |
| | 2017 | – | – | – | 117 |
| SWGK Podatki Sp. z o.o. | 2018 | – | – | – | – |
| | 2017 | – | 80 | – | – |
| MIKO-Tech Sp. z o.o. | 2018 | 110 | 5 | 136 | 2 |
| | 2017 | – | 393 | – | – |
| Fic i Wspólnicy Kancelaria Radców Prawnych Sp.k. | 2018 | – | 220 | – | – |

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

The Company has not published any forecasts for 2018.

## 27. Brief description of the Company's material achievements and failures in Q3 2018

On July 4th 2018, a notarial deed was signed under which a new company, RAFAKO MANUFACTURING Sp. z o.o., was established. The company's share capital is PLN 30,000 and is divided into 300 shares with a par value of PLN 100 per share.

The shares were subscribed for by RAFAKO S.A. in exchange for a cash contribution. On July 9th 2018, the District Court of Gliwice, 10th Commercial Division of the National Court Register, entered RAFAKO MANUFACTURING Sp. z o.o. in the National Court Register under No. 0000739782.

On July 11th 2018 the Management Board of RAFAKO S.A. was notified that the Company's bid had been selected by PGE Górnictwo i Energetyka Konwencjonalna S.A. as the best bid in the tender procedure for comprehensive upgrade of the flue gas desulfurization systems at units No. 3, 4, 5 and 6 at the Bełchatów Power Plant of PGE GiEK S.A. The value of the Company's bid is PLN 181.6m, VAT exclusive (PLN 223.4m VAT inclusive). The project completion deadline is the end of May 2021.

On July 17th 2018, the Management Board of RAFAKO S.A. was notified that Elering AS of Tallinn, Estonia, (the employer) had cancelled the selection of the Company's bid as the best bid in the tender procedure for the turnkey construction of the Paldiski and Puiatu gas compressor stations in Estonia. The employer's decision is final and follows from an appeal filed by another bidder.

On July 18th 2018, the Management Board of RAFAKO S.A. was notified that Energa Wytwarzanie S.A. of Gdańsk had selected the Company's bid, submitted as part of the consortium comprising RAFAKO S.A. (consortium leader) and ENERGA Serwis Sp. z o.o. of Ostrołęka (the "Consortium"), as the best bid in the tender procedure for construction of gas desulfurization unit II at the Ostrołęka Power Plant B. The VAT-exclusive value of the Consortium's bid is PLN 199,250,000, with the Company's share accounting for approximately 63.3% of this amount.

On July 24th 2018, the Consortium of the Company (as the Consortium leader) and ENERGA Serwis Sp. z o.o. of Ostrołęka (as the Consortium member) signed a contract with ENERGA Elektrownie Ostrołęka S.A. of Ostrołęka for the construction of flue gas desulfurization unit II at Ostrołęka Power Plant B. The total value of the contract is PLN 199,250,000, VAT exclusive, of which PLN 126,250,000 (VAT exclusive), or approximately 63.3% of the contract value, is the Company's consideration. The contract completion deadline is September 30th 2020.

On July 31st 2018 RAFAKO S.A. signed with PGE Górnictwo i Energetyka Konwencjonalna S.A. a contract to upgrade the flue gas desulfurization systems at Units 3, 4, 5 and 6 at PGE GiEK S.A., Bełchatów Power Plant Branch. The VAT-exclusive value of the contract totals PLN 181,600,000. The contract completion deadline is May 31st 2021.

The Management Board of RAFAKO S.A. of Racibórz has announced that on July 31st 2018 the Company completed another stage of its reorganisation aimed at building a flexible, more cost-effective organisation, adapted to the current market conditions. As part of the reorganisation, employment was reduced and optimisation measures were taken covering the operations of the entire organisation. During the reorganisation, the number of reduced FTEs did not exceed 276, the number agreed with the trade unions operating at the Company, and the total value of savings resulting from the headcount reduction from the beginning of the restructuring to the end of this year should reach PLN 15m, of which PLN 12m should be obtained in 2018 alone. This amount does not include savings resulting from additional optimisation initiatives undertaken as part of the reorganisation process. The costs related to the execution of this reorganisation stage will not exceed the additional provision recognised for this purpose.

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

Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO S.A. are presented in Note 28 to the interim condensed consolidated financial statements for the nine months ended September 30th 2018.

(PLN '000)

## 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 Sep 7 2018* | *Increase* | *Decrease* | *As at Nov 27 2018* |
|---|---|---|---|---|---|
| Member of the Management Board | | | | | |
| Agnieszka Wasilewska-Semail, President of the Management Board | RAFAKO S.A. | 20,245 | 40,000 | – | 60,245 |
| Edward Kasprzak Vice President of the Management Board* | RAFAKO S.A. | 24,450 | – | – | 24,450 |
| Jarosław Dusiło Vice President of the Management Board | RAFAKO S.A. | 20,000 | 24,000 | – | 44,000 |
| Member of the Supervisory Board | – | – | – | – | – |

* On October 30th 2018, Mr Edward Kasprzak resigned as member of the Management Board of RAFAKO S.A., as described in detail in Note 23.

On September 12th 2018, the Company received a notification given under Article 19(1) of the MAR concerning the purchase of RAFAKO S.A. shares by Agnieszka Wasilewska-Semail, a person discharging managerial responsibilities at RAFAKO S.A. as President of its Management Board.

On September 13th 2018, the Company received a notification given under Article 19(1) of the MAR concerning the purchase of RAFAKO S.A. shares by Jarosław Dusiło, a person discharging managerial responsibilities at RAFAKO S.A. as Vice President of its Management Board.

## 30. Factors with a material bearing on the Group's performance in Q4 2018

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts executed for the delivery of products and services by subcontractors), which may have a positive or negative effect on the result for the period after September 30th 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;
- Risk of failure to obtain financial guarantees required to acquire and perform contracts.

(PLN '000)

**31. Events after the reporting period**

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

On October 10th 2018, the consortium comprising RAFAKO S.A., Mostostal Warszawa S.A., and Polimex-Mostostal S.A. signed with PGE Górnictwo i Energetyka Konwencjonalna S.A. Annex 9 to the contract of February 15th 2012 for the construction of power generating units No. 5 and No. 6 at the Opole Power Plant of PGE GiEK S.A., performed by the Consortium and GE Power sp. z o.o., a general designer and consortium leader managing the execution of the Project. Under the Annex, the deadlines for commissioning units No. 5 and No. 6 were changed to June 15th 2019 and September 30th 2019, respectively. The parties also confirmed the amount of remuneration due to the Consortium, provided that the deadlines for commissioning the units agreed on in the Annex are met.

On October 30th 2018 certain changes were made to the parent's governing bodies in the pursuance of RAFAKO S.A.'s strategy and as a consequence of its internal reorganisation initiated in 2016 and described in detail in Note 23.

On November 6th 2018, the Company was notified by Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. of Warsaw (the "Employer") of cancellation of the tender procedure for construction work under the project to construct the DN 1,000 MOP 8.4 MPa Pogórska Wola-Tworzeń gas pipeline. The bid submitted by RAFAKO S.A. as part of a consortium with Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. had been earlier selected by the Employer as the best bid in the tender procedure. The VAT-exclusive price proposed in the consortium's bid was PLN 687m (PLN 845m, inclusive of VAT), of which RAFAKO S.A.'s share was 50%. The tender procedure was cancelled as the best bid provided for exceeding the budget planned for the project by the Employer.

On November 21st 2018, RAFAKO S.A. was notified that Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. of Warsaw had selected the Company's bid (submitted by a consortium in which the parent is the leader and PBG oil and gas Sp. z o.o. is a member) as the best bid in the tender procedure for construction work under the project to build the Kędzierzyn Compressor Station. The VAT-exclusive value of the consortium's bid is PLN 168.7m (PLN 207.5m VAT inclusive), with RAFAKO S.A.'s share accounting for 95% of this amount. The project completion deadline is 25 months from the contract date.

These interim condensed financial statements of the Company were authorised for issue on November 27th 2018 by way of a resolution of the RAFAKO S.A. Management Board dated November 27th 2018.

Signatures:

| | | | |
|---|---|---|---|
| November 27th 2018 | Jerzy Wiśniewski | President of the Management Board | ...................... |
| November 27th 2018 | Agnieszka Wasilewska-Semail | Vice President of the Management Board | ......................... |
| November 27th2018 | Jarosław Dusiło | Vice President of the Management Board | ......................... |
| November 27th 2018 | Jolanta Markowicz | Chief Accountant | ......................... |