RAFAKO S.A.

PBG GROUP

INTERIM CONDENSED FINANCIAL STATEMENTS

for the three months ended March 31st 2019

May 27th 2019

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(PLN '000)

Interim condensed statement of comprehensive income

for the three months ended March 31st 2019

	Note	*3 months ended Mar 31 2019*	*3 months ended Mar 31 2018 (restated)*
Continuing operations			
Revenue	11.1	**216,696**	**151,569**
Revenue from sale of goods and services		216,254	150,977
Revenue from sale of materials		442	592
Cost of products and services sold	11.1	(199,430)	(124,138)
Cost of materials sold		(298)	(662)
Gross profit/(loss)		**16,968**	**26,769**
Other income	11.1	2,801	2,088
Distribution costs		(5,460)	(6,886)
Administrative expenses		(8,970)	(10,316)
Other expenses	11.1	(2,040)	(1,298)
Research costs		(2,305)	(1,193)
Operating profit/(loss)		**994**	**9,164**
Finance income	11.1	1,498	1,148
Finance costs	11.1	(1,656)	(1,060)
Profit/(loss) before tax		**836**	**9,252**
Income tax expense	11.2	(546)	(6,853)
Net profit/(loss) from continuing operations		**290**	**2,399**
Other comprehensive income for period			
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Translation reserve		–	(65)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		–	**(65)**
Items that will not be reclassified to profit/(loss) in subsequent reporting periods			
Other comprehensive income from actuarial gains/(losses)		(305)	(225)
Tax on other comprehensive income	11.2	57	43
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(248)**	**(247)**
Total comprehensive income for period		**42**	**2,152**
Weighted average number of shares		127,431,998	127,431,998
Basic earnings/(loss) per share, PLN		0.00	0.02
Diluted earnings/(loss) per share, PLN		0.00	0.02

Racibórz, May 27th 2019

Jerzy Wiśniewski   Jarosław Dusiło   Agnieszka   Jolanta Markowicz

(PLN '000)

Wasilewska-Semail

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

Interim condensed statement of financial position

as at Mar 31 2019

	Note	*Mar 31 2019*	*Dec 31 2018 (restated)*
ASSETS			
Non-current assets			
Property, plant and equipment	11.4	117,930	119,074
Goodwill		1,774	1,774
Intangible assets		7,325	7,594
Right-of-use assets	11.6	19,914	20,886
Other long-term receivables		5,992	5,224
Shares	11.8	36,656	36,520
Other non-current financial assets	11.7	38,494	36,242
Deferred tax assets	11.2	35,816	36,304
Long-term accruals and deferrals		4,014	4,002
		267,915	**267,620**
Current (short-term) assets			
Inventories	11.10	29,272	29,391
Short-term trade and other receivables	11.13	301,914	392,644
Contract assets	10	308,646	205,149
Other current financial assets	11.9	7,997	7,608
Cash and cash equivalents	11.12	36,806	5,404
Short-term accruals and deferrals	11.14	16,193	15,301
		700,828	**655,497**
Non-current assets held for sale		101	163
TOTAL ASSETS		**968,844**	**923,280**

(PLN '000)

May 27th

Interim condensed statement of financial position
as at Mar 31 2019

	Note	*Mar 31 2019*	*Dec 31 2018 (restated)*
EQUITY AND LIABILITIES			
Equity			
Share capital	11.17	254,864	254,864
Share premium	11.20	165,119	165,119
Reserve funds		11,600	11,600
Retained earnings/accumulated losses, including:		(36,797)	(36,839)
Profit/(loss) brought forward		(37,087)	(41,141)
Net profit/(loss) for period		290	4,302
		394,786	**394,744**
Non-current liabilities			
Finance lease liabilities		1,977	415
Employee benefit obligations and provisions	11.23	23,675	23,495
Other non-current liabilities	11.22	9,651	9,647
Other long-term provisions	11.25	14,963	14,515
		50,266	**48,072**
Current liabilities			
Bank and other borrowings	15	106,763	100,831
Finance lease liabilities		5,184	7,183
Short-term trade and other payables	11.26	205,005	206,429
Employee benefit obligations and provisions	11.27	21,125	19,091
Amount due to customers for contract work	10	176,096	132,656
Other short-term provisions	11.28	9,084	13,088
Short-term accruals and deferrals		210	139
Grants		325	1,047
		523,792	**480,464**
Total liabilities		**574,058**	**528,536**
TOTAL EQUITY AND LIABILITIES		**968,844**	**923,280**

Racibórz, May 27th 2019

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 cash flows

for the three months ended March 31st 2019

	Note	*3 months ended Mar 31 2019*	*3 months ended Mar 31 2018 (restated)*
Cash flows from operating activities			
Profit/(loss) before tax		**836**	**9,252**
Adjustments for:		**27,674**	**(93,803)**
Depreciation and amortisation		3,228	2,617
Foreign exchange gains/(losses)		–	(3)
Interest and dividends, net		1,198	812
(Gain)/loss from investing activities		(1,149)	(370)
Increase/(decrease) in liabilities under FX contracts		–	479
(Increase)/decrease in receivables	11.3	88,177	25,616
(Increase)/decrease in inventories		119	11,443
Increase/(decrease) in liabilities and provisions, excluding borrowings	11.3	549	(115,777)
Change in provisions, accruals and deferrals	11.3	(4,389)	(14,888)
Change in contract assets and liabilities	11.3	(60,057)	(3,732)
Income tax (paid)/received		–	–
Other		(2)	–
Net cash from operating activities		**28,510**	**(84,551)**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		360	130
Purchase of property, plant and equipment and intangible assets	11.3	(243)	(392)
Purchase of financial assets		(148)	(1,209)
Acquisition of shares in subsidiary		–	–
Sale of financial assets		–	–
Dividends and interest		–	–
Other		–	–
Net cash from investing activities		**(31)**	**(1,471)**
Cash flows from financing activities			
Proceeds from issue of shares		–	–
Payment of finance lease liabilities		(1,174)	(461)
Proceeds from borrowings		5,638	12,604
Repayment of borrowings		–	–
Interest paid		(815)	(629)
Bank fees		(6)	(24)
Other		(720)	36
Net cash from financing activities		**2,923**	**11,526**
Net increase/(decrease) in cash and cash equivalents		31,402	(74,496)
Net foreign exchange gains (losses)		–	(59)
Cash at beginning of period	11.12	5,404	158,921
Cash at end of period	11.12	36,806	84,366

Racibórz, May 27th 2019

Jerzy Wiśniewski Jarosław Dusiło Agnieszka Jolanta Markowicz

		Wasilewska-Semail	
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 changes in equity

for the three months ended March 31st 2019

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ accumulated losses*	*Total equity*
As at Jan 1 2019	**254,864**	**165,119**	**11,600**	–	**(37,157)**	**394,426**
Adjustment to opening balance following implementation of IFRS 16	–	–	–	–	318	318
As at Jan 1 2019 *(restated)*	**254,864**	**165,119**	**11,600**	–	**(36,839)**	**394,744**
Profit/(loss) from continuing operations	–	–	–	–	290	290
Other comprehensive income	–	–	–	–	(248)	(248)
As at Dec 31 2018	**254,864**	**165,119**	**11,600**	–	**(36,797)**	**394,786**
As at Jan 1 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(71,222)**	**426,074**
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(31,768)	(31,768)
As at Jan 1 2018 *(restated)*	**254,864**	**173,708**	**69,061**	**(337)**	**(102,990)**	**394,306**
Profit from continuing operations	–	–	–	–	2,399	2,399
Other comprehensive income	–	–	–	(65)	(182)	(247)
As at Mar 31 2018 *(restated)*	**254,864**	**173,708**	**69,061**	**(402)**	**(100,773)**	**396,458**

Racibórz, May 27th 2019

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 0000034143. The Company's Industry Identification Number (REGON) is 270217865. The Company's shares are listed on the Warsaw Stock Exchange.

The Company's registered office is at ul. Łąkowa 33 in Racibórz, Poland. The parent's registered office is also its principal place of business.

The Company was established for an indefinite term.

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.

In 2018, the Company liquidated a self-reporting branch in Turkey, which prepared its financial statements in accordance with Turkish law. The functional currency of the branch was euro.

The direct parent of the Company is PBG S.A. of Wysogotowo near Poznań.

These interim condensed financial statements for the three months ended March 31st 2019 were authorised for issue by the Company's Management Board on May 27th 2019.

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

The Company has also prepared interim condensed consolidated financial statements for the three months ended March 31st 2019, which were authorised for issue by the Company's Management Board on May 27th 2019.

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.

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

As at the end of March 2019, the value of the Company's order book was PLN 2,057m (end of March 2018: PLN 1,696m). In pursuit of its strategy, from the beginning of 2019 to the issue date of these financial statements, the Company won new contracts worth PLN 398, including PLN 110m in the power sector, PLN 170m in the oil and gas sector (the new strategic business area) and PLN 118 in the construction sector. Major contracts acquired in 2019 are the contract to construct the Kędzierzyn Gas Compressor Station, signed as part of the consortium with PBG oil and gas Sp. z o.o., with a VAT-exclusive value of PLN 168.7m (PLN 207.5m VAT-inclusive), with the Company's share of 95%; and the contract to construct the Jan Paweł II Pamięć i Tożsamość (Memory and Identity) Museum in Toruń, with a VAT-exclusive value of PLN 117.7m (PLN 144.7m 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 win new major contracts. On April 19th 2019, the Company received a letter announcing the selection by JSW KOKS S.A. of the Company's bid as the best bid in the tender to award the contract for "Construction of a coke gas power generation unit" at JSW KOKS S.A. KKZ Branch – Radlin Coking Plant. The estimated value of the contract is PLN 289m (VAT-exclusive).

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. 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, up to PLN 80m for the revolving credit facility and up to PLN 150m for bank guarantees, with the proviso that the aggregate amount utilised under these instruments may not exceed PLN 200m. From the beginning of this year until the date of issue of these consolidated financial statements, the parent obtained new bank guarantee facilities of PLN 81.5m (in February it executed a PLN 41.5m guarantee agreement with mBank S.A. and in April it entered into a PLN 40m guarantee facility agreement with Alior Bank S.A.). The credit and guarantee facilities currently available to RAFAKO S.A. are used on an as-needed basis and, given the plans to expand the order book, the Company is seeking additional guarantee and credit 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

During the three months ended March 31st 2019, the Company made changes to the applied accounting policies. Therefore, it restated the comparative data for the year ended December 31st 2018 in accordance with the updated accounting policies, as described below.

3.1. 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 for land, office space, residential premises, vehicles, and production 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.

The new standard had a material effect on the Company's financial statements. As at the end of 2018, the Company was a lessee under 52 operating lease and rental agreements concluded for periods from one to two years, under which the Company has the right to use properties and technical facilities.

The Company also holds a perpetual usufruct right to land, which as at December 31st 2018 was treated as ownership right and which meets the definition of a lease under IFRS 16.

The Company implemented IFRS 16 using a modified retrospective approach (without restating comparatives), with the combined effect of the first application of the standard recognised as an adjustment to the opening balance of retained earnings on the date of initial application.

In addition, the Company applied the following practical expedients permitted by the standard:

- right-of-use assets under all contracts previously classified by the Company as operating leases in accordance with IAS 17 were measured as at the date of initial application of IFRS 16 at an amount equal to the lease liability, adjusted for the payments and prepayments recognised in the statement of financial position immediately before the date of initial application;
- leases ending in 2019 are recognised by the Company as expenses on a straight-line basis over the lease term.

Following the application of IFRS 16, the Company recognised right-of-use assets of PLN 7,146 thousand and lease liabilities of PLN 5,227 thousand as at the date of initial application. Right-of-use assets were presented in the statement of financial position under 'Right-of-use assets', while lease liabilities under 'Lease liabilities', broken down into current and non-current.

Moreover, the Company discontinued to recognise property in perpetual usufruct with a carrying amount of PLN 9,108 thousand, presented as at December 31st 2018 under 'Property, plant and equipment'. The Company has estimated that the combined effect of the first application of the standard on retained earnings as at the date of initial application will be PLN 318 thousand.

(PLN '000)

For a discussion of the effects of these changes on the Company's interim condensed statement of financial position, see the table below:

	Property, plant and equipment	*Right-of-use assets*	*Long-term prepayments and accrued income*	*Profit/(loss) brought forward*	*Non-current finance lease liabilities*	*Current finance lease liabilities*
Before adjustment	**132,814**		**5,603**	**(41,459)**	**1,223**	**1,148**
Implementation of IFRS 16	–	7,146	–	318	793	6,035
Presentation adjustment	(13,740)	13,740	(1,601)	–	(1,601)	–
Adjusted	**119,074**	**20,886**	**4,002**	**(41,141)**	**415**	**7,183**

3.2. Adjustment to the presentation of costs of merchandise and materials sold and research costs

In 2018, the Company changed the presentation of cost of merchandise and materials sold and research costs, which were previously presented as 'Cost of products and services sold'. These costs are now presented as separate items in the statement of comprehensive income. The Company believes that the change will improve the clarity of data and help market participants analyse it.

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

	Cost of products and services sold	*Costs of merchandise and materials sold*	*Research costs*
Before adjustment	**(125,993)**	–	–
Adjustment to presentation of cost of merchandise and materials sold	662	(662)	–
Research costs	1,193	–	(1,193)
Adjusted	**(124,138)**	**(662)**	**(1,193)**

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, because actual amounts may differ from amounts estimated by the Management Board.

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 recognises a contract as a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When measuring the value of assets in use and lease liabilities, the Company assesses the probability of exercising the option to extend or terminate the lease contract, the probability of exercising the option to purchase the leased asset, and the estimates of other costs to terminate the lease contract.

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 reporting period are discussed below. The Company made assumptions and estimates as to 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.

Impairment of assets

At the end of a reporting period, the Company conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the recoverable amount of the cash-generating unit to which these assets belong. The recoverable amount is equal to the higher of two – value in use or fair value less costs to sell. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Company made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the three months ended March 31st 2019 there were no indications of impairment.

For further information on asset impairment as at the end of the reporting period, see Notes 11.9, 11.13 and 11.15 to these interim condensed financial statements.

Measurement of employee benefit provisions

Employee benefit provisions (retirement severance pays and length-of-service awards) were estimated using actuarial methods. The underlying assumptions are presented in Note 11.23 and 11.27. 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. In the Management Board's opinion, as at March 31st 2019, the useful lives of assets assumed by the Company for depreciation and amortisation purposes reflect the expected periods of the assets remaining useful. However, the actual periods of usefulness of the assets may differ from those assumed due to technical wear and tear, among other factors.

Revenue recognition

The Company recognises revenue at the transaction price, which is the amount of 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 at the most likely amount. The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of recognised cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Company makes these estimates based on historical data on settlements with customers and contractual provisions in the event of contract price indexation.

The Company recognises revenue as follows:

a) Revenue from sale of products and provision of services is recognised by reference to the stage of completion based on the expenditure incurred to perform the contract.

b) Revenue from sale of goods is recognised at a point in time, i.e. when the customer obtains control of the merchandise. The customer obtains control of goods at the time of their receipt or delivery to the place of destination, depending on the contractual terms of delivery.

The Company recognises revenue over time because:

a) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and

b) the entity's performance does not create an asset with an alternative use for the company and the company has an enforceable right to payment for performance completed to date.

The Company assesses whether the 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 Company expects, at contract inception, that the period between when the Company transfers a promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Revenue arising from the rendering of services is recognised and disclosed in line with the policies discussed in Note 10.

Provision for expected losses under ongoing contracts

At the end of each reporting period the Company remeasures total estimated revenues and costs of ongoing contracts accounted for using the percentage of completion method. Any expected loss is recognised as an expense in accordance with IAS 37. Details of accounting for construction contract revenue and expenses in the reporting period are presented in Note 10 to these interim condensed financial statements.

(PLN '000)

Provision for costs due to late contract completion

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.

Provision for warranty repairs

The warranties provided by the Company represent exclusively the assurance that the products or services provided will operate in accordance with the agreed specification and the parties' intentions. Therefore, the Company does not recognise a separate performance obligation.

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.

Uncertainty related to tax settlements

The Polish tax legislation is subject to frequent changes, leading to significant differences in its interpretation and significant uncertainty in its application. The tax authorities are entitled to verify the tax base (in most cases for the last five financial years) and to impose penalties and fines. Since July 15th 2016, the Tax Legislation has also taken into account the provisions of the General Anti-Abuse Rule (GAAR), which is intended to prevent the creation and use of artificial schemes to avoid paying taxes. The GAAR should be applied both with respect to transactions made after its effective date and with respect to the transactions which were made before its effective date in the case of which tax benefits continued or still continue after that date. Consequently, the determination of tax liabilities, deferred tax assets and deferred tax liabilities may require material judgements, including those relating to transactions already executed, and the amounts presented and disclosed in the financial statements may change in the future as a result of inspections by tax authorities.

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.

The probability of utilising a deferred tax asset against future taxable profit is determined based on the Company's budget approved by its Management Board. If forecast financial results indicate that the Company will generate sufficient taxable income, deferred tax assets are recognised at full amount.

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:

	Mar 31 2019	*Dec 31 2018*	*Mar 31 2018*

USD	3.8365	3.7597	3.4139
EUR	4.3013	4.3000	4.2085
GBP	4.9960	4.7895	4.7974
CHF	3.8513	3.8166	3.5812
SEK	0.4130	0.4201	0.4097
TRY	0.6802	0.7108	0.8625

6. Change in estimates

In the three months ended March 31st 2019 and as at March 31st 2019, there were changes of estimates in significant areas of the Company's operations, as described in Note 4.2.

7. Changes in Company structure

No changes occurred in the Company's structure in the three months ended March 31st 2019.

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 identifies one operating segment – Power and Environmental Protection Facilities. The Management Board assesses the Company's performance based on its financial statements.

10. Contract assets and liabilities

Contract assets and liabilities as at the end of the reporting period are presented in the table below.

	Mar 31 2019	*Dec 31 2018 (restated)*
Gross contract assets	311,380	206,997
Impairment of contract assets (-)	(2,734)	(1,848)
Contract assets	308,646	205,149
Contract liabilities, including prepayments	176,096	132,656

Contract assets are subject to IFRS 9 with respect to estimating impairment losses.

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 March 31st 2019 and as at December 31st 2018, as well as gross amounts due to customers for contract work and gross amounts due from customers for contract work.

	Mar 31 2019	*Dec 31 2018 (restated)*
Revenue initially agreed in contract	3,249,425	2,987,821
Change in contract revenue	36,021	69,565
Aggregate contract revenue	**3,285,446**	**3,057,386**
Contract costs incurred as at reporting date	1,377,768	1,114,203
Costs expected to be incurred by contract completion date	1,664,898	1,696,048
Estimated aggregate contract costs	**3,042,666**	**2,810,251**
Estimated aggregate profit/(loss) on contracts, including:	**242,780**	**247,135**
profit	320,036	302,086
loss (-)	(77,256)	(54,951)

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

(PLN '000)

	Mar 31 2019	*Dec 31 2018 (restated)*
Prepayments received as at reporting date	122,653	75,076
Prepayments that can be set off against amounts due from customers for construction contract work	18,582	11,382
Contract costs incurred as at reporting date	1,379,335	1,118,280
Cumulative profit as at reporting date (+)	181,362	162,385
Cumulative loss as at reporting date (+)	(77,256)	(54,951)
Cumulative contract revenue as at reporting date	1,483,441	1,225,713
Amounts invoiced as at reporting date (progress billings)	1,225,050	1,074,902
Settlement of contracts (balance) as at the reporting date, including:	**258,391**	**150,811**
Contract assets less prepayments that can be set off	311,380	206,997
Contract liabilities	71,570	67,566

The Company analysed changes in contract assets and liabilities and reasons behind those changes in the first three months of 2019 and in the 12 months of 2018.

The key reasons for changes in contract assets and liabilities in the reporting period are presented in the tables below.

Contract assets:

	Mar 31 2019	*Dec 31 2018 (restated)*
Contract assets at beginning of period	205,149	137,583
Revenue charged in the reporting period to contract assets	114,915	122,630
Total revenue restatements charged to contract assets	–	–
Changes in impairment losses on contract assets	(885)	(507)
Reclassification to trade receivables (-)	(10,533)	(54,557)
Contract assets at end of period	**308,646**	**205,149**

Contract liabilities:

	Mar 31 2019	*Dec 31 2018 (restated)*
Contract liabilities at beginning of period	132,656	39,479
Performance obligations recognised in the reporting period as contract liabilities	64,476	127,201
Total revenue restatements charged to contract liabilities	–	–
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(21,036)	(34,024)
Contract liabilities at end of period	**176,096**	**132,656**

Disclosures concerning capitalised costs of obtaining and performing contracts are presented by the Company under 'Short-term prepayments and accrued income'.

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 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The final division of work within the Consortium was agreed on August 4th 2013 based on the amendments made to the consortium agreement, which related to RAFAKO S.A. taking over 99.99% of the project deliveries (with 0.01% remaining for Mostostal Warszawa) and changing the distribution of consideration due to the consortium members to reflect the members' actual shares in the project. The contract for the construction of the Jaworzno III Power Generation Unit was concluded on April 17th 2014. The current value of the contract (following the execution of Annex 5) is approximately PLN 4.5bn (VAT exclusive). In terms of value, it is the largest contract ever performed by RAFAKO S.A. Currently, work is being performed on the last phase of the Jaworzno project, i.e. the start-up and commissioning phase, which will be continued until Unit is placed in service. In accordance with the contract schedule the Unit should be placed in service by November 20th 2019. The completion of this milestone by the contractual deadline is the last key stage of construction of the entire project. After the completion of the milestone relating to placement of the Unit in service, the Warranty Period under the Contract commences, during which the final Guaranteed Technical Parameters Measurements are to be performed within 12 months from placing the Unit in service. During the Warranty Period, the Employer will receive the as-built documentation and the invoice for the last milestone, which is planned for February 2020 in the Schedule of Works and Expenditures. During the Warranty Period, until the Guaranteed Parameters Measurements are performed, additional optimisation work is planned to prepare the Unit for these measurements. The contract will be completed on time if the individual stages of the start-up process go smoothly. Any identified defect or failure of machinery or equipment, unexpected technical problems in process units or electrical systems, particularly at the interface between the units/electrical systems and equipment, as well as the necessity to perform unscheduled additional work may cause a delay in the contract performance. If the contract is not completed by the prescribed deadline, i.e. the Placement-in-Service Report is not signed by November 20th 2019, the Employer may charge penalties for delayed performance of the contract, which could have a material adverse effect on the performance and financial position of both RAFAKO S.A. and the SPV implementing the project. Given the current progress of the commissioning phase, the Company perceives no risk of failure to meet the deadline for placing the Unit in service.

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. signed agreements with financial institutions, under which the companies secured bank guarantees and insurance bonds required to deliver the project. The current value of the bonds and guarantees is PLN 604m. At the same time, RAFAKO S.A.'s and E003B7 Sp. z o.o.'s assets were pledged as security for these instruments. 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.

On October 10th 2018, RAFAKO S.A., Polimex-Mostostal S.A., Mostostal Warszawa S.A., and GE Power signed with PGE Górnictwo i Energetyka Konwencjonalna S.A. an annex 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., which is 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.

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.

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

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

In the three months ended March 31st 2019, the Company generated revenue of PLN 216,696 thousand, up PLN 65,127 thousand year on year, with the growth mainly reflecting increased participation in ongoing projects, including in the contract to build a biomass-fired co-generation unit for UAB VILNIAUS KOGENERACINE JEGAINE of Lithuania, as well as the commencement of large contracts in the new oil and gas business segment.

Cost of sales in the reporting period amounted to PLN 199,728 thousand. Considering the Company's revenue and cost of sales, gross profit reached PLN 16,968 thousand.

In the current reporting period, distribution costs of PLN 5,460 recognised in the statement of profit or loss comprise costs of bid preparation and costs of PR and marketing activities.

The largest component of other income was PLN 1,374 thousand income from a surety provided to a subsidiary (March 31st 2018: PLN 1,309 thousand). Furthermore, in the first three months of 2019, the Company reversed impairment losses on assets in the amount of PLN 960 thousand, including reversal of impairment losses on trade receivables of PLN 877 thousand.

Other expenses chiefly included impairment losses on contract receivables of PLN 886 thousand and donations of PLN 491 thousand (March 31st 2018: PLN 130 thousand).

(PLN '000)

In the first three months of 2019, the Company's finance income came mainly from a discount on long-term settlements of PLN 1,359 thousand, and interest on financial instruments of PLN 138 thousand (March 31st 2018: PLN 150 thousand).

Finance costs in the period chiefly included interest on financial instruments of PLN 1,224 thousand (March 31st 2018: PLN 816 thousand) and interest on employee benefit obligations of PLN 178 thousand (March 31st 2018: PLN 181 thousand).

11.2. Income tax

Income tax expense

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

	3 months ended Mar 31 2019	*3 months ended Mar 31 2018 (restated)*
Statement of profit or loss		
Current tax	–	–
Current income tax expense	–	–
Adjustments to current income tax from previous years	–	–
Deferred tax	(546)	(6,853)
Related to recognition and reversal of temporary differences	(546)	(6,853)
Adjustments to deferred tax from previous years	–	–
Income tax expense in the statement of profit or loss	**(546)**	**(6,853)**

	3 months ended Mar 31 2019	*3 months ended Mar 31 2018 (restated)*
Deferred tax on other comprehensive income	57	43
Related to recognition and reversal of temporary differences	57	43
Income tax expense recognised in other comprehensive income	**57**	**43**

(PLN '000)

Deferred income tax calculated as at March 31st 2019

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

	Statement of financial position		*Statement of comprehensive income for three months ended*	
	Mar 31 2019	*Dec 31 2018*	*March 31st 2019*	*March 31st 2018*
- investment reliefs	(2)	(2)	–	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,100)	(14,165)	(935)	400
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,906	2,113	(207)	(68)
- difference between tax base and carrying amount of loans and receivables	3,946	4,117	(171)	161
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(48,912)	(28,506)	(20,406)	(3,689)
- difference between tax base and carrying amount of inventories	1,910	1,954	(44)	(56)
- provisions	10,804	11,248	(444)	(2,475)
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	35	27	8	(22)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	59,837	39,418	20,419	(702)
- tax loss	16,178	16,178	–	–
- adjustment to costs of unpaid invoices	3,856	3,856	–	(100)
- other	1,357	66	1,291	(259)
Deferred tax expense/benefit disclosed in the statement of profit or loss			(546)	(6,853)
Deferred tax expense/benefit disclosed in other comprehensive income			57	43
			(489)	**(6,810)**
Net deferred tax asset/(liability) including:	**35,816**	**36,304**		
Deferred tax assets	35,816	36,304		
Deferred tax liability	–	–		

As at March 31st 2019, the Company recognised a deferred tax asset on a tax loss of PLN 85,146 thousand, which will be offset against profits in future reporting periods.

In the 12 months of 2018, the Company recorded a tax loss of PLN 2,977 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 Company's Management Board decided not to recognise a deferred tax asset on the tax loss recorded in the 12 months ended December 31st 2018. The total amount of tax loss for 2015, 2016, 2017 and 2018 which was not recognised in deferred tax is PLN 160,517 thousand.

11.3. Significant items of the statement of cash flows

The PLN 88,177 thousand decrease in receivables disclosed in the statement of cash flows for the three months ended March 31st 2019 resulted mainly from:

– PLN 94,209 thousand decrease in trade receivables,
– PLN (704) thousand increase in receivables from the state budget (including VAT),
– PLN (22,722) thousand increase in prepayments made,
– PLN 8,919 thousand decrease in security deposits receivable,
– PL(1,533) thousand increase in security deposits receivable,
– PLN 10,008 thousand decrease in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the three months ended March 31st 2019, see Note 11.13.

The PLN 549 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

– PLN 16,266 thousand increase in trade payables,
– PLN (13,529) thousand decrease in taxes and other duties payable,
– PLN 3,120 thousand increase in employee benefits obligations and provisions (net of actuarial gains/(losses) of PLN 2,214 thousand),
– PLN (4,402) thousand decrease in other liabilities.

The PLN (60,057) 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 (103,497) thousand increase in amounts due from customers for contract work,
– PLN 43,440 thousand increase in gross amounts due to customers for contract work,

The PLN (4,389) thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

– PLN (976) thousand decrease in the provision for warranty repairs,
– PLN (2,510) thousand decrease in the provision for expected contract losses,
– PLN 833 thousand change in accruals and deferrals,
– PLN (70) thousand change in other provisions.

The cash flows of PLN 243 thousand relating to the purchase of property, plant and equipment and intangible assets resulted from acquisition of property, plant and equipment for PLN 169 thousand and of intangible assets for PLN 74 thousand.

Cash flows from financing activities were mainly affected by a PLN 5,638 thousand increase in debt outstanding under the overdraft facility and working capital facility advanced to the Company by PKO BP S.A.

(PLN '000)

11.4. Property, plant and equipment

March 31 2019	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2019	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**132,814**
Adjustment to opening balance following implementation of IFRS 16	(9,108)	–	(476)	(4,155)	–	(13,739)
Net carrying amount as at Jan 1 2019	**76**	**76,752**	**41,227**	**1,020**	**–**	**119,075**
Acquisitions	–	–	–	–	109	109
Liquidation/sale	–	–	(103)	(6)	–	(109)
Transfers from property, plant and equipment under construction	–	96	13	–	(109)	–
Depreciation for period	–	(669)	(1,204)	(1,147)	–	(3,020)
Impairment of property, plant and equipment in period	–	–	56	–	–	56
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	56	1,763	–	1,819
Net carrying amount as at Mar 31 2019	**76**	**76,179**	**40,045**	**1,630**	**–**	**117,930**

* Property, plant and equipment pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.16.1

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

(PLN '000)

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

	3 months ended Mar 31 2019	*3 months ended Mar 31 2018*
Purchase of property, plant and equipment and intangible assets*	835	598
Proceeds from sale of property, plant and equipment	108	50

* 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. Right-of-use assets

As a lessee, the Company uses property, plant and equipment under finance lease contracts. The carrying amounts of assets held under finance leases are as follows:

	Land	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Total*
As at Jan 1 2019					
Gross carrying amount	–	–	738	6,621	7,359
Adjustment to opening balance following implementation of IFRS 16	9,357	1,322	5,526	49	16,254
Accumulated amortisation and impairment	–	–	(261)	(2,466)	(2,727)
Net carrying amount	**9,357**	**1,322**	**6,033**	**4,204**	**20,886**
As at Mar 31 2019					
Gross carrying amount	9,357	1,322	6,264	5,567	22,510
Accumulated amortisation and impairment	(29)	(196)	(726)	(1,645)	(2,596)
Net carrying amount	**9,328**	**1,126**	**5,538**	**3,922**	**19,914**

The economic useful lives of those assets are consistent with the lease terms, ranging from 24 to 48 months. The Company depreciates leased assets with the straight-line method.

11.7. Other long-term receivables

	Mar 31 2019	*Dec 31 2018*
Financial receivables		
Security deposits/retentions	2,885	233
Other long-term receivables	3,107	4,991
Total long-term receivables, net	**5,992**	**5,224**

(PLN '000)

11.8. Shares in subsidiaries and other entities

	Mar 31 2019	*Dec 31 2018 (restated)*
Shares in listed subsidiaries		
Shares in non-listed subsidiaries	35,132	35,132
Shares in other listed companies	148	160
Shares in other non-listed companies	1,376	1,228
	36,656	**36,520**

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

In the three months ended March 31st 2019, the Company purchased one share in InnoEnergy Central Europe Sp. z o.o. for PLN 147 thousand.

11.9. Other non-current financial assets

	Mar 31 2019	*Dec 31 2018 (restated)*
Receivables under sureties provided to related entities	23,709	22,176
Long-term bonds	14,785	14,066
	38,494	**36,242**

11.9.1. 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 eight 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	Jun 30 2019	Dec 31 2019	Jun 30 2020
Series	G,G1 and G3	H,H1 and H3	I, I1 and I3
Amount of Bonds to be redeemed	PLN 61,934,800	PLN 46,875,600	PLN 238,445,700
including Bonds acquired by RAFAKO S.A.	*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 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 33.2% 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.

(PLN '000)

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 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, E1 and F1 bonds worth in aggregate PLN 11,026,800 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 by the abovementioned security instruments, 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 collateral and the total amount payable under the bonds as at the date of these interim condensed financial statements are sufficient to consider the receivables as recoverable.

As at March 31st 2019, the total net value of the bonds was PLN 22,782 thousand (of which PLN 7,997 thousand was recognised under other current financial assets as short-term bonds).

11.10. Inventories

	Mar 31 2019	*Dec 31 2018 (restated)*
Materials (at net realisable value)	29,272	29,391
At cost	39,329	39,678
At net realisable value	29,272	29,391
Total inventories, at the lower of cost and net realisable value	**29,272**	**29,391**

* Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.10

11.11. Other current financial assets

	Mar 31 2019	*Dec 31 2018 (restated)*
Other current financial assets, including:	7,997	7,608
Advance payment to acquire the right to a loan	10,500	10,500
Impairment loss on advance payment to acquire the right to a loan	(10,500)	(10,500)
Short-term bonds	7,997	7,608
	7,997	**7,608**

* For a detailed description of bonds, see Note 11.9.1.

11.12. Cash and cash equivalents

	Mar 31 2019	*Dec 31 2018 (restated)*	*Mar 31 2018*
Cash at bank and in hand	36,697	5,386	83,921
Short-term deposits for up to 3 months, including:	109	18	445
- deposits pledged as security for contingent liabilities	–	–	–
	36,806	**5,404**	**84,366**

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)

11.13. Short-term trade and other receivables

	Mar 31 2019	Dec 31 2018 (restated)
Financial receivables		
Trade receivables	105,464	198,667
Impairment losses on trade receivables (-)	(17,853)	(18,731)
Net trade receivables	**87,611**	**179,936**
Receivables on sale of property, plant and equipment and intangible assets		252
Security deposits	76,884	88,455
Receivables under court proceedings*	16,465	25,869
Other financial receivables	10,483	10,483
Impairment losses on financial receivables (-)	(24,162)	(24,189)
Total financial receivables, net	**167,281**	**280,806**
Non-financial receivables		
Receivables under prepayments and advance payments	122,095	99,373
Receivables from the state budget	10,605	9,901
Other non-financial receivables	5,033	5,664
Impairment losses on non-financial receivables (-)	(3,100)	(3,100)
Total non-financial receivables, net	**134,633**	**111,838**
Total short-term receivables, net	**301,914**	**392,644**

* 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 21 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 87,611 thousand recognised in the statement of financial position as at March 31st 2019 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 76,884 thousand disclosed in the statement of financial position as at March 31st 2019 relate mainly to the following projects:

- Construction of a coal-fired steam unit – PLN 17,451 thousand;
- Construction of a gas pipeline (PLN 15,362 thousand);
- SCR system – PLN 8,720 thousand;
- Manufacture of high-pressure parts of a boiler for the incineration plant (PLN 5,776 thousand).

(PLN '000)

The change in security deposits in the three months ended March 31st 2019 was primarily attributable to the refund of a PLN 11,168 thousand cash security deposit related to the performance of contracts for the upgrade of an FGD unit.

A significant item of other receivables were advance payments, which amounted to PLN 122,095 thousand as at March 31st 2019 and included:

- Advance payment of PLN 44,101 thousand under a contract to construct fuel storage tanks;
- Advance payment of PLN 25,225 thousand under a contract to construct a biomass boiler island;
- Advance payment of PLN 13,457 thousand under a contract for gas pipeline construction;
- Advance payment of PLN 5,837 thousand under a contract to construct an LNG storage tank;

11.14. Short-term prepayments and accrued income

	Mar 31 2019	*Dec 31 2018 (restated)*
Prepayments and accrued income		
Costs of bank and insurance guarantees	8,051	3,572
Costs of obtaining contracts with customers	2,099	2,938
Other costs	6,043	8,791
Prepayments and accrued income	**16,193**	**15,301**

(PLN '000)

11.15. Impairment of assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Accruals and deferrals related to construction contracts*	*Receivables****
Jan 1 2019	**(4,973)**	**(10,400)**	**(5,676)**	**(10,287)**	**(1,848)**	**(46,020)**
Recognised	(14)	–	–	–	(886)	–
Used	–	–	–	158	–	–
Reversed	–	–	–	73	–	905
Mar 31 2019 *(unaudited)*	**(4,987)**	**(10,400)**	**(5,676)**	**(10,056)**	**(2,734)**	**(45,115)**
Jan 1 2018	**(4,973)**	**(10,500)**	**(5,676)**	**(11,105)**	**–**	**(33,155)**
Adjustment of opening balance	–	(5,682)	–	–	(1,346)	(12,181)
Jan 1 2018 *(restated)*	**(4,973)**	**(16,182)**	**(5,676)**	**(11,105)**	**(1,346)**	**(45,336)**
Recognised	(45)	–	–	–	(102)	(546)
Used	–	–	–	293	–	–
Reversed	–	–	–	–	–	66
Mar 31 2018 *(unaudited)*	**(5,018)**	**(16,182)**	**(5,676)**	**(10,812)**	**(1,448)**	**(45,816)**

* 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)

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

11.16.1. Property, plant and equipment pledged as security

As at March 31st 2019, property, plant and equipment pledged as security for the Company's liabilities amounted to PLN 127,133 thousand. The Company's property, plant and equipment is pledged as security for liabilities under the multi-purpose 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 Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

	Mar 31 2019	*Dec 31 2018 (restated)*
Mortgaged property, plant and equipment, including:	84,797	85,754
land	9,162	9,162
buildings and structures	75,635	76,592
Property, plant and equipment encumbered with registered pledge, including:	42,336	42,640
plant and equipment	40,532	41,400
vehicles	1,804	1,200
	127,133*	**128,394***

* The disclosed amounts include PLN 101 thousand of property, plant and equipment classified as held for sale (December 31st 2018: PLN 163 thousand).

11.16.2. Intangible items pledged as security

As at March 31st 2019, intangible assets worth PLN 9,092 thousand were pledged as security for the Company's liabilities (December 31st 2018: PLN 9,339 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 Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.16.3. Shares pledged as security

As at March 31st 2019, PLN 36,656 thousand worth of shares (December 31st 2018: PLN 36,520 thousand) 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 Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly 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.).

11.16.4. Inventories pledged as security

As at March 31st 2019, inventories worth PLN 30,591 thousand were pledged as security for the Company's liabilities (December 31st 2018: PLN 29,391 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 Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.16.5. Trade receivables pledged as security

As at March 31st 2019, trade receivables of PLN 20,111 thousand were pledged as security for guarantees and borrowings received by the Company (December 31st 2018: PLN 20,170 thousand).

11.17. Share capital

In the three months ended March 31st 2019, RAFAKO S.A.'s share capital remained unchanged and as at March 31st 2019 amounted to PLN thousand.

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

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

11.18. Par value per share

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

11.19. Shareholders' rights

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

11.20. Share premium

In the three months ended March 31st 2019, there were no changes in the share premium, and as at March 31st 2019 the share premium was PLN 165,119 thousand.

11.21. 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:

	3 months ended Mar 31 2019 (unaudited)	*3 months ended Mar 31 2018 (unaudited)*
Net profit/(loss) from continuing operations	290	2,399
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	290	2,399
Net profit/(loss) attributable to holders of ordinary shares used to calculate earnings/(loss) per share	**290**	**2,399**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	127,431,998
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**	**127,431,998**
Earnings/(loss) per share		
– basic/diluted earnings/(loss) from profit/(loss) for period	0.00	0.02

The Company does not present diluted earnings per share for the three months ended March 31st 2019 as it did not issue any dilutive financial instruments.

11.22. Other non-current liabilities

	Mar 31 2019	*Dec 31 2018 (restated)*
Financial liabilities		
Other non-current liabilities	9,651	9,647
	9,651	**9,647**

11.23. Long-term employee benefit obligations and provisions

	Mar 31 2019	*Dec 31 2018 (restated)*
Unpaid bonus accrual	13	13
Provision for retirement severance payments	6,917	6,838
Provision for length-of-service awards	12,439	12,197
Provision for other employee benefits	4,306	4,447
	23,675	**23,495**

(PLN '000)

11.24. Post-employment and other benefits

Based on a valuation forecast made as at the end of the reporting period by a professional actuary, the 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:

	Mar 31 2019	*Dec 31 2018 (restated)*
As at Jan 1	26,097	23,185
Interest expense	178	741
Current service costs	136	540
Actuarial (gains)/losses	305	4,275
Benefits paid	(438)	(2,644)
Closing balance	**26,278**	**26,097**
Long-term provisions	23,662	23,482
Short-term provisions	2,618	2,617

The main assumptions adopted by the actuary as at March 31st 2019 and for the three months ended March 31st 2018 as well as for the 12 months ended December 31st 2018 to determine the amount of the obligation were as follows:

	Mar 31 2019	*Dec 31 2018 (restated)*
Discount rate (%)	2.8	2.8
Expected inflation rate (%)*	–	–
Employee turnover rate	7.5	7.5
Expected growth of salaries and wages (%)**	2	2

* No data provided in the actuary's report.
** 2% in 2019 and in subsequent years

11.25. Other long-term provisions

	Mar 31 2019	*Dec 31 2018 (restated)*
Provision for warranty repairs	14,963	14,515
	14,963	**14,515**

11.26. Short-term trade and other payables

	Mar 31 2019	*Dec 31 2018 (restated)*
Financial liabilities		
Trade payables	192,963	176,700
Amounts payable for tangible and intangible assets	157	217
Retentions (security deposits)	260	259
Other financial liabilities		199
Total financial liabilities	**193,380**	**177,375**

(PLN '000)

	Mar 31 2019	*Dec 31 2018 (restated)*
Non-financial liabilities		
Taxes and other duties payable	3,296	16,825
Other non-financial liabilities	8,329	12,229
Total non-financial liabilities	**11,625**	**29,054**
	205,005	**206,429**

11.27. Short-term employee benefit obligations and provisions

	Mar 31 2019	*Dec 31 2018 (restated)*
Social security	6,840	6,488
Salaries and wages payable	6,786	6,179
Amounts payable under voluntary redundancy programme	–	145
Accrued holiday entitlements	4,142	2,929
Unpaid bonus accrual	739	733
Provision for retirement severance payments	553	540
Provision for length-of-service awards	1,733	1,754
Provision for other employee benefits	332	323
	21,125	**19,091**

11.28. Other short-term provisions

	Mar 31 2019	*Dec 31 2018 (restated)*
Provision for warranty repairs	7,012	8,436
Provision for expected contract losses	1,567	4,077
Other provisions	505	575
	9,084	**13,088**

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 first quarterly financial statements for 2019.

13. Financial instruments

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.

The value of financial assets presented in the statement of financial position as at March 31st 2019 and December 31st 2018 relates to the following categories of financial instruments defined in IFRS 9:

- financial assets at amortised cost,
- financial assets at fair value through profit or loss – designated as such on initial recognition or subsequently,
- financial assets at fair value through profit or loss – obligatorily measured this way in accordance with IFRS 9,
- equity instruments at fair value through other comprehensive income designated as such on initial recognition,
- financial assets at fair value through other comprehensive income,
- financial instruments designated as hedging instruments,
- assets outside the scope of IFRS 9 (non-IFRS 9).

(PLN '000)

Classes and categories of financial assets	*Carrying amount Mar 31 2019*	*Carrying amount Dec 31 2018 (restated)*
Assets at fair value through profit or loss	**148**	**160**
Long-term shareholdings	148	160
Assets at fair value through other comprehensive income	**1,376**	**1,228**
Long-term shareholdings	1,376	1,228
Assets at amortised cost	**219,764**	**329,880**
Bonds	22,782	21,674
Trade receivables	90,718	184,927
Receivables on sale of property, plant and equipment and intangible assets	–	252
Other financial receivables*	82,555	100,851
Other financial assets	23,709	22,176
Cash and cash equivalents	**36,806**	**5,404**
	258,094	**336,672**

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

The value of financial liabilities presented in the statement of financial position as at March 31st 2019 and December 31st 2018 relates to the following categories of financial instruments defined in IFRS 9:

- financial liabilities at amortised cost
- financial liabilities at fair value through profit or loss – designated as such on initial recognition or subsequently,
- financial liabilities at fair value through profit or loss – financial liabilities held for trading in accordance with IFRS 9,
- financial guarantee agreements,
- contingent consideration in business combinations,
- financial instruments designated as hedging instruments,
- liabilities outside the scope of IFRS 9 (non-IFRS 9).

Classes and categories of financial liabilities	*Carrying amount Mar 31 2019*	*Carrying amount Dec 31 2018 (restated)*
Financial liabilities at fair value through profit or loss		–
Derivative instruments		–
Financial liabilities at amortised cost	**309,793**	**287,853**
Borrowings	106,763	100,831
Trade payables (including capital commitments)	202,770	186,564
Other financial liabilities	260	458
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**7,161**	**7,598**
Liabilities under leases and rental contracts with purchase option	7,161	7,598
	316,954	**295,451**

14. Derivative instruments

As at March 31st 2019, the Company did not carry any open currency forward contracts. As at March 31st 2019, the Company did not carry any other derivative instruments.

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

(PLN '000)

15. Borrowings

As at March 31st 2019, the Company carried liabilities under bank borrowings.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings Mar 31 2019*	*Liabilities under borrowings Dec 31 2018*
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****	69,533	60,081
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****	37,230	40,750
						106,763	**100,831**

*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.

The Company plans to extend the credit facility agreement for subsequent periods. The Company's credit standing should be analysed taking into account the information presented in Note 2.

(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).

	Mar 31 2019	*Dec 31 2018 (restated)*
Debt to equity		
Equity	394,786	394,744
Borrowed funds (bank and non-bank borrowings)	106,763	100,831
Total equity and liabilities	968,844	923,280
Capitalisation ratio (equity / total assets)	**0.41**	**0.43**
Total financing sources		
Equity	394,786	394,744
Borrowed funds (bank and non-bank borrowings)	106,763	100,831
Finance leases	7,161	7,598
Capital-to-total financing sources ratio	**3.47**	**3.64**
EBITDA		
Operating profit/(loss)	994	3,703
Depreciation and amortisation	3,228	10,904
EBITDA	**4,222**	**14,607**
Debt		
Borrowings and other debt instruments	106,763	100,831
Finance leases	7,161	7,598
Debt to EBITDA	**26.98**	**9.20**

(PLN '000)

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

	*Provision for expected contract losses**	*Provision for length-of-service awards, retirement severance payments and Company Social Benefits Fund*	*Provision for holiday entitlements*	*Provision for warranty repairs*	*Provision 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 2019	**4,077**	**26,096**	**2,928**	**22,951**	**–**	**747**	**1,549**	**145**	**–**	**1,531**	**139**
Provision recognised	25	621	1,214	1,506	–	15	–	–	–	–	71
Reversed	–	–	–	(2,482)	–	–	–	(4)	–	(32)	–
Utilised	(2,535)	(438)	–	–	–	(10)	–	(141)	–	–	–
Mar 31 2019 *(unaudited)*	**1,567**	**26,279**	**4,142**	**21,975**	**–**	**752**	**1,549**	**–**	**–**	**1,499**	**210**
Jan 1 2018	**15,843**	**23,185**	**3,874**	**17,489**	**8,069**	**1,118**	**–**	**1,596**	**8,368**	**3,936**	**75**
adjustment of opening balance	(3,292)	–	–	12,295	1,696	–	1,618	–	–	–	–
Jan 1 2018 ***(restated)***	**12,551**	**23,185**	**3,874**	**29,784**	**9,765**	**1,118**	**1,618**	**1,596**	**8,368**	**3,936**	**75**
Provision recognised	870	520	1,665	4,121	57	69	–	–	–	88	72
Reversed	(8,712)	–	–	–	–	(202)	–	(4)	–	3	–
Utilised	–	(400)	–	(8,681)	(3,404)	(19)	–	(337)	(482)	(44)	–
Mar 31 2018 *(unaudited)*	**4,709**	**23,305**	**5,539**	**25,224**	**6,418**	**966**	**1,618**	**1,255**	**7,886**	**3,983**	**147**

*Amounts resulting from accounting for the service contracts described in Note 10.

(PLN '000)

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

In the three months ended March 31st 2019, the Company did not issue, redeem or repay any debt or equity securities.

18. Dividends paid or declared

In the first three months of 2019, the Company did not pay any dividends, nor did the Management Board declare any dividend payments.

19. Capital commitments

As at March 31st 2019, the Company did not recognise any commitments related to purchase of property, plant and equipment.

As at March 31st 2019, the Company had not signed agreements envisaging any capital expenditure to be made in 2019 and not disclosed in the books at the end of the reporting period.

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

	Mar 31 2019	*Dec 31 2018 (restated)*
Receivables under bank guarantees received mainly as security for performance of contracts, including:	238,482	226,019
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	61,053	64,159
- from related entities	52,160	55,657
Letters of credit	–	–
	299,535	**290,178**

	Mar 31 2019	*Dec 31 2018 (restated)*
Liabilities under bank guarantees issued mainly as security for contract performance, including:	452,134	416,053
- to related entities	–	–
Liabilities under sureties, including:	1,239,819	1,238,500
- to related entities	1,239,819	1,238,500
Promissory notes issued as security, including:	21,978	21,978
- to related entities	–	–
	1,713,931	**1,676,531**

In the first three months of 2019, RAFAKO S.A. recorded a PLN 37,400 thousand increase in contingent liabilities, which resulted from an increase in guarantees granted. In the period, a number of guarantees were issued by banks and insurance companies to trading partners upon the Company's instructions, including performance bonds of PLN 48,173 thousand, advance payment guarantees of PLN 9,891 thousand and bid bonds of PLN 6,600 thousand. In this category of liabilities, the largest item was a performance bond of PLN 20,750 thousand, issued in February 2019. As at the end of March 2019, liabilities under sureties issued were PLN 1,239,819 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 expired in the first three months of 2019 was a PLN 6,654 thousand performance bond.

In the first three months of 2019, the Company's contingent receivables (mainly under performance bonds and advance payment guarantees) rose by PLN 9,356 thousand, including an increase of PLN 12,463 thousand in receivables under bank and insurance guarantees and a decrease of PLN 3,106 thousand in receivables under promissory notes. The largest item of guarantees received in the first three months of 2019 was a PLN 2,337 thousand performance bond. The largest items of guarantees expired in the first three months of 2019 were three advance payment guarantees of EUR 400 thousand each.

(PLN '000)

21. 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 2018, available at:

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

The cases described in Notes 42.1 and 42.2 to the full-year financial statements are considered closed. No significant changes occurred with respect to the other cases.

As regards the dispute with Wärtsilä Finland Oy, the Company summarised the work performed by April 9th 2019. On April 24th 2019, the parent notified the customer that the amount of the claim had been revised to EUR 4.62. The amount of the claim as estimated by the customer remains unchanged at EUR 3,537,412.00. The Company and the customer reiterated their intention to settle the dispute out of court.

A new case is the legal action brought by RAFAKO S.A. against Mostostal Warszawa S.A. on April 30th 2019. In the statement of claim, the Company demands payment of PLN 2,429 thousand in interest, citing incorrect invoices issued by the defendant that prevented the Company from making relevant deductions from output VAT on time.

22. Management Board and Supervisory Board

In the three months ended March 31st 2019 and by the date of these interim condensed financial statements, there were no changes in the composition of the Company's Management Board.

As at the date of these interim condensed 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

In the three months ended March 31st 2019 and by the date of these interim condensed financial statements, there were no changes in the composition of the Company's Supervisory Board.

As at the date of these interim condensed 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),
Michał Sikorski	– Member of the Supervisory Board,

23. 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 Note 24.24

24. Related-party transactions

The related parties of RAFAKO S.A. are its key management personnel, subsidiaries exempt from consolidation and other related parties, including entities controlled by the Company's Management Board. Other main related parties are PBG S.A., PBG oil and gas Sp. z o.o., RAFAKO Engineering Sp. z o.o., Energotechnika Engineering Sp. z o.o., and E003B7 Sp. z o.o.

(PLN '000)

Outstanding balances of receivables and liabilities are usually settled in cash. For information on contingent liabilities associated with related parties, see Note 20.

In the first three months of 2019 and 2018, the Company did not enter into any material related-party transactions on non-arm's length terms.

The following amounts of revenue and receivables from related parties were recognised in the period covered by these financial statements:

	Operating income	
	Jan 1– Mar 31 2019	*Jan 1– Mar 31 2018*
Sales to:		
Entities related through equity links:	1,434	245
Entities related through personal links:	–	–
TOTAL	**1,434**	**245**

	Receivables	
	Mar 31 2019	*Dec 31 2018*
Sales to:		
Entities related through equity links:	90,190	87,398
Entities related through personal links:	–	510
TOTAL	**90,190**	**87,908**

** Including bonds from PBG S.A. described in Note 11.9*

The following amounts of purchases from and liabilities to related entities were recognised in the period covered by these financial statements:

	Purchases (costs, assets)	
	Jan 1– Mar 31 2019	*Jan 1– Mar 31 2018*
Purchases from:		
Entities related through equity links:	21,320	3,885
Entities related through personal links:	186	253
TOTAL	**21,506**	**4,138**

(PLN '000)

	Liabilities	
	Mar 31 2019	*Dec 31 2018*
Purchases from:		
Entities related through equity links:	11,346	3,624
Entities related through personal links:	115	75
TOTAL	**11,461**	**3,699**

25. Management Board's position on the Company's ability to deliver forecast results

The Company has not published any forecasts for 2019.

26. Brief description of the Company's material achievements and failures in Q1 2019

On February 12th 2019, RAFAKO S.A. and Bank Gospodarstwa Krajowego signed the Direct Agreement in relation to the Export Contract, which defines the consequences of the Company's failure to meet the requirement to maintain a 40% or higher share of components sourced in Poland (the "Polish share") in net revenue from the contract to construct two steam units on Lombok Island (Indonesia), performed by the consortium comprising RAFAKO S.A. and PT. Rekayasa Industri, for PT Perusahaan Listrik Negara (Persero) ("PT PLN") (the "Direct Agreement"). The Direct Agreement was signed with respect to the Credit Facility Agreement executed by Bank Gospodarstwa Krajowego and PT PLN and insured with Korporacja Ubezpieczeń Kredytów Eksportowych S.A. ("KUKE"). An export credit facility guaranteed by the State Treasury through KUKE has to meet the Polish share requirement.

The Direct Agreement imposes the obligation to pay a contractual penalty if the Company fails to meet the requirement of the Polish share in net revenue from the Contract, and sets the maximum amount of the contractual penalty which may be imposed on the Company at EUR 80,816,250.00. The potential penalty amount is reduced as PT PLN repays the facility and as KUKE makes earlier insurance payments (if any). If the Polish share requirement is not met (which is in the Company's sole discretion), the insurance policy with KUKE expires and the penalty then serves as collateral for Bank Gospodarstwa Krajowego. The Company has been performing the Contract as it is obliged to towards Bank Gospodarstwa Krajowego and KUKE, and thus it does not expect a necessity to pay the contractual penalty.

On February 15th 2019, RAFAKO S.A. signed a contract with Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. of Warsaw for construction work under the project to build the Kędzierzyn Compressor Station. The VAT-exclusive value of the contract is PLN 168.7m (PLN 207.5m VAT inclusive), with the Company's share accounting for 95% of this amount. The time to complete the contract is 25 months from its date.

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

Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A. are presented in Note 28 to the interim condensed consolidated financial statements for the three months ended March 31st 2019.

(PLN '000)

28. 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 Apr 30 2019*	*Increase*	*Decrease*	*As at May 30 2019*
Member of the Management Board					
Agnieszka Wasilewska-Semail, President of the Management Board	RAFAKO S.A.	60,245	–	–	60,245
Jarosław Dusiło Vice President of the Management Board	RAFAKO S.A.	44,000	–	–	44,000
Member of the Supervisory Board		–	–	–	–

29. Factors with a material bearing on the Company's performance in Q2 2019

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts being executed for the delivery of products and services), which may have a positive or negative effect on the results after March 31st 2019;
- 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.

30. Events after the reporting period

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

On April 16th 2019, the Company and Muzeum Pamięć i Tożsamość im. św. Jana Pawła II (in the process of formation) of Toruń, entered in the Register of Cultural Institutions, for which the Ministry of Culture and National Heritage acts as the organiser, signed a design-build contract for the construction of the St. John Paul II Memory and Identity Museum in Toruń. The contract value is PLN 117.7m, VAT-exclusive (ca. PLN 144.7m VAT-inclusive).

On April 19th 2019, the Management Board of RAFAKO S.A. received from JSW KOKS S.A. (the "Employer") a letter announcing the selection by the Employer of the Company's bid as the best bid in the tender to award a contract for "Improvement of energy efficiency at JSW KOKS S.A. – Construction of a coke gas power generation unit" at JSW KOKS S.A. KKZ Branch - Radlin Coking Plant. The Employer also invited the Company to participate in additional negotiations concerning the submitted bid and indicated that conclusion of the contract will require further corporate approvals on the Employer's side. On May 13th 2019, the Company signed a Memorandum of Understanding with the Employer to confirm the key terms of the project execution. In the Memorandum of Understanding, the parties confirmed their intention to enter into a contract for execution of the project on the terms defined in the course of the tender procedure carried out by the Employer, and confirmed their final agreement on:

1) the Company's consideration under the contract, in the amount of PLN 289,000,000 (VAT-exclusive);
2) the deadline for the project completion: 29 months from the date of the contract; and
3) the details of project implementation contained in the Company's bid and the tender procedure documentation.

Furthermore, in the Memorandum of Understanding the parties indicated that the contract would be executed after the required corporate approvals were obtained by the Employer.

On April 25th 2019, the Company and HSBC France, Poland Branch of Warsaw, executed an annex to the bank guarantee facility agreement, extending the term of the facility until April 24th 2020 and extending the validity period of the guarantees issued until April 24th 2025. The other material terms and conditions of the agreement remained unchanged. Pursuant to the agreement, the Bank has provided RAFAKO with a bank guarantee facility, under which RAFAKO may instruct the Bank to issue guarantees within a facility limit of EUR 24,475,000. The facility may only be used to finance

RAFAKO's day-to-day operations related to the performance of contracts by the Company, in the form of guarantees issued upon RAFAKO's instructions. The following types of guarantees may be issued under the facility:

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

The facility is a revolving facility, which means that whenever a guarantee issued by the Bank expires, the available facility amount is increased by the amount of the expired guarantee.

31. Authorisation for issue

These interim condensed financial statements of the Company were authorised for issue on May 28th 2019 by resolution of the RAFAKO S.A. Management Board of May 27th 2019.

Signatures:

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