RAFAKO GROUP

PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended June 30th 2018

September 6th 2018

Table of contents

Appendix:

1. Interim condensed financial statements of RAFAKO S.A. for the six months ended June 30th 2018

(PLN '000)

Interim condensed consolidated statement of comprehensive income

for the six months ended June 30th 2018

	Note	*Six months ended Jun 30 2018*	*Six months ended Jun 30 2017 (restated)*	*3 months ended Jun 30 2018*	*3 months ended Jun 30 2017 (restated)*
Continuing operations					
Revenue	11.1	**624,131**	**871,869**	**326,201**	**432,166**
Revenue from sale of products and services		623,348	869,814	326,010	430,754
Revenue from sale of materials		783	2,055	191	1,412
Cost of products and services sold	11.1	(560,967)	(791,785)	(303,219)	(401,703)
Cost of materials sold		(755)	(576)	(92)	87
Gross profit/(loss)		**62,409**	**79,508**	**22,890**	**30,550**
Other income	11.1	8,145	1,585	6,676	651
Distribution costs	11.1	(12,851)	(16,742)	(5,901)	(8,911)
Administrative expenses		(26,557)	(29,854)	(12,987)	(14,962)
Other expenses	11.1	(5,529)	(6,240)	(2,246)	(4,763)
Operating profit/(loss)		**25,617**	**28,257**	**8,432**	**2,565**
Finance income	11.1	5,625	1,163	4,527	545
Finance costs	11.1	(2,514)	(8,293)	(978)	(2,881)
Profit/(loss) before tax		**28,728**	**21,127**	**11,981**	**229**
Income tax expense	11.2	(14,243)	(12,667)	(5,735)	(2,419)
Net profit/(loss) from continuing operations		**14,485**	**8,460**	**6,246**	**(2,190)**

(PLN '000)

Interim condensed consolidated statement of comprehensive income

for the six months ended June 30th 2018

	Note	*Six months ended Jun 30 2018*	*Six months ended Jun 30 2017 (restated)*	*3 months ended Jun 30 2018*	*3 months ended Jun 30 2017 (restated)*
Other comprehensive income for period		**(496)**	**(115)**	**(252)**	**(46)**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		(125)	(189)	(63)	5
Exchange differences on translating foreign operations attributable to non-controlling interests		13	(8)	13	11
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(112)**	**(197)**	**(50)**	**16**
Items that will not be reclassified to profit/(loss) in subsequent reporting periods					
Other comprehensive income from actuarial gains/(losses)		(474)	100	(249)	(77)
Tax on other comprehensive income		90	(18)	47	15
Other net comprehensive income that will not be reclassified to profit/(loss) in subsequent reporting periods		**(384)**	**82**	**(202)**	**(62)**
Total comprehensive income for period		**13,989**	**8,345**	**5,994**	**(2,236)**
Net profit/(loss) attributable to:		**14,485**	**8,460**	**6,246**	**(2,190)**
Owners of the parent		14,643	8,355	6,197	(2,339)
Non-controlling interests		(158)	105	49	149
Comprehensive income attributable to:		**13,989**	**8,345**	**5,994**	**(2,236)**
Owners of the parent		14,134	8,248	5,932	(2,396)
Non-controlling interests		(145)	97	62	160
Weighted average number of shares		127,431,998	84,931,998	127,431,998	84,931,998
Basic/diluted earnings/(loss) per share (in PLN)	11.21	0.11	0.10	0.05	(0.03)

Racibórz, September 6th 2018

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

(PLN '000)

Interim condensed consolidated statement of financial position
as at June 30th 2018

	Note	Jun 30 2018	Dec 31 2017 (restated)	Jun 30 2017 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	11.4	166,892	170,934	175,834
Goodwill		9,166	9,166	9,166
Intangible assets		8,429	8,905	9,234
Long-term trade and other receivables	11.7	42,536	39,385	45,196
Shares	11.8	1,395	242	281
Non-current financial assets	11.9	16,772	17,700	25,269
Deferred tax assets	11.2	32,434	42,542	49,286
Long-term prepayments and accrued income		2,621	1,689	–
		280,245	**290,563**	**314,266**
Current assets				
Inventories	11.10	29,354	28,823	14,191
Short-term trade and other receivables	11.11	346,330	485,916	335,692
Gross amount due from customers for contract work	10	432,779	259,119	125,603
Income tax asset		185	104	5,110
Derivative instruments		–	479	–
Other current financial assets	11.12	8,054	4,747	6,470
Short-term loans advanced		11,604	10,010	19
Cash and cash equivalents	11.13	106,548	180,291	203,851
Short-term prepayments and accrued income		22,217	21,076	21,389
		957,071	**990,565**	**712,325**
Non-current assets held for sale		115	125	57
TOTAL ASSETS		**1,237,431**	**1,281,253**	**1,026,648**

Racibórz, September 6th 2018

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

(PLN '000)

Interim condensed consolidated statement of financial position
as at June 30th 2018

	Note	*Jun 30 2018*	*Dec 31 2017 (restated)*	*Jun 30 2017 (restated)*
EQUITY AND LIABILITIES				
Equity				
Share capital	11.16	254,864	254,864	169,864
Share premium	11.19	165,119	173,708	95,340
Reserve funds		191,580	182,242	182,242
Translation reserve		(560)	(433)	(286)
Retained earnings/accumulated losses, including:		(38,538)	(52,050)	(15,960)
Profit/(loss) brought forward		(53,181)	(54,270)	(24,315)
Net profit/(loss) for period		14,643	2,220	8,355
		572,465	**558,331**	**431,200**
Equity attributable to non-controlling interests		8,483	8,628	9,583
		580,948	**566,959**	**440,783**
Non-current liabilities				
Finance lease liabilities		2,301	2,106	2,793
Employee benefit obligations and provisions	11.23, 11.24	20,831	21,184	23,736
Long-term trade and other payables	11.22	25,074	38,779	41,955
Other long-term provisions	11.25	33,415	29,497	6,022
Long-term accruals and deferred income		217	65	773
		81,838	**91,631**	**75,279**
Current liabilities				
Short-term portion of interest-bearing borrowings	15	115,252	98,728	49,122
Finance lease liabilities		2,513	2,445	2,380
Short-term trade and other payables	11.26	387,311	415,013	306,400
Income tax liability		2,196	2,280	–
Employee benefit obligations and provisions	11.27, 11.24	33,441	34,666	36,664
Gross amount due to customers for contract work	10	197	17,828	60,671
Other short-term provisions	11.28	14,774	35,795	41,810
Short-term accruals and deferred income		18,346	15,628	12,979
Grants		615	280	560
		574,645	**622,663**	**510,586**
Total liabilities		**656,483**	**714,294**	**585,865**
TOTAL EQUITY AND LIABILITIES		**1,237,431**	**1,281,253**	**1,026,648**

Racibórz, September 6th 2018

Agnieszka Jarosław Dusiło Edward Kasprzak Karol Sawicki Tomasz Tomczak Jolanta Markowicz

(PLN '000)

Wasilewska-Semail

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

Interim condensed consolidated statement of cash flows

for the six months ended June 30th 2018

	Note	*Six months ended Jun 30 2018*	*Six months ended Jun 30 2017 (restated)*
Cash flows from operating activities			
Profit/(loss) before tax		**28,728**	**21,127**
Adjustments for:		**(112,564)**	**173,587**
Depreciation and amortisation		7,228	7,035
Foreign exchange gains/(losses)		25	–
Interest and dividends, net		1,667	1,949
(Gain)/loss from investing activities		(2,633)	(571)
Increase/(decrease) in liabilities/assets from valuation of derivative instruments		479	–
(Increase)/decrease in receivables	11.3	136,435	383,736
(Increase)/decrease in inventories		(531)	(208)
Increase/(decrease) in employee benefit obligations, excluding borrowings	11.3	(42,985)	(280,201)
Change in provisions, accruals and deferrals	11.3	(16,458)	(9,931)
Change in gross amounts due to and from customers for contract work	11.3	(191,291)	76,874
Income tax (paid)/received		(4,438)	(4,960)
Other		(62)	(136)
Net cash from operating activities		**(83,836)**	**194,714**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		782	1,331
Purchase of property, plant and equipment and intangible assets		(1,105)	(2,585)
Sale of financial assets		–	3,685
Purchase of financial assets		(1,209)	(500)
Repayment of loans advanced		10,000	–
Loans advanced		(11,500)	–
Interest on loans advanced		137	–
Dividends and interest received		8	18
Other		(1)	–
Net cash from investing activities		**(2,888)**	**1,949**
Cash flows from financing activities			
Payment of finance lease liabilities		(2,012)	(1,369)
Proceeds from borrowings		17,636	–
Repayment of borrowings		(550)	(98,282)
Payment of interest on borrowings		(26)	–
Interest paid		(1,187)	(1,532)
Bank fees		(1,048)	(51)
Other		338	1,049
Net cash from financing activities		**13,151**	**(100,185)**
Net increase/(decrease) in cash and cash equivalents		**(73,573)**	**96,478**
Net foreign exchange gains (losses)		(170)	(151)
Cash at beginning of period		180,291	107,524
Cash at end of period		106,548	203,851

Racibórz, September 6th 2018

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

(PLN '000)

Interim condensed consolidated statement of changes in equity

for the six months ended June 30th 2018

	Share capital	*Share premium*	*Reserve funds*	*Translation reserve*	*Retained earnings/ accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at Jan 1 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(8,756)**	**601,625**	**8,628**	**610,253**
Adjustment to opening balance	–	–	–	–	(43,294)	(43,294)	–	(43,294)
As at Jan 1 2018 *(restated)*	**254,864**	**173,708**	**182,242**	**(433)**	**(52,050)**	**558,331**	**8,628**	**566,959**
Profit/(loss) from continuing operations	–	–	–	–	14,643	14,643	(158)	14,485
Other comprehensive income	–	–	–	(127)	(382)	(509)	13	(496)
Distribution of retained earnings	–	(8,589)	9,338	–	(749)	–	–	–
As at Jun 30 2018	**254,864**	**165,119**	**191,580**	**(560)**	**(38,538)**	**572,465**	**8,483**	**580,948**
As at Jan 1 2017	**169,864**	**95,340**	**175,365**	**(97)**	**(5,617)**	**434,855**	**8,996**	**443,851**
Adjustment to opening balance	–	–	–	–	(11,903)	(11,903)	–	(11,903)
As at Jan 1 2017 *(restated)*	**169,864**	**95,340**	**175,365**	**(97)**	**(17,520)**	**422,952**	**8,996**	**431,948**
Profit/(loss) from continuing operations	–	–	–	–	8,355	8,355	105	8,460
Other comprehensive income	–	–	–	(189)	82	(107)	(8)	(115)
Distribution of retained earnings	–	–	6,877	–	(6,877)	–	–	–
Change in Group structure	–	–	–	–	–	–	490	490
As at Jun 30 2017 *(restated)*	**169,864**	**95,340**	**182,242**	**(286)**	**(15,960)**	**431,200**	**9,583**	**440,783**

Racibórz, September 6th 2018

Agnieszka Wasilewska-Semail | Jarosław Dusiło | Edward Kasprzak | Karol Sawicki | Tomasz Tomczak | Jolanta Markowicz

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NOTES

1. General information

The RAFAKO Group (the "Group") comprises RAFAKO S.A. (the "parent", the "Company") and its subsidiaries presented in Note 7. 7

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

The parent and other Group companies were established for an indefinite period.

These interim condensed consolidated financial statements of the Group cover the six months ended June 30th 2018 and contain consolidated comparative data for the six months ended June 30th 2017 and as at December 31st 2017. The interim condensed consolidated statement of comprehensive income contains data for the six months ended June 30th 2018 and the comparative data for the six months ended June 30th 2017, which has not been audited or reviewed by an auditor.

The Group's principal business activity includes:

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

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

These interim condensed consolidated financial statements for the six months ended June 30th 2018 were authorised for issue by the parent's Management Board on September 6th 2018.

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

2. Basis of preparation

These interim condensed consolidated financial statements of the Group for the six months ended March 30th 2018 have been prepared in accordance with EU-endorsed International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

These interim condensed consolidated financial statements do not include all the information and disclosures required in full-year consolidated financial statements and should be read in conjunction with the consolidated financial statements of the RAFAKO Group for the year ended December 31st 2017, which were authorised for issue on April 5th 2018.

These interim condensed consolidated financial statements of the RAFAKO Group 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 consolidated financial statements is the Polish złoty ("PLN"), and all amounts are stated in thousands of złoty, unless indicated otherwise.

The Group applied the IFRSs as effective for the year beginning on January 1st 2018.

These interim condensed consolidated financial statements of the Group have been prepared on the assumption that the Group companies will continue as going concerns for at least 12 months after the reporting date.

The most material factor affecting the RAFAKO Group's ability to continue as a going concern is the financial condition of the parent. To continue as a going concern, the Group must secure an appropriate volume of orders (and in particular sufficient financing to perform the contracts) and maintain financial liquidity. Therefore, the principal factor affecting the Group's ability to continue as a going concern is the financial condition of the parent.

An analysis of the Group's financial position should take into consideration the following factors: in the six months ended June 30th 2018, the parent recognised revenue of PLN 314m and a net profit of PLN 1.6m; furthermore, as at June 30th 2018, RAFAKO S.A.'s net current assets were PLN 189m (including cash of PLN 69m). The year-on-year increase in revenue in the first six months of 2018 was primarily a consequence of further progress in the performance of major contracts secured in the second half of 2016 (the contract to construct a biomass-fired co-generation unit and the contract to deliver and install an SCR system and upgrade electrostatic precipitators).

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

- On February 21st 2018, the parent procured the successful execution of a credit facility agreement between Bank Gospodarstwa Krajowego (BGK) and PT. PLN (PERSERO), secured with an insurance policy from Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (KUKE) (both BGK and KUKE S.A. are part of the Polski Fundusz Rozwoju (Polish Development Fund) Group), thus satisfying one of the two conditions precedent of the contract with PT. PLN (PERSERO) for construction of two steam units in Indonesia;
- On March 29th 2018, the parent signed a contract for the design, delivery and assembly of an LNG tank in Finland. The value of the contract is EUR 13.4m;
- On April 27th 2018, the parent was notified that the Company's bid was selected as the best bid in the tender procedure for construction work to be carried out as part of the project to build the Goleniów-Płoty section of the DN 700 Szczecin-Gdańsk gas pipeline. The total value of the parent's bid is close to PLN 124.9m.

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

In line with the Management Board's assumptions, these measures have a positive effect on the liquidity of RAFAKO S.A.

An important part of the analysis is a forecast of profit or loss and cash flows for the 12 months following June 30th 2018 (and subsequent periods) prepared by the parent's Management Board. The key assumptions of the forecast are as follows:

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

In view of the year-on-year increase in revenue, net profit recorded in the six months ended June 30th 2018, the structure of the parent's net current assets, the available cash balance, the secured order book, and cash-flow projections for the coming 12 months, as at the date of these interim condensed consolidated financial statements the Management

Board did not identify any material threats to the parent's ability to continue as a going concern in the foreseeable future. Accordingly, these interim condensed consolidated financial statements of the RAFAKO Group have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future.

3. Significant accounting policies

In 2018, the Group made changes to the applied accounting policies as well as presentation adjustments, and therefore it restated the comparative data for the twelve months ended December 31st 2017, the six months ended June 30th 2017 and as at January 1st 2017 in accordance with the revised accounting policies as described below.

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

The Group companies recognised provisions for warranty repairs based on estimates of expected and measurable costs of oversight, repairs and warranty works related to contractual commitments of the Group arising from completed construction contracts. During the implementation of IFRS 15, the Group reviewed its practices in this respect and concluded that to more accurately reflect the actual financial result on a contract and the Group's equity, provisions should be recognised over time in accordance with the percentage-of-completion method rather than on completion of the contract.

3.2. IFRS 15

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

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

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

a) Revenue from sale of products

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

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

i. Variable consideration

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

Under IFRS 15, if the consideration promised in a contract includes a variable amount, an entity estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to the customer; the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that no significant reversal in the amount of cumulative revenue recognised will occur when the uncertainty associated with the variable consideration is subsequently resolved.

- Right of return

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

- Price adjustments

  The Group performs contracts containing inflation price adjustment clauses.

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

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

- Liquidated damages

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

ii. Warranties

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

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

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

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

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

c) Advance payments received from customers

The Group presents advance payments received from customers under trade and other payables. In accordance with IFRS 15, the Group assesses whether a contract includes a significant financing component. The Group does not adjust the promised amount of consideration for the effect of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to the customer and when the customer pays for that good or service will be one year or less. The Group does not include a significant financing component for short-term advance payments.

d) Other adjustments

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

Following the adoption of IFRS 15 the Group's retained earnings as at December 31st 2017 decreased by PLN 3.8m.

3.3. IFRS 9

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

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

a) Classification and measurement

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

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

Debt securities held by the Group (corporate bonds) are measured at amortised cost through profit or loss as the Group's business objective is to receive cash flows from principal repayments.

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

b) Impairment

The Group carries expected impairment losses on loans at amounts equal to expected 12-month credit losses or credit losses expected over the life of the financial instrument. In the case of trade receivables, the Group applies a simplified approach and measures the impairment losses at amounts equal to expected credit losses over the full lifetime of the instrument.

c) Hedge accounting

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

d) Other adjustments

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

Following the application of IFRS 9, the Company's retained earnings as at December 31st 2017 decreased by PLN 19.2m.

3.4. 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.

Group companies are lessees under lease contracts concerning office space, vehicles, and equipment, as described in more detail in Note 21.

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

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

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

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

At the date of authorisation of these interim condensed consolidated financial statements for issue, the parent's Management Board was assessing the impact of IFRS 16 on the accounting policies applied by the Group with respect to the Group's operations or financial results.

(PLN '000)

3.5. Effect of changes on financial data in the Group's statement of financial position

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

	Non-current financial assets	*Long-term trade and other receivables*	*Long-term prepayments and accrued income*	*Deferred tax assets*	*Inventories*	*Short-term trade and other receivables*	*Gross amount due from customers for contract work*	*Short-term prepayments and accrued income*	*Current financial assets*
Before adjustment	**24,769**	**41,163**	–	**32,783**	**14,560**	**501,233**	**279,908**	–	**5,201**
Adjustments to opening balance									
IFRS 15	–	–	–	492	14,263	–	(601)	–	–
IFRS 9 (impairment due to expected credit losses)	(7,069)	(89)	–	4,495	–	(12,541)	(1,888)	21,076	(454)
Provisions for warranty repairs	–	–	–	4,772	–	–	–	–	–
Presentation adjustments									
Long-term accruals and deferrals	–	(1,689)	1,689	–	–	–	–	–	–
Short-term accruals and deferrals	–	–	–	–	–	(2,776)	(18,300)	–	–
Adjusted	**17,700**	**39,385**	**1,689**	**42,542**	**28,823**	**485,916**	**259,119**	**21,076**	**4,747**

(PLN '000)

	Retained earnings / accumulated losses	*Long-term trade and other payables*	*Long-term employee benefit obligations and provisions*	*Other long-term provisions*	*Short-term trade and other payables*	*Gross amount due to customers for contract work*	*Employee benefit obligations and provisions*	*Other short-term provisions*	*Short-term accruals and deferred income*
Before adjustment	**(8,756)**	**43,811**	**20,536**	–	**435 965`**	**60,636**	**2,768**	–	–
IFRS 15	(3,790)	–	–	–	22,291	(4,284)	–	(63)	–
IFRS 9 (impairment due to expected credit losses)	(19,163)	–	–	–	1,617	–	–	–	–
Provisions for warranty repairs	(20,341)	–	–	25,113	–	–	–	–	–
Provision for voluntary redundancy programme	–	(153)	153	–	(1,443)	–	1,443	–	–
Provision for bonuses	–	(495)	495	–	(7,421)	–	7,421	–	–
Provision for holiday entitlements	–	–	–	–	(5,428)	–	5,428	–	–
Provision for warranty repairs	–	(4,384)		4,384	(11,464)	–	–	11,464	–
Advance payments received from customers	–	–	–	–	14,130	(14,130)	–	–	–
Accrued salaries and wages	–	–	–	–	(8,519)	–	8,519	–	–
Accrued social security	–	–	–	–	(9,087)	–	9,087	–	–
Provisions for losses	–	–	–	–	–	(15,461)	–	15,461	–
Provision for liquidated damages	–	–	–	–	–	(8,069)	–	8,069	–
Audit provision	–	–	–	–	(224)	–	–	–	224
Accruals and deferrals related to insurance policies	–	–	–	–	(15,404)	–	–	–	15,404
Provision for other costs	–	–	–	–	–	(864)	–	864	–
Adjusted	**(52,050)**	**38,779**	**21,184**	**29,497**	**415,014**	**17,828**	**34,666**	**35,795**	**15,628**

(PLN '000)

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

Assets	
Deferred tax asset	357
Inventories	(11,908)
Contract asset and related accruals and deferrals	7,515
Equity and liabilities	
Retained earnings / accumulated losses, including:	(1,520)
profit/(loss) brought forward	4,509
net profit/(loss)	(6,029)
Trade and other payables	(13,457)
Gross amount due to customers for contract work	25,140
Provisions for contract work	(1,630)
Statement of comprehensive income	
Revenue	(13,057)
Cost of sales	6,009
Profit/(loss) before tax	(7,047)
Income tax expense	1,018
Net profit/(loss)	(6,029)
Earnings/(loss) per share from continuing operations	(0.05)

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

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

The comparative data in the consolidated statement of comprehensive income for the six months ended June 30th 2017 the presentation of which was changed compared with its presentation in the interim condensed consolidated financial statements for the six months ended June 30th 2017 has been adjusted as follows:

	Distribution costs	*Other income*	*Cost of products and services sold*	*Costs of merchandise and materials sold*
Before adjustment	**(19,853)**	**(3,129)**	**(791,145)**	–
Adjustment to presentation of impairment losses on trade receivables	3,111	(3,111)		
Adjustment to presentation of cost of merchandise and materials sold	–	–	576	(576)
Provisions for warranty repairs	–	–	(1,216)	–
Adjusted	**(16,742)**	**(6,240)**	**(792,361)**	**(576)**

4. Material judgements and estimates

4.1. Professional judgement

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

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

Classification of leases where the Group is the lessee

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

Embedded derivatives

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

Consortium agreements

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

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 the assets and liabilities in the next financial year are discussed below. The Group made the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these financial statements. The assumptions and estimates presented in these financial statements may change in the future due to market developments or factors beyond the Group's control. Such developments or factors will be reflected in the estimates or assumptions as and when they occur.

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

Impairment of assets

At the end of a reporting period, the Group conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the recoverable amount of the cash-generating unit to which these assets belong. The recoverable amount is equal to the higher of two – value in use or fair value less costs to sell. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Group made an assessment of whether there are any indications of asset impairment. The analysis showed that during the six months ended June 30th 2018 there were no indications of impairment.

For further information on asset impairment as at the end of the reporting period, see Notes 11.10, 11.11 and 11.14 to these interim condensed consolidated financial statements.11.1011.1111.14

Measurement of employee benefit obligations

Employee benefit obligations were estimated with actuarial methods.

The underlying assumptions are presented in Note 11.24 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 Group recognises deferred tax assets (including deferred tax assets on tax loss) based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be realised. If future taxable profits deteriorate, this assumption may become unjustified. Deferred tax assets are measured using the tax rates that are expected to apply in the period when the asset is expected to be realised, based on tax laws in effect at the end of the reporting period.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 14.14

Depreciation and amortisation rates

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

Revenue recognition

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

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

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

Revenue

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

a) Revenue from the sale of products and merchandise is recognised when the customer obtains control of the goods;

b) Revenue from the provision of construction services is recognised with use of the percentage of completion method; Revenue from construction contracts is recognised and disclosed in line with the policies discussed in Note 3.2.

Provision for expected contract losses

At the end of each reporting period the Group remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss is recognised as cost of core activities in accordance with IFRS. Details of accounting for construction contract revenue and expenses in the reporting period are presented in Note 10 to these interim condensed consolidated financial statements.10

Provision for costs due to late contract completion

The Group 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 Group companies as contractors. The amount of the provision reflects the amount of liquidated damages that may be charged for the delay. For details of provisions estimated in accordance with this policy, see Note 10 to these interim condensed consolidated financial statements.10

Provision for warranty repairs

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

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

Impairment of financial assets

At the end of each reporting period, the Group measures impairment losses relating to expected credit losses at amounts equal to 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

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

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

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

(PLN '000)

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

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

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

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

Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	Jun 30 2018	*Dec 31 2017*	*Jun 30 2017*
USD	3.7440	3.4813	3.7062
EUR	4.3616	4.1709	4.2265
GBP	4.9270	4.7001	4.8132
CHF	3.7702	3.5672	3.8667
SEK	0.4190	0.4243	0.4379
TRY	0.8206	0.9235	1.0535

5. Change in estimates

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

6. Operating segments

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

The Group identifies the following operating segments:

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

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

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

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

(PLN '000)

For the six months ended June 30th 2018 or as at June 30th 2018	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	608,983	19,823	628,806	(4,675)	624,131
Inter-segment sales	779	18,442	19,221	(19,221)	–
Total segment revenue	609,762	38,265	648,027	(23,896)	624,131
Cost of products and materials sold	(551,484)	(34,124)	(585,608)	23,886	(561,722)
Total					
Gross profit/(loss)	58,278	4,141	62,419	(10)	62,409
Other income/(expenses)	(30,514)	(3,725)	(34,239)	(2,553)	(36,792)
Operating profit/(loss)	27,764	416	28,180	(2,563)	25,617
Finance income/(costs)	3,594	162	3,756	(645)	3,111
Profit/(loss) before tax	31,358	578	31,936	(3,208)	28,728
Income tax expense	(14,418)	(435)	(14,853)	610	(14,243)
Segment's net profit/(loss)	16,940	143	17,083	(2,598)	14,485
Results					
Depreciation and amortisation	6,337	964	7,301	(73)	7,228
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at June 30th 2018					
Segment assets	1,245,786	85,048	1,330,834	(93,403)	1,237,431
Segment liabilities	684,109	26,601	710,710	(54,227)	656,483
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	2,296	785	3,081	–	3,081

(PLN '000)

For the six months ended June 30th 2017 or as at June 30th 2017	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	854,793	18,700	873,493	(1,624)	871,869
Inter-segment sales	975	7,790	8,765	(8,765)	–
Total segment revenue	855,768	26,490	882,258	(10,389)	871,869
Cost of products and materials sold	(783,548)	(22,333)	(805,881)	13,520	(792,361)
Total					
Gross profit/(loss)	72,220	4,157	76,377	3,131	79,508
Other income/(expenses)	(45,843)	(2,804)	(48,647)	(2,604)	(51,251)
Operating profit/(loss)	26,377	1,353	27,730	527	28,257
Finance income/(costs)	(6,840)	(18)	(6,858)	(272)	(7,130)
Profit/(loss) before tax	19,537	1,335	20,872	255	21,127
Income tax expense	(13,080)	(144)	(13,224)	557	(12,667)
Segment's net profit/(loss)	6,457	1,191	7,648	812	8,460
Results					
Depreciation and amortisation	6,246	861	7,107	(72)	7,035
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at June 30th 2017 *(restated)*					
Segment assets	1,149,836	72,848	1,222,684	(196,036)	1,026,648
Segment liabilities	723,997	18,213	742,210	(156,345)	585,865
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	2,312	1,014	3,326	(3)	3,323

(PLN '000)

For the six months ended June 30th 2018 or as at June 30th 2018	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	321,537	11,218	332,755	(6,554)	326,201
Inter-segment sales	58	13,678	13,736	(13,736)	–
Total revenue	321,595	24,896	346,491	(20,290)	326,201
Cost of products and materials sold	(300,787)	(22,013)	(322,800)	19,489	(303,311)
Total					
Gross profit/(loss)	20,808	2,883	23,691	(801)	22,890
Other income/(expenses)	(11,207)	(1,971)	(13,178)	(1,280)	(14,458)
Operating profit/(loss)	9,601	912	10,513	(2,081)	8,432
Finance income/(costs)	3,921	54	3,975	(426)	3,549
Profit/(loss) before tax	13,522	966	14,488	(2,507)	11,981
Income tax expense	(6,242)	(278)	(6,520)	785	(5,735)
Segment's net profit/(loss)	7,280	688	7,968	(1,722)	6,246
Depreciation and amortisation	3,209	488	3,697	(37)	3,660
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at June 30th 2018					
Segment assets	1,245,786	85,048	1,330,834	(93,403)	1,237,431
Segment liabilities	684,109	26,601	710,710	(54,227)	656,483
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	1,698	262	1,960	1	1,961

For the three months ended June 30th 2017 or as at June 30th 2017	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*

Revenue					
Sales to external customers	422,563	10,736	433,299	(1,133)	432,166
Inter-segment sales	117	3,882	3,999	(3,999)	–
Total revenue	422,680	14,618	437,298	(5,132)	432,166
Cost of products and materials sold	(394,751)	(12,724)	(407,475)	5,859	(401,616)
Total					
Gross profit/(loss)	27,929	1,894	29,823	727	30,550
Other income/(expenses)	(25,428)	(1,330)	(26,758)	(1,227)	(27,985)
Operating profit/(loss)	2,501	564	3,065	(500)	2,565
Finance income/(costs)	(2,152)	(38)	(2,190)	(146)	(2,336)
Profit/(loss) before tax	349	526	875	(646)	229
Income tax expense	(2,458)	(65)	(2,523)	104	(2,419)
	(25,428)	(1,330)	(26,758)	(1,227)	(27,985)
Segment's net profit/(loss)	(2,109)	461	(1,648)	(542)	(2,190)
Depreciation and amortisation	3,078	458	3,536	(36)	3,500
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at June 30th 2017 *(restated)*					
Segment assets	1,149,836	72,848	1,222,684	(196,036)	1,026,648
Segment liabilities	723,997	18,213	742,210	(156,345)	585,865
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	784	775	1,559	(4)	1,555

(PLN '000)

7. Scope of consolidated financial statements

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

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, using uniform accounting policies. The consolidated financial statements are prepared in accordance with IAS 27/IFRS 10 *Consolidated and Separate Financial Statements*.

As at June 30 2018, the RAFAKO Group comprised the parent and eight subsidiaries operating in the power construction, services and trade sectors.

As at June 30 2018, the following subsidiaries ("Companies", "Group Companies") were included in the Group's consolidated financial statements:

RAFAKO S.A.

- PGL-DOM Sp. z o.o. 100%
- RAFAKO ENGINEERING Sp. z o.o. 51.05%
  - 60% RENG-NANO Sp. z o.o. 30.63%
- ENERGOTECHNIKA Engineering Sp. z o.o. 100%
- RAFAKO ENGINEERING SOLUTION d o.o. 77%
- RAFAKO Hungary Kft. 100%
- E001RK Sp. z o.o. 100%
- E003B7 Sp. z o.o. 100%

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

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

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

(PLN '000)

As at June 30th 2018 and December 31st 2017, the Group's share in total voting rights in the subsidiaries was equal to the parent's holdings in the share capital of those entities.

8. Changes in the Group structure

No changes occurred in the Group structure in the six months ended June 30th 2018.

9. Seasonality and cyclical nature of the Group's operations

The operations of Group companies are not affected by seasonality or periodic fluctuations that could materially impact the Group's financial performance.

10. Contracts

Contract revenue is recognised with the use of the percentage of completion method. The percentage of completion is determined as the ratio of costs incurred to total estimated costs necessary to complete the contract.

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

	Jun 30 2017
Contract costs incurred to date (cumulative)	4,856,536
Recognised profits less recognised losses to date (cumulative)	281,347
Contract revenue recognised by reference to the contract stage of completion (cumulative)	5,137,883
Progress billings (cumulative)	4,946,916
Gross amount due to customers for contract work (liability), including:	**(77,138)**
- advance payments received (liabilities arising from advances received)	(168,253)
- adjustment to advance payments received arising from amounts due from customers	152,626
- gross amount due to customers for contract work	(61,511)
Prepayments and deferred income from construction contracts, including:	**143,256**
- gross amount due from customers for contract work (asset)	115,156
- contract acquisition cost and other contract costs accounted for over time	28,100
Provision for liquidated damages due to late contract completion or failure to meet guaranteed technical parameters	(4,676)
Provision for expected contract losses	(10,628)

(PLN '000)

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 June 30th 2018 and as at December 31st 2017, as well as gross amount due to customers for contract work and gross amount due from customers for contract work.

	Jun 30 2018	*Dec 31 2017 (restated)*
Revenue initially agreed in contract	7,087,301	6,470,565
Change in contract revenue	77,481	18,332
Aggregate contract revenue	**7,164,782**	**6,488,897**
Contract costs incurred as at reporting date	4,060,551	3,794,303
Costs expected to be incurred by contract completion date	2,563,220	2,110,347
Estimated aggregate contract costs	**6,623,771**	**5,904,650**
Estimated aggregate profit/(loss) on contracts, including:	**541,011**	**584,247**
profit	596,728	705,432
loss (-)	(55,717)	(121,185)

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

	Jun 30 2018	*Dec 31 2017 (restated)*
Contract costs incurred as at reporting date	4,062,227	3,808,392
Cumulative profit as at reporting date (+)	457,066	425,741
Cumulative loss as at reporting date (+)	-55,718	-121,185
Cumulative contract revenue as at reporting date	4,463,575	4,112,949
Amounts invoiced as at reporting date (progress billings)	4,035,742	3,887,716
Settlement of contracts (balance) as at the reporting date, including:	**427,834**	**225,233**
Contract assets	434,682	248,465
Contract liabilities	6,848	23,232

Material changes in consolidated assets and liabilities arising under contracts as at June 30th 2018 are attributable to:

- PLN 186,217 thousand increase in contract assets,
- PLN 86,403 thousand increase in advance payments received from customers under the contracts,
- recognition of revenue of PLN 15,361 thousand presented as at the end of 2017 under gross amount due to customers for contract work,
- PLN 16,384 change in estimated costs with a bearing on provisions for expected contract losses.

10.1 Key contracts executed by the Group

10.1.1 Jaworzno Project

RAFAKO S.A., acting as the consortium leader in a consortium with MOSTOSTAL WARSZAWA S.A., is performing the contract for the development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – cConstruction 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 value of the contract is approximately PLN 5.5bn (VAT included). On August 4th 2013, the Jaworzno Project consortium agreement was amended, with RAFAKO taking over 99.99% of the project deliveries (with Mostostal Warszawa taking the remaining 0.01%); consequently, the distribution of consideration due to the consortium members changed to reflect the members' actual shares in the project.

Accounting for the Jaworzno project:

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

For the purposes of the project, RAFAKO S.A. and E003B7 Sp. z o.o. concluded agreements with financial institutions, whereby they obtained bank/insurance guarantees with an aggregate initial amount of PLN 645m, required for the project execution; under the same agreements, security for the guarantees was established over the assets of RAFAKO S.A. and E003B7 Sp. z o.o. On November 20th 2017, an annex to the contract was signed with the employer, postponing the project completion date and increasing the contract value.

Given the arrangements with the guarantee providers, the parent does not plan for E003B7 sp. z o.o. to pay any dividend before the expiry of the guarantee agreements (April 2020) as this could result in an adverse response from the guarantee issuers.

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

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

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

10.1.2 Opole project

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

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

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

Rules of accounting for the Opole project:

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

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

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

11. 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

For the six months ended June 30th 2018, the Group posted revenue of PLN 624,131 thousand, down by PLN 247,738 thousand on the corresponding period of 2017. The decrease was mainly attributable to lower revenue from the contract to construct a 910 MW power generating unit at the Jaworzno III Power Plant, as most of the work on the project had already been completed in 2016 and 2017 (as at the end of June 2018, the percentage of project completion exceeded 75%).

Cost of sales in the first six months of 2018 amounted to PLN 561,722 thousand, with the Group's gross profit at PLN 62,409 thousand. The decline on the comparative period was mainly related to lower sales recorded by the Group.

Distribution costs disclosed by the Group mainly include contract acquisition cost as well as cost of promotion and advertising. Distribution costs of PLN 12,851 thousand recognised in the Group's comprehensive income for the six months ended June 30th 2018 comprised chiefly contract acquisition costs of PLN 6,807 thousand and costs of PLN 4,638 thousand incurred by organisational units responsible for bidding for and performing contracts.

In the current reporting period, other income chiefly included PLN 5,857 thousand income from reversal of provisions for the voluntary redundancy programme and for restructuring costs, reversal of impairment losses on assets of PLN 469 thousand, including reversal of impairment losses on trade receivables of PLN 360 thousand, and gain on sale of property, plant and equipment of PLN 286 thousand (June 30th 2017: PLN 845 thousand).

Other expenses chiefly included impairment losses on assets of PLN 3,289 thousand, donations and grants of PLN 204 thousand (June 30th 2017: PLN 1,284 thousand), and provisions for other costs of PLN 225 thousand.

In the six months ended June 30th 2018, the Group's finance income was generated mainly from net foreign exchange gains of PLN 3,009 thousand, a discount on long-term settlements of PLN 1,821 thousand, and interest on financial instruments of PLN 753 thousand (June 30th 2017: PLN 1,088 thousand).

Finance costs in the period chiefly included interest on financial instruments of PLN 1,710 thousand (June 30th 2017: PLN 2,034 thousand) as well as commissions on bank borrowings of PLN 679 thousand.

(PLN '000)

11.2.Income tax

Income tax expense

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

Continuing operations	*Six months ended Jun 30 2018*	*Six months ended Jun 30 2017*
Consolidated statement of profit or loss		
Current tax	(3,894)	(7,403)
Current income tax expense	(3,894)	(7,539)
Adjustments to current income tax from previous years	–	136
Deferred tax	(593)	(5,264)
Related to recognition and reversal of temporary differences	(10,350)	(5,495)
Adjustments to deferred tax from previous years	9,757	231
Income tax expense in the consolidated statement of profit or loss	**(14,244)**	**(12,667)**
Deferred tax on other comprehensive income	90	(18)
Related to recognition and reversal of temporary differences	90	(18)
Adjustments to current income tax from previous years	–	–
Income tax expense recognised in other comprehensive income	**90**	**(18)**

(PLN '000)

Deferred income tax calculated as at June 30 2018

Deferred income tax calculated as at June 30 2018 relates to the following:

	Statement of financial position		*Statement of comprehensive income for the three months ended*	
	Jun 30 2018	*Dec 31 2017 (restated)*	*Jun 30 2018*	*Jun 30 2017*
- investment reliefs	(2)	(2)	–	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,983)	(16,295)	312	(37)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	2,545	2,985	(440)	56
- difference between tax base and carrying amount of loans and receivables	4,955	4,084	871	426
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(88,253)	(67,230)	(21,023)	779
- difference between tax base and carrying amount of inventories	2,087	2,110	(23)	(11)
- provisions	15,350	60,284	(44,934)	1,530
- difference between tax base and gross carrying amount of gross amount due to customers, provision for contract work, and related accruals and deferrals	85,562	30,913	54,649	(7,630)
- tax asset related to tax loss	16,207	17,470	(1,263)	18
- adjustment to costs of unpaid invoices	4,001	4,568	(567)	(1,154)
- other	5,748	3,590	2,158	741
Deferred tax expense, including:			**(10,260)**	**(5,282)**
Deferred tax expense/benefit disclosed in the statement of profit or loss			(10,350)	(5,264)
Deferred tax expense/benefit disclosed in other comprehensive income			90	(18)
Net deferred tax asset/(liability)	**32,217**	**42,477**		
including:				
Deferred tax asset	32,434	42,542		
Deferred tax liability	217	65		

As at June 30th 2018, the Group recognised a deferred tax asset on a tax loss of PLN 85,300 thousand, which will be offset against profits in future reporting periods.

In the first six months of 2018, the parent reported a tax loss of PLN 32,429 thousand. The Company assessed its ability to realise a deferred tax asset on account of a tax loss based on tax forecasts. In line with the prudent valuation principle, the Management Board of RAFAKO S.A. decided not to recognise a deferred tax asset on the tax loss recorded in the six months ended June 30th 2018. The total amount of tax loss for 2015, 2016, 2017 and 2018 which was not recognised in deferred tax is PLN 190,126 thousand.

11.3. Significant items disclosed in the statement of cash flows

The PLN 136,435 thousand decrease in receivables disclosed in the statement of cash flows for the six months ended June 30 2018 resulted mainly from:

- PLN 174,201 thousand decrease in trade receivables,
- PLN 16,367 thousand decrease in receivables from the state budget (including VAT),
- PLN (48,651) thousand increase in prepayments made,
- PLN (3,460) thousand increase in security deposits receivable,
- PLN (2,022) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the six months ended June 30th 2018, see Note 11.11.

The PLN 42,985 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (91,522) thousand decrease in trade payables,
- PLN 86,403 thousand increase in advance payments received,
- PLN (21,455) thousand decrease in taxes and other duties payable,
- PLN (1,578) thousand decrease in employee benefits obligations and provisions (net of actuarial gains/(losses))
- PLN (14,833) thousand decrease in other liabilities.

The PLN (191,291) thousand change in gross amounts due to and from customers for contract work, disclosed in the statement of cash flows, was mainly caused by:

- PLN (173,660) thousand increase in gross amount due from customers for contract work and the related accruals and deferrals,

- PLN (17,631) thousand decrease in gross amount due to customers for contract work,

The PLN (16,458) thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN (1,939) thousand decrease in the provision for warranty repairs,
- PLN (14,148) thousand decrease in the provision for expected contract losses,
- PLN (1,417) thousand decrease in the provision for liquidated damages,
- PLN 645 thousand change in accruals and deferrals,
- PLN 401 thousand change in other provisions.

The cash flows of PLN 1,105 thousand relating to the purchase of property, plant and equipment and intangible assets resulted from acquisition of property, plant and equipment for PLN 894 thousand and of intangible assets for PLN 211 thousand.

Cash flows from financing activities were mainly affected by a PLN 16,590 thousand increase in debt outstanding under the overdraft facility and working capital facility advanced to the parent by PKO BP S.A.

(PLN '000)

11.4.Property, plant and equipment

for the six months ended June 30th 2018	Land	Buildings	Plant and equipment	Vehicles	Other	Property, plant and equipment under construction	Total
Net carrying amount as at January 1st 2018	**23,759**	**87,748**	**50,060**	**8,152**	**957**	**258**	**170,934**
Transfers from property, plant and equipment under construction	–	–	418	–	–	(418)	–
Acquisitions	–	–	73	–	49	502	624
Lease contracts	–	–	194	1,843	115	–	2,152
Liquidation/sale	(51)	(5)	(272)	(16)	–	(14)	(358)
Exchange differences on translating foreign operations	–	–	(9)	2	(2)	–	(9)
Depreciation for period	–	(1,478)	(3,414)	(1,334)	(220)	–	(6,446)
Impairment losses for period	–	–	3	(6)	–	–	(3)
Other, including reclassification of property, plant and equipment to/from assets held for sale	(3)	(54)	55	–	–	–	(2)
Net carrying amount as at June 30 2018*	**23,705**	**86,211**	**47,108**	**8,641**	**899**	**328**	**166,892**

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

For the six months ended Jun 30 2017	Land	Buildings	Plant and equipment	Vehicles	Other	Property, plant and equipment under construction	Total
Net carrying amount as at Jan 1 2017	**23,754**	**89,344**	**54,122**	**9,161**	**795**	**1,409**	**178,585**
Transfers from property, plant and equipment under construction	–	785	1,504	–	–	(2,289)	–
Acquisitions	–	5	145	553	474	1,735	2,912
Lease contracts	–	–	–	110	–	–	110
Liquidation/sale	(4)	(135)	(1)	(11)	–	–	(151)
Exchange differences on translating foreign operations	–	–	(2)	(2)	(43)	–	(47)
Depreciation for period	–	(1,459)	(3,602)	(1,157)	(134)	–	(6,352)
Impairment losses for period	–	–	–	–	–	–	–
Acquisition of subsidiary	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	59	689	29	–	–	–	777
Net carrying amount as at Jun 30 2017	**23,809**	**89,229**	**52,195**	**8,654**	**1,092**	**855**	**175,834**

(PLN '000)

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

	Six months ended Jun 30 2018	*Six months ended Jun 30 2017*
Purchase of property, plant and equipment and intangible assets*	3,081	3,323
Proceeds from sale of property, plant and equipment and intangible assets	782	1,331

* 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 Group's capital expenditure on property, plant and equipment involved chiefly expenditure on purchases of production plant and equipment, vehicles and computer hardware. The expenditure was financed with internally generated funds.

11.6.Goodwill

In the six months ended June 2018, goodwill did not change and amounted to PLN 9,166 thousand as at as at June 30th 2018.

11.7.Long-term trade and other receivables

	Jun 30 2018	*Dec 31 2017 (restated)*
Financial receivables		
Trade receivables	42,200	39,304
Impairment losses on trade receivables (-)	(133)	(89)
Net trade receivables	**42,067**	**39,215**
Retentions (security deposits)	245	105
Total financial receivables, net	**42,312**	**39,385**
Non-financial receivables		
Other non-financial receivables	224	–
Total non-financial receivables, net	**224**	–
Total long-term receivables, net	**42,536**	**39,385**

11.8.Shares in other entities

	Jun 30 2018	*Dec 31 2017 (restated)*
Shares in other listed companies	168	223
Shares in other non-listed companies	1,227	19
	1,395	**242**

* Shares pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.15.3.11.15.3

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

(PLN '000)

11.9.Non-current financial assets

	Jun 30 2018	*Dec 31 2017 (restated)*
Long-term bonds	16,772	17,700
	16,772	**17,700**

11.9.1. Bonds

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

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

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

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

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

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

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

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

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

(PLN '000)

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

According to information obtained by the Group from PBG S.A., the bonds outstanding as at June 30th 2018 (PLN 404m) were secured with land properties, including developed land properties, shares in RAFAKO S.A. held by PBG S.A. (with the holding having decreased from 50% + 1 share as at the bond issue date to 33.32% as at June 30th 2018), shares in PBG Oil and Gas Sp. z o.o. (100%), and a registered pledge over receivables from a property development project in Ukraine. In the opinion of the parent's Management Board, the provided collateral and the total amount payable under the bonds as at the date of these interim condensed consolidated financial statements are sufficient to consider the receivables as recoverable.

Following the entry into force of IFRS 9 and in accordance with its requirements, as at January 1st 2018 the Group recognised a PLN 7,522 thousand impairment loss on the bonds. The effect of the new standard on the consolidated statement of financial position is presented in Note 3.5 and Note 11.14. 3.5

The total net value of the bonds as at June 30th 2018 was PLN 24,826 thousand.

11.10. Inventories

	Jun 30 2018	*Dec 31 2017 (restated)*
Materials (at net realisable value)	29,354	28,823
At cost	40,336	39,928
At net realisable value	29,354	28,823
Total inventories, at the lower of cost and net realisable value	**29,354**	**28,823**

* Inventories pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.15.4.11.15.4

11.11. Short-term trade and other receivables

	Jun 30 2018	*Dec 31 2017 (restated)*
Financial receivables		
Trade receivables	195,109	357,733
Impairment losses on trade receivables (-)	(23,329)	(8,990)
Net trade receivables	**171,780**	**348,833**
Receivables on sale of property, plant and equipment and intangible assets	56	
Retentions (security deposits)	65,745	62,285
Receivables under court proceedings*	24,507	24,507
Other financial receivables	10,494	10,483
Impairment losses on financial receivables (-)	(24,271)	(24,228)
Total financial receivables, net	**248,311**	**421,880**

	Jun 30 2018	*Dec 31 2017 (restated)*
Non-financial receivables		

Income tax asset	185	104
Receivables under prepayments and advance payments	80,608	31,957
Receivables from the state budget	15,228	31,595
Other non-financial receivables	5,535	3,868
Impairment losses on non-financial receivables (-)	(3,352)	(3,384)
Total non-financial receivables, net	**98,204**	**64,140**
Total short-term receivables, net	**346,515**	**486,020**

*The parent recognised an impairment loss on the receivables in an amount corresponding to the risk of their non-recoverability. For a detailed description of disputed receivables, see Note 22 to these interim condensed consolidated 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 Group's policy is to sell its products exclusively to customers who have successfully passed a credit verification procedure. As a result, the Management believes there is no additional credit risk that would exceed the uncollectible debt allowance made for trade receivables.

Short-term trade receivables of PLN 171,780 thousand recognised in the interim condensed consolidated statement of financial position as at June 30th 2018 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 65,745 thousand disclosed in the consolidated statement of financial position as at June 30th 2018 relate mainly to the following projects:

- Construction of a gas pipeline (PLN 15,362 thousand);
- Construction of a coal-fired steam unit – PLN 10,904 thousand,
- Installation of a SCR system – PLN 8,632 thousand,
- Manufacture of high-pressure parts of a boiler for the incineration plant (PLN 5,857 thousand).

The change in security deposits in the six months of ended June 30th 2018 was primarily attributable to a PLN 15,198 thousand cash deposit returned in connection with the construction of a coal-fired steam unit and a PLN 15,362 thousand security deposit paid in connection with the gas pipeline construction.

(PLN '000)

A significant item of other receivables were advance payments, which amounted to PLN 80,608 thousand as at June 30th 2018 and included:

- Advance payment of PLN 44,101 thousand under a contract for the construction of fuel storage tanks;
- Advance payment of PLN 14,433 thousand under a contract for a biomass heating system;
- Advance payment of PLN 4,215 thousand under a contract for the delivery and assembly of an NOx reduction unit;
- Advance payment of PLN 1,836 thousand under a contract to design, deliver and install thermal and sound insulation,
- Advance payment of PLN 1,172 thousand under a contract for the design, delivery and installation of thermal insulation and electric heating of a boiler room, electrical equipment nave together with a set of WP/WT pipelines, engine room, and cooling water pumping station.

11.12. Other current financial assets

	Jun 30 2018	*Dec 31 2017 (restated)*
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*	8,054	4,747
	8,054	**4,747**

* For a detailed description of bonds, see Note 11.9.1

The Parent'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)

11.13. Cash and cash equivalents

	Jun 30 2018	*Dec 31 2017 (restated)*	*June 30 2017*
Cash at bank and in hand	106,499	179,682	173,214
Short-term deposits for up to 3 months, including:	49	609	30,637
	106,548	**180,291**	**203,851**

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 Group's immediate cash requirement, and earn interest at rates agreed with the bank.

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

As at June 30th 2018, cash included restricted cash of PLN 129.2m (December 31st 2017: PLN 36.5m), which comprised cash held by E003B7 Sp. z o.o. earmarked for the Jaworzno contract, which from the RAFAKO Group's perspective is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno project.

Dividend may be paid by E003B7 Sp. z o.o. to its sole shareholder, RAFAKO S.A., without triggering an adverse response from the financial institutions only after the expiry of the guarantee provided by those institutions (for details, see Note 10.1.1).10.1.1

(PLN ‘000)

11.14. Impairment losses on consolidated assets

	Property, plant and equipment	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Prepayments and deferred income from construction contracts*	*Receivables****
January 1st 2018	(68)	(4,978)	(10,500)	(5,676)	(11,105)	–	(36,749)
Adjustment to opening balance		–	–	–	–	(1,888)	(12,630)
January 1st 2018 *(restated)*	(68)	(4,978)	(10,500)	(5,676)	(11,105)	(1,888)	(49,379)
Recognised	(8)	(56)	–	–	(465)	(562)	(2,766)
Reversed	5	–	–	–	136	–	946
Used	–	–	–	–	450	–	114
June 30th 2018	**(71)**	**(5,034)**	**(10,500)**	**(5,676)**	**(10,984)**	**(2,450)**	**(51,085)**
January 1st 2017	(27)	(24,363)	(10,500)	(5,676)	(11,978)	–	(32,472)
Recognised	–	–	–	–	(796)	–	(4,391)
Reversed	–	53	–	–	–	–	737
Used	–	–	–	–	854	–	2,316
June 30th 2017	(27)	**(24,310)**	**(10,500)**	**(5,676)**	**(11,920)**	–	**(33,810)**

* Impairment losses on shares in companies are recognised for shares in companies declared bankrupt and in connection with remeasurement of shares in companies which are in a company voluntary arrangement process.
** 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.

(PLN '000)

11.15. Assets pledged as security for the Group's liabilities

11.15.1. Property, plant and equipment pledged as security

As at June 30th 2018, property, plant and equipment pledged as security for the Group's liabilities amounted to PLN 136,139 thousand. The parent's property, plant and equipment of PLN 132,500 thousand are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights). In addition, liabilities under the credit facility agreements are secured over a subsidiary's buildings and structures worth PLN 1,643 thousand, as well as IT equipment and office containers worth PLN 1,996 thousand.

	Jun 30 2018	*Dec 31 2017 (restated)*
Mortgaged property, plant and equipment, including:	88,653	90,051
land	9,162	9,208
buildings and structures	79,491	80,843
Property, plant and equipment encumbered with registered pledge, including:	47,486	49,740
plant and equipment	45,815	48,688
vehicles	1,671	1,052
	136,139	**139** 791*

* The disclosed amounts include property, plant and equipment of PLN 115 thousand classified as held for sale (December 31st 2017: PLN 125 thousand).

11.15.2. Intangible items pledged as security

As at June 30th 2018, intangible assets worth PLN 9,942 thousand were pledged as security for the parent's liabilities (December 31st 2017: PLN 9,815 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.15.3. Shares pledged as security

As at June 30th 2018, PLN 36,486 thousand (December 31st 2017: PLN 35,333 thousand) worth of shares were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over the shares held in E003B7 Sp. z o.o.).

11.15.4. Inventories pledged as security

As at June 30th 2018, inventories worth PLN 27,640 thousand were pledged as security for the parent's liabilities (December 31st 2017: PLN 26,320 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.15.5. Trade receivables pledged as security

As at June 30th 2018, trade receivables of PLN 32 thousand were pledged as security for guarantees and borrowings received by the Group (December 31st 2017: PLN 96,482 thousand).

11.16. Share capital

In the six months ended June 30th 2018, RAFAKO S.A.'s share capital remained unchanged and as at June 30th 2018 amounted to PLN 254,864 thousand.

Share capital	*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**

11.17. Par value per share

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

11.18. Shareholders' rights

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

11.19. Share premium

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

11.20. Dividends paid

In the six months ended June 30th 2018 and by the date of these interim condensed consolidated financial statements, Group companies did not pay any dividends.

(PLN '000)

11.21. Earnings /(loss) per share

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

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

	Six months ended Jun 30 2018	*Six months ended Jun 30 2017*
Net profit/(loss) from continuing operations	14,485	8,460
Net profit/(loss) attributable to holders of ordinary shares used to calculate earnings/(loss) per share	**14,643**	**8,355**
Weighted average number of outstanding ordinary shares used to calculate basic earnings/(loss) per share	127,431,998	84,931,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	127,431,998	84,931,998
Earnings/(loss) per share, PLN		
– basic/diluted earnings from profit/(loss) attributable to holders of ordinary shares for period	0.11	0.10

In the six months ended June 30th 2018, the parent did not issue new shares.

The Group does not present diluted earnings per share for the six months ended June 30 2018 as it does not have any dilutive financial instruments.

11.22. Long-term trade and other payables

	Jun 30 2018	*Dec 31 2017 (restated)*
Financial liabilities		
Trade payables	25,020	38,714
Amounts payable for property, plant and equipment and intangible assets	31	50
Retentions (security deposits)	18	–
Other liabilities	5	15
	25,074	**38,779**

(PLN '000)

11.23. Long-term employee benefit obligations

	Jun 30 2018	*Dec 31 2017 (restated)*
Amounts payable under voluntary redundancy programme	–	153
Unpaid bonus accrual	–	495
Provision for retirement severance payments	6,241	5,901
Provision for length-of-service awards	10,738	10,601
Provision for other employee benefits	3,852	4,034
	20,831	**21,184**

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 Group 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:

	Jun 30 2018	*Dec 31 2017 (restated)*
As at January 1st	23,304	23,877
Interest expense	364	769
Current service costs	228	459
Actuarial (gains)/losses	474	(324)
Benefits paid	(757)	(2,537)
Recognition/reversal of provision for employee benefit obligations	–	1,060
Closing balance	**23,613**	**23,304**
Long-term provisions	20,831	20,536
Short-term provisions	2,782	2,768

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

	Jun 30 2018	*Dec 31 2017 (restated)*
Discount rate (%)	3.2	3.2
Expected inflation rate (%)*	–	–
Employee turnover rate	7	7
Expected growth of salaries and wages (%)**	2	2

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

11.25. Other long-term provisions

	Jun 30 2018	*Dec 31 2017 (restated)*
Provision for warranty repairs	33,415	17,202
	33,415	**17,202**

(PLN '000)

11.26. Short-term trade and other payables

	Jun 30 2018	Dec 31 2017 (restated)
Financial liabilities		
Trade payables	236,541	314,369
Amounts payable for property, plant and equipment and intangible assets	260	974
Retentions (security deposits)	280	397
Other financial liabilities	793	–
Total financial liabilities	**237,874**	**315,740**
Non-financial liabilities		
Taxes and other duties payable	15,434	36,889
Advance payments and prepaid deliveries	90	–
Advance payments received from customers	111,398	24,995
Other non-financial liabilities	22,515	37,389
Total non-financial liabilities	**149,437**	**99,273**
	387,311	**415,013**

11.27. Short-term employee benefit obligations

	Jun 30 2018	Dec 31 2017 (restated)
Social security	8,619	9,087
Salaries and wages payable	8,863	8,519
Amounts payable under voluntary redundancy programme	848	1,443
Accrued holiday entitlements	5,395	5,428
Unpaid bonus accrual	6,934	7,421
Provision for retirement severance payments	750	763
Provision for length-of-service awards	1,656	1,582
Provision for other employee benefits	376	423
	33,441	**34,666**

11.28. Other short-term provisions

	Jun 30 2018	Dec 31 2017 (restated)
Provision for warranty repairs	5,544	23,696
Provision for expected contract losses	1,313	15,461
Provision for liquidated damages	6,652	8,069
Other provisions	1,265	864
	14,774	**35,795**

12. Objectives and policies of financial risk management

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

(PLN '000)

13. Derivative instruments

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

As at June 30th 2018, the Group did not carry any other types of open derivative instruments.

The Group companies do not apply hedge accounting, but the transactions are not speculative and their purpose is to effectively hedge foreign currency purchase/sale contracts.

14. Financial instruments

The following tables show the carrying amounts of various classes and categories of financial instruments as at June 30th 2018 and December 31st 2017.

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

	Carrying amount	
	Jun 30 2018	*Dec 31 2017 (restated)*
Assets at fair value through profit or loss	**168**	**702**
Derivative instruments	–	479
Shares held as long-term investments	168	223
Assets measured at amortised cost	**327,051**	**515,564**
Bonds	24,826	29,970
Trade receivables	213,846	391,276
Investment receivables	56	–
Other financial receivables	76,719	84,308
Loans advanced	11,604	10,010
Cash and cash equivalents	**106,548**	**180,291**
	433,767	**696,557**

	Carrying amount	
	Jun 30 2018	*Dec 31 2017 (restated)*

(PLN ‘000)

Financial liabilities at amortised cost	**378,198**	**458,279**
Borrowings	115,252	98,728
Trade payables (including capital commitments)	261,850	354,107
Other financial liabilities	1,096	5,444
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**4,815**	**4,551**
Liabilities under lease contracts with purchase option	4,815	4,551
	383,013	**462,830**

(PLN '000)

15. Borrowings

As at June 30th 2018, the Group's liabilities under bank and non-bank borrowings were PLN 115,252 thousand.

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						Jun 30 2018	*Dec 31 2017*
Short-term borrowings:							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	current account overdraft facility of up to PLN 70m***	PLN	1M WIBOR + margin	Jun 30 2019****	69,567	55,137
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility of up to PLN 80m***	PLN	1M WIBOR + margin	Jun 30 2019****	45,189	43,419
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, mortgages, assignment of claims under insurance policy	PLN 1m overdraft facility	PLN	1M WIBOR + margin	06.09.2018	496	172
						115,252	**98,728**

*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 for the period from September 30th 2017 to June 30th 2019.

****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.

(PLN '000)

16. Capital management

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

	Jun 30 2018	*Dec 312017 (restated)*
Debt to equity		
Equity attributable to owners of the parent	572,465	558,331
External capital (bank credit facility)	115,252	98,728
Total equity and liabilities	1,237,431	1,281,253
Capitalisation ratio	**0.46**	**0.44**

17. Provisions for costs

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

During the six months ended June 30th 2018, the Group reviewed the amounts of recognised provisions for costs due to late contract completion (including delays in meeting contractual obligations and the terms of assessing damages) under running contracts.

During the six months ended June 30th 2018, the parent used PLN 3,404 thousand of the provision.

(PLN '000)

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

	*Provision for expected losses on contracts**	*Provision for length-of-service awards, retirement severance payments and Company Social Benefits Fund*	*Provision for 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*
January 1st 2018	**15,863**	**23,305**	**5,402**	**17,688**	**8,069**	**7,670**	**–**	**1,596**	**8,368**	**3,936**	**196**
Adjustment to opening balance	(1,754)	–	–	25,112	1,691	–	1,618	–	–	–	–
January 1st 2018 *(restated)*	**14,109**	**23,305**	**5,402**	**42,800**	**9,760**	**7,670**	**1,618**	**1,596**	**8,368**	**3,936**	**196**
Recognised	1,302	1,236	1,458	10,174	295	6,192	–	–	–	249	316
Reversed	(13,696)	(170)	–	–	–	(6,909)	–	(103)	(5,747)	(96)	–
Used	–	(757)	(1,465)	(14,791)	(3,404)	(19)	–	(688)	(1,443)	(34)	(196)
June 30th 2018	**1,715**	**23,614**	**5,395**	**38,183**	**6,651**	**6,934**	**1,618**	**805**	**1,178**	**4,055**	**316**
January 1st 2017	19,160	23,877	4,999	18,227	4,856	12,031	–	7,094	–	6,644	177
Recognised	1,611	986	1,511	4,790	4,704	2,942	–	–	–	47	337
Reversed	–	–	–	–	(678)	(4,384)	–	–	–	(171)	(6)
Used	(10,143)	–	(1,061)	(7,240)	(4,205)	(47)	–	(4,593)	–	(1,285)	(156)
30 June 2017	**10,628**	**24,863**	**5,449**	**15,777**	**4,676**	**10,542**	**–**	**2,501**	**–**	**5,235**	**352**

*Amounts resulting from accounting for the construction contracts described in Note 10.10
**Provisions presented in the statement of financial position as other liabilities.

(PLN '000)

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

In the six months ended June 30th 2018, the parent did not issue, redeem or repay any debt or equity securities.

19. Dividends paid or declared

In the six months ended June 30th 2018, Group companies did not pay any dividends. In accordance with the applicable laws, dividends may only be distributed from the profit of individual Group companies, and not based on the Group's consolidated net result.

20. Capital commitments

As at June 30th 2018, the Group companies had commitments related to purchase of property, plant and equipment of PLN 291 thousand. Group companies had not signed agreements envisaging any capital expenditure to be made in 2018 which was not disclosed in the accounting books at the end of the reporting period.

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

	Jun 30 2018	*Dec 31 2017 (restated)*
Receivables under financial guarantees received mainly as security for performance of contracts, including:	696,155	669,672
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	38,497	24,507
- from related entities	25,915	13,864
Letters of credit	48	–
	734,700	**694,179**

	Jun 30 2018	*Dec 31 2017 (restated)*
Commitments under financial guarantees issued mainly as security for performance of contracts, including:	319,420	326,438
- to related entities	–	–
Liabilities under sureties, including:	1,294,375	1,294,375
- to related entities	2,194,375	1,294,375
Promissory notes issued as security, including:	29,794	15,374
- to related entities	1,884	1,884
Letters of credit	–	–
	1,643,589	**1,636,187**

In the first six months of 2018, the RAFAKO Group companies recorded a PLN 7,402 thousand increase in contingent liabilities, which resulted mainly from an increase in promissory notes issued as security. In the first six months of 2018, a number of guarantees were issued by banks and insurance companies to the Group's trading partners upon the parent's instructions, including mainly performance bonds of PLN 51,284 thousand and bid bonds of PLN 17,668 thousand. The largest item of contingent liabilities was a performance bond of EUR 2,310 thousand issued in April 2018. As at the end of June 2018, liabilities under sureties in issue were PLN 1,294,375 thousand. In this category of liabilities, the largest item was the sureties covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to develop new coal-fired generation capacities at TAURON Wytwarzanie S.A. – construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II. The largest item of guarantees which expired in the first six months of 2018 was a PLN 9,000 thousand bid bond.

In the first six months of 2018, the Group companies' contingent receivables (mainly under performance bonds) rose by PLN 40,521 thousand, including an increase of PLN 26,483 thousand in receivables under bank and insurance guarantees and an increase of PLN 13,990 thousand in receivables under promissory notes. The largest item of guarantees received in the first six months of 2018 was a EUR 1,123 thousand performance bond. The largest item of guarantees which expired in the first six months of 2018 was a EUR 431 thousand advance payment guarantee.

22. Litigation and disputes

As at the date of these interim condensed consolidated 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 Group's consolidated financial statements for the year ended December 31st 2017, available at:

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

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

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

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

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

23. Parent's Management Board and Supervisory Board

In the six months ended June 30th 2018 and as at the date of these interim condensed consolidated financial statements, there were changes in the composition of the parent's Management Board. On February 20th 2018, Krzysztof Burek resigned as Vice President of RAFAKO S.A's Management Board, and Karol Sawicki was appointed as Vice President of the parent's Management Board by the Supervisory Board.

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

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

In the six months ended June 30th 2018 and as at the date of these interim condensed consolidated financial statements, no changes took place in the composition of the parent's Supervisory Board.

At the date of these interim condensed consolidated financial statements, the composition of the Supervisory Board was as follows:

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

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

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

In the reporting and comparable periods, the Group companies did not enter into any transactions with members of their management boards, other then transactions described in Note 0. 0

(PLN '000)

25. Related-party transactions

In the six months ended June 30th 2018 and June 30th 2017, the parent and its subsidiaries did not enter into any material transactions with related parties on other than arm's length terms.

Total amounts of related-party transactions in the reporting period:

Related party		*Sales to related parties in the six months ended Jun 30 2018/ Jun 30 2017*	*Purchases from related parties in the six months ended Jun 30 2018/ Jun 30 2017*	*Receivables from related parties as at Jun 30 2018/ Dec 31 2017*	*Liabilities to related parties as at Jun 30 2018/ Dec 31 2017*
Parent:					
PBG S.A.	*2018*	606	2,381	25 341*	610
	2017	1,205	2,696	30 538**	558
PBG Group companies:					
PBG oil and gas Sp. z o.o.	*2018*	470	11,408	20,646	2,207
	2017	1,908	1,381	33,162	720
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	*2018*	37	–	22	–
	2017	37	–	8	–
PBG DOM Sp. z o.o.	*2018*	2	–	–	–
	2017	5	–	1	–
PBG AVATIA Sp. z o.o.	*2018*	–	–	–	–
	2017	–	25	–	–
Entities related through personal links:					
SWGK KSIĘGOWOŚĆ Sp. z o.o.	*2018*	–	1,190	–	234
	2017	–	1,322	–	295
SWGK Consulting Sp. z o.o.	*2018*	–	–	–	–
	2017	–	25	–	49
Dwór w Smólsku Sp. z o.o.	*2018*	–	165		25
	2017	–	120	–	49
Mostostal Energomontaż Gliwice S.A.	*2018*	–	–	–	–
	2017	–	–	–	57
PBG Foundation	*2018*	–	40	–	–
	2017	–	241	–	33

** Including receivables from PBG S.A. described in Note 11.9.1*

(PLN '000)

Related party		*Sales to related parties in the six months ended Jun 30 2018/ Jun 30 2017*	*Purchases from related parties in the six months ended Jun 30 2018/ Jun 30 2017*	*Receivables from related parties as at Jun 30 2018/ Dec 31 2017*	*Liabilities to related parties as at Jun 30 2018/ Dec 31 2017*
Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o.	*2018*	–	–	509	–
	2017	–	–	516	–
BPIL Grzegorz Kiczor	*2018*	–	85	–	37
	2017	–	15	–	41
FCS Business Solutions Sp. z o.o.	*2018*	–	3	–	–
	2017	1	–	–	–
Polimex-Mostostal S.A.	*2018*	–	–	–	–
	2017	–	–	–	117
PONER Sp. z o.o.	*2018*	9	–	–	–
	2017	85	15	130	–
Economic Chamber of Energy and Environmental Protection	*2018*	14	2	–	11
	2017	8	6	–	–
MIKO-Tech Sp. z o.o.	*2018*				
	2017	17	999	2	1,018
NRG Solutions Sp. z o.o.	*2018*	–	5	–	2
	2017	–	–	6	3

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

The Group has not published any forecasts for 2018.

(PLN '000)

28. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO (the parent) as at the date of issue of these interim condensed consolidated financial statements

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

(*) Number of shares based on PBG's and Multaros's notifications of December 28th 2017.
(**) Number of shares based on a notification of January 3rd 2018 received from Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.
(***) Given the fact that Multaros Trading Company Ltd. is PBG S.A.'s subsidiary, RAFAKO S.A. (the "Company") is indirectly controlled by PBG S.A., which holds, directly and indirectly, 42,466,000 Company shares, representing 33.32% of its share capital and conferring the right to 33.32% of total voting rights at its General Meeting.
(****) Number of shares estimated based on the annual asset structure published by Nationale-Nederlanden Otwarty Fundusz Emerytalny (as at December 29th 2017).

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

According to the information available to RAFAKO S.A, as at the date of this report the holdings of RAFAKO S.A. shares by the management and supervisory staff of the consolidated Group companies were as follows:

	Company name	*As at May 25 2018*	*Increase*	*Decrease*	*As at Sep 6 2018*
Member of the Management Board					
Agnieszka Wasilewska-Semail, President of the Management Board	RAFAKO S.A.	20,245	–	–	20,245
Edward Kasprzak – Vice President of the Management Board	RAFAKO S.A.	24,450	–	–	24,450
Jarosław Dusiło – Vice President of the Management Board	RAFAKO S.A.	20,000	–	–	20,000
Member of the Supervisory Board	–	–	–	–	–

(PLN '000)

30. Remuneration of members of the Management and Supervisory Boards of the parent and Group companies

The remuneration paid to the members of the Management and Supervisory Boards of Group companies for the six months ended June 30 2018 was as follows:

	Base pay	*Awards*	*Other*
RAFAKO S.A. – the parent			
Management Board	1,696	–	158
Supervisory Board	408	–	420
PGL-DOM Sp. z o.o. – a subsidiary			
Management Board	54	43	–
Supervisory Board	94	–	–
RAFAKO ENGINEERING Sp. z o.o. – a subsidiary			
Management Board	100	–	–
Supervisory Board	74	–	–
RAFAKO ENGINEERING Sp. z o.o. – an indirect subsidiary			
Management Board	240	74	–
Supervisory Board	25	–	–
E001RK Sp. z o.o. – a subsidiary			
Management Board	84	–	–
Supervisory Board	–	–	–
E003B7 Sp. z o.o. – a subsidiary			
Management Board	819	1,017	–
Supervisory Board	564	720	–
RENG-NANO Sp. z o.o. – a subsidiary			
Management Board	108	–	–
Supervisory Board	–	–	–

(PLN '000)

31. Order book

As at June 30th 2018, the value of the Group's order book was in excess of PLN 3.1bn. The order book's largest item is the Jaworzno Project – the amount outstanding under the contract is PLN 1.2bn, of which PLN 0.1bn is attributable to the parent and PLN 1.1bn to SPV Jaworzno. The order book does not include the Opole contract (RAFAKO's entire share in the project worth PLN 3.2bn was subcontracted outside the RAFAKO Group, of which PLN 0.5bn is still outstanding).

ORDER BOOK	
Jun 30 2018	**Dec 31 2017**
ca. PLN 3.1bn	**ca. PLN 3.3bn**

	ORDER BOOK as at Jun 30 2018	Due for execution in		
		Jul-Dec 2018	2019	after 2019
TOTAL	**~3.1bn**	**~0.8bn**	**~1.9bn**	**~0.4bn**
RAFAKO Group	**~1.9bn**	**~0.4bn**	**~1.1bn**	**~0.4bn**
Jaworzno 910 MW	**~1.2bn**	**~0.4bn**	**~0.8bn**	**~0.0bn**

As regards the value of the RAFAKO Group's order book, data presented in this document is based on the following assumptions:

- The order book value is equal to the aggregate amount of the Group's consideration under individual contracts executed by Group companies by June 30th 2018; the figure does not include any planned contracts that have not yet been signed, but it does include contracts signed conditionally;
- the order book value is disclosed as at June 30th 2018; actual revenue from the contracts and performance periods depend on a number of factors, which may be outside the Group's control.

32. Events after the reporting period

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

On July 4th 2018, a notarial deed was signed under which a new company, RAFAKO MANUFACTURING Sp. z o.o., was established. The company's share capital is PLN 30,000 and is divided into 300 shares with a par value of PLN 100 per share. The shares were subscribed for by RAFAKO S.A. in exchange for a cash contribution. On July 9th 2018, the District Court of Gliwice, 10th Commercial Division of the National Court Register, entered RAFAKO MANUFACTURING Sp. z o.o. in the National Court Register under No. 0000739782.

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

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

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

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

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

The Management Board of RAFAKO S.A. of Racibórz has announced that on July 31st 2018 the Company completed another stage of its reorganisation aimed at building a flexible, more cost-effective organisation, adapted to the current market conditions. As part of the reorganisation, employment was reduced and optimisation measures were taken covering the operations of the entire organisation.

During the reorganisation, the number of reduced FTEs did not exceed 276, the number agreed with the trade unions operating at the Company, and the total value of savings resulting from the headcount reduction from the beginning of the restructuring to the end of this year should reach PLN 15m, of which PLN 12m should be obtained in 2018 alone. This amount does not include savings resulting from additional optimisation initiatives undertaken as part of the reorganisation process. The costs related to the execution of this reorganisation stage will not exceed the additional provision recognised for this purpose.

These interim condensed consolidated financial statements of the Group were authorised for issue on September 6th 2018 by resolution of the RAFAKO S.A. Management Board of September 6th 2018.

Signatures:

September 6th 2018	Agnieszka Wasilewska-Semail	President of the Management Board	....
September 6th 2018	Jarosław Dusiło	Vice President of the Management Board	....
September 6th 2018	Edward Kasprzak	Vice President of the Management Board	....
September 6th 2018	Karol Sawicki	Vice President of the Management Board	....
September 6th 2018	Tomasz Tomczak	Vice President of the Management Board	....
September 6th 2018	Jolanta Markowicz	Chief Accountant	....