RAFAKO Group

PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the nine months ended September 30th 2019

November 29th 2019

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Appendix:

1. Interim condensed financial statements of RAFAKO S.A. for the nine months ended September 30th 2019

(PLN '000)

Interim condensed consolidated statement of comprehensive income
for the nine months ended September 30th 2019

	Note	*9 months ended Sep 30 2019*	*9 months ended Sep 30 2018*	*3 months ended Sep 30 2019*	*3 months ended Sep 30 2018*
Continuing operations					
Revenue	11.1	**817,744**	**883,216**	**298,575**	**259,085**
Revenue from sale of goods and services		817,164	881,516	298,422	258,168
Revenue from sale of materials		580	1,700	153	917
Cost of products and services sold	11.2	(961,433)	(790,415)	(305,531)	(233,372)
Cost of materials sold		(3,416)	(1,116)	(2,865)	(361)
Gross profit/(loss)		**(147,105)**	**91,685**	**(9,821)**	**25,352**
Other income	11.2	3,232	11,356	1,246	3,211
Distribution costs	11.2	(17,038)	(18,570)	(4,687)	(5,719)
Administrative expenses	11.2	(37,659)	(38,804)	(11,231)	(12,247)
Other expenses	11.2	(8,525)	(5,689)	(4,143)	(160)
Research and development costs		(6,928)	(6,547)	(1,650)	(2,623)
Operating profit/(loss)		**(214,023)**	**33,431**	**(30,286)**	**7,814**
Finance income	11.2	5,286	6,229	127	604
Finance costs	11.2	(5,440)	(4,165)	(451)	(1,651)
Profit/(loss) before tax		**(214,177)**	**35,495**	**(30,610)**	**6,767**
Income tax expense	11.3	14,648	(14,248)	5,836	(5)
Net profit/(loss) from continuing operations		**(199,529)**	**21,247**	**(24,774)**	**6,762**

(PLN '000)

Interim condensed consolidated statement of comprehensive income
for the nine months ended September 30th 2019

	Note	*9 months ended Sep 30 2019*	*9 months ended Sep 30 2018*	*3 months ended Sep 30 2019*	*3 months ended Sep 30 2018*
Other comprehensive income for period		**(228)**	**(1,519)**	**222**	**(1,023)**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		(22)	(369)	17	(244)
Exchange differences on translating foreign operations attributable to non-controlling interests		8	8	9	(5)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(14)**	**(361)**	**26**	**(249)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income from actuarial gains/(losses)		(264)	(1,429)	242	(955)
Tax on other comprehensive income	11.3	50	271	(46)	181
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(214)**	**(1,158)**	**196**	**(774)**
Total comprehensive income for period		**(199,757)**	**19,728**	**(24,552)**	**5,739**
Net profit/(loss) attributable to:		**(199,529)**	**21,247**	**(24,774)**	**6,762**
Owners of the parent	11.24	(199,255)	21,671	(24,670)	7,028
Non-controlling interests		(274)	(424)	(104)	(266)
Comprehensive income attributable to:		**(199,757)**	**19,728**	**(24,552)**	**5,739**
Owners of the parent		(199,490)	20,144	(24,455)	6,010
Non-controlling interests		(267)	(416)	(97)	(271)
Weighted average number of shares		127,431,998	127,431,998	127,431,998	127,431,998
Basic/diluted earnings/(loss) per share, PLN	11.24	(1.57)	0.17	(0.19)	0.05

Racibórz, November 29th 2019

Paweł Jarczewski	Agnieszka Wasilewska-Semail	Jerzy Ciechanowski	Jerzy Karney	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	acting Member of the Management Board	Chief Accountant

(PLN '000)

Interim condensed consolidated statement of financial position

as at September 30th 2019

	Note	Sep 30 2019	Dec 31 2018	Sep 30 2018
ASSETS				
Non-current assets				
Property, plant and equipment	11.6	147,433	161,250	163,895
Goodwill	11.5	9,166	9,166	9,166
Intangible assets	11.5	7,011	8,007	8,046
Right-of-use assets	11.8	17,131	–	–
Other long-term receivables	11.9	47,341	40,396	39,841
Shares	11.10	1,489	1,388	1,358
Non-current financial assets	11.11	–	14,066	16,318
Deferred tax assets	11.3	57,737	42,006	34,473
Long-term prepayments and accrued income		5,653	5,743	9,825
		292,961	**282,022**	**282,922**
Current (short-term) assets				
Inventories	11.12	32,997	34,153	27,538
Short-term trade and other receivables	11.15	373,571	532,543	371,001
Contract assets	10	453,709	381,352	369,280
Income tax asset		208	184	190
Other current financial assets	11.13	24,810	7,608	5,465
Short-term loans advanced		10,813	11,351	11,697
Cash and cash equivalents	11.14	77,423	88,692	123,845
Short-term prepayments and accrued income	11.16	17,221	19,441	14,408
		990,752	**1,075,324**	**923,424**
Non-current assets held for sale		110	175	88
TOTAL ASSETS		**1,283,823**	**1,357,521**	**1,206,434**

Racibórz, November 29th 2019

Paweł Jarczewski	Agnieszka Wasilewska-Semail	Jerzy Ciechanowski	Jerzy Karney	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	acting Member of the Management Board	Chief Accountant

(PLN '000)

Interim condensed consolidated statement of financial position

as at September 30th 2019

	Note	Sep 30 2019	Dec 31 2018	Sep 30 2018
EQUITY AND LIABILITIES				
Equity				
Share capital	11.20	254,864	254,864	254,864
Share premium	11.23	165,119	165,119	165,119
Reserve funds		215,219	191,580	189,431
Translation reserve		(95)	(73)	(804)
Retained earnings/accumulated losses, including:		(245,464)	(22,675)	(30,135)
Profit/(loss) brought forward		(46,209)	(56,260)	(51,806)
Net profit/(loss) for period		(199,255)	33,585	21,671
		389,643	**588,815**	**578,475**
Equity attributable to non-controlling interests		8,254	8,520	8,211
		397,897	**597,335**	**586,686**
Non-current liabilities				
Bank and other borrowings		33	61	70
Finance lease liabilities	11.8	9,620	2,546	2,108
Employee benefit obligations and provisions	11.26, 11.27	22,788	23,604	21,216
Other non-current liabilities	11.25	15,731	12,940	24,359
Other long-term provisions	11.28	33,644	30,228	32,318
Deferred tax liability		3	152	220
		81,819	**69,531**	**80,291**
Current liabilities				
Short-term portion of interest-bearing borrowings	15	120,716	103,507	111,669
Finance lease liabilities		4,342	2,306	2,331
Short-term trade and other payables	11.29	343,571	342,508	345,369
Income tax liability		110	1,365	579
Employee benefit obligations and provisions	11.30, 11.27	28,001	30,209	31,089
Amount due to customers for contract work	10	256,234	173,499	18,469
Other short-term provisions	11.31	24,929	15,151	9,564
Short-term accruals and deferred income		25,925	21,063	19,612
Grants		279	1,047	775
		804,107	**690,655**	**539,457**
Total liabilities		**885,926**	**760,186**	**619,748**
TOTAL EQUITY AND LIABILITIES		**1,283,823**	**1,357,521**	**1,206,434**

Racibórz, November 29th 2019

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

(PLN '000)

Interim condensed consolidated statement of cash flows

for the nine months ended September 30th 2019

	Note	9 months ended Sep 30 2019	12 months ended Dec 31 2018	9 months ended Sep 30 2018
Cash flows from operating activities				
Profit/(loss) before tax		**(214,177)**	**43,176**	**35,495**
Adjustments for:		**194,319**	**(134,356)**	**(100,494)**
Depreciation and amortisation		13,314	14,825	10,984
Foreign exchange gains/(losses)		(33)	36	2
Interest and dividends, net		3,051	3,822	2,721
(Gain)/loss from investing activities		(2,658)	(4,088)	(4,000)
Increase/(decrease) in liabilities/assets from valuation of derivative instruments		–	479	479
(Increase)/decrease in receivables	11.4	151,724	(47,335)	114,540
(Increase)/decrease in inventories		1,156	(5,330)	1,285
Increase/(decrease) in employee benefit obligations, excluding borrowings	11.4	771	(79,341)	(88,181)
Change in provisions, accruals and deferrals	11.4	18,710	(9,061)	(20,030)
Change in contract assets and liabilities	11.4	10,377	607	(110,384)
Income tax (paid)/received		(2,461)	(9,332)	(7,561)
Other		368	362	(349)
Net cash from operating activities		**(19,858)**	**(91,180)**	**(64,999)**
Cash flows from investing activities				
Sale of property, plant and equipment and intangible assets		1,663	1,771	1,225
Purchase of property, plant and equipment and intangible assets	11.4	(544)	(1,812)	(1,332)
Proceeds from debt instruments held		–	4,139	–
Sale of financial assets		–	–	4,139
Purchase of financial assets		(148)	(1,209)	(1,209)
Repayment of loans advanced		–	10,000	10,150
Loans advanced		–	(11,500)	(11,500)
Interest on loans advanced		214	–	140
Dividends and interest received		2	3	10
Other		–	504	(2)
Net cash from investing activities		**1,187**	**1,896**	**1,621**

(PLN '000)

Interim condensed consolidated statement of cash flows
for the nine months ended September 30th 2019

	Note	*9 months ended Sep 30 2019*	*12 months ended Dec 31 2018*	*9 months ended Sep 30 2018*
Cash flows from financing activities				
Payment of finance lease liabilities		(5,922)	(3,534)	(2,771)
Proceeds from borrowings	11.4	26,008	5,819	13,884
Repayment of borrowings		(8,280)	(1,384)	(877)
Interest paid		(2,601)	(3,145)	(2,290)
Bank fees		(1,040)	(1,131)	(1,111)
Other		(759)	766	519
Net cash from financing activities		**7,406**	**(2,609)**	**7,354**
Net increase/(decrease) in cash and cash equivalents		(11,265)	(91,893)	(56,024)
Net foreign exchange gains (losses)		(4)	294	(422)
Cash at beginning of period	11.14	88,692	180,291	180,291
Cash at end of period	11.14	77,423	88,692	123,845

Racibórz, November 29th 2019

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

(PLN '000)

Interim condensed consolidated statement of changes in equity

for the nine months ended September 30th 2019

	Share capital	*Share premium*	*Reserve funds*	*Translation reserve*	*Retained earnings/ accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at Jan 1 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,675)**	**588,815**	**8,520**	**597,335**
Adjustment to opening balance following implementation of IFRS 16	–	–	–	–	318	318	–	318
As at Jan 1 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,357)**	**589,133**	**8,520**	**597,653**
Profit/(loss) from continuing operations	–	–	–		(199,255)	(199,255)	(274)	(199,529)
Other comprehensive income	–	–	–	(22)	(214)	(236)	8	(228)
Distribution of retained earnings	–	–	23,639	–	(23,639)	–	–	–
As at Sep 30 2019	**254,864**	**165,119**	**215,219**	**(95)**	**(245,464)**	**389,643**	**8,254**	**397,897**
As at Jan 1 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(8,756)**	**601,625**	**8,628**	**610,253**
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(43,294)	(43,294)	–	(43,294)
As at Jan 1 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(52,050)**	**558,331**	**8,628**	**566,959**
Profit/(loss) from continuing operations	–	–	–	–	21,671	21,671	(424)	21,247
Other comprehensive income	–	–	–	(371)	(1,157)	(1,528)	8	(1,520)
Distribution of retained earnings	–	(8,589)	7,189	–	1,400	–	–	–
As at Sep 30 2018	**254,864**	**165,119**	**189,431**	**(804)**	**(30,135)**	**578,475**	**8,211**	**586,686**

(PLN ‘000)

Interim condensed consolidated statement of changes in equity

for the nine months ended September 30th 2019

	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 following changes in accounting policies for provisions for warranty repairs	–	–	–	–	(9,959)	(9,959)	–	(9,959)
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(33,335)	(33,335)	–	(33,335)
As at Jan 1 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(52,050)**	**558,331**	**8,628**	**566,959**
Profit/(loss) from continuing operations	–	–	–	–	33,585	33,585	(117)	33,468
Other comprehensive income	–	–	–	360	(3,461)	(3,101)	9	(3,092)
Distribution of retained earnings	–	(8,589)	9,338	–	(749)	–	–	–
As at Dec 31 2018	**254,864**	**165,119**	**191,580**	**(73)**	**(22,675)**	**588,815**	**8,520**	**597,335**

Racibórz, November 29th 2019

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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.

RAFAKO S.A. (the "Company" or "parent") is a listed joint-stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland.{1}{1} The Company was established under a notary deed of January 12th 1993. On August 24th 2001, it was entered in the Business Register maintained by the District Court in Gliwice, 10th Commercial Division of the National Court Register, under No. KRS 34143. The parent's Industry Identification Number (REGON) is 270217865. The parent's shares are listed on the Warsaw Stock Exchange.

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

The Group companies have been established for an indefinite term.

These interim condensed consolidated financial statements of the Group cover the nine months ended September 30th 2019 and contain consolidated comparative data for the nine months ended September 30th 2018 and as at December 31st 2018. The interim condensed consolidated statement of comprehensive income contains data for the nine months ended September 30th 2019 and the comparative data for the nine months ended September 30th 2018, which has not been audited, but has been reviewed by an auditor.

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

These interim condensed consolidated financial statements for the nine months ended September 30th 2019 were authorised for issue by the parent's Management Board on November 29th 2019.

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 nine months ended September 30th 2019 have been prepared in accordance with EU-endorsed International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

In order to provide a better understanding of the financial position and assets of the Group, the comparative data additionally includes the consolidated statement of financial position as at September 30th 2018 and consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for 2018, despite the absence of such requirements in IAS 34.

The interim condensed consolidated financial statements do not contain all information which is disclosed in IFRS-compliant full-year consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the 2018 full-year consolidated financial statements of the Group.

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 presentation currency in these interim condensed consolidated financial statements is the Polish złoty, and all amounts are expressed in thousands of Polish złoty (PLN '000), unless indicated otherwise.

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 main determinant of the RAFAKO Group's ability to continue as a going concern is the financial condition of the parent. To continue as a going concern, a key prerequisite is for the Group to maintain financial liquidity and build an adequate order book (and primarily to secure financing sufficient to perform its contracts).

A significant increase in the cost of performance of key contracts, as estimated by the parent, poses a material threat to RAFAKO S.A.'s ability to continue as a going concern. The Management Board believes that negotiations with the parent's key customers undertaken with a view to increasing the contract sums will help mitigate that risk.

A key factor that may affect the ability to continue as a going concern and win new contracts is access to external financing. To secure such access, in June 2019 the parent and PKO BP S.A. signed an annex to the multi-purpose credit facility agreement; under the annex, RAFAKO S.A. was granted credit and guarantee facilities totalling PLN 200m until the end of June 2020. Moreover, from the beginning of the current year to the issue date of these consolidated financial statements, the parent secured new bank and insurance guarantee limits of over PLN 100m from mBank S.A., Alior Bank S.A., AXA, UNIQA and KUKE. The credit and guarantee facilities currently available to RAFAKO S.A. are used on an as-needed basis and, given the plans to expand the order book, the Company is seeking additional guarantee and credit facilities.

The Group's current order book requires the Group to commit working capital, including from internally generated funds. The committed funds will be released gradually as contracts are completed and consecutive milestones are reached, in accordance with contractual provisions, schedules and budgets. The Group will be able to use the released funds as additional working capital required for new projects.

As at the end of September 2019, the value of the Group's order book was PLN 3,037m (end of September 2018: PLN 3,160m). In pursuit of its strategy, from the beginning of 2019 to the issue date for these financial statements, the Group won new contracts worth PLN 984m, including PLN 689m in the power sector, PLN 175m in the oil and gas sector (the new strategic business area) and PLN 120m in the construction sector. Major contracts won in 2019 include a contract to construct a coke gas-fired power generation unit at JSW KOKS S.A.'s KKZ Branch - Radlin Coking Plant with a VAT-exclusive value of PLN 289m (PLN 355.5m inclusive of VAT), a contract to comprehensively upgrade the Flue Gas Desulfurisation Systems on units 8-12 at PGE GiEK S.A.'s Bełchatów Power Plant Branch with a VAT-exclusive value of PLN 244.9m (PLN 301.3m inclusive of VAT), a contract to construct the Kędzierzyn Gas Compressor Station, signed as part of a consortium with PBG S.A., with a VAT-exclusive value of PLN 168.7m (PLN 207.5m inclusive of VAT), with the Group's share of 95%; and a contract to construct the St. John Paul II Memory and Identity Museum in Toruń with a VAT-exclusive value of PLN 117.7m (PLN 144.7m inclusive of VAT). The Group makes every effort to ensure that the value of contracts in the order book enables it to secure revenue necessary to cover its operating expenses and generate profit in the long term, also after the completion of the contract to construct the 910 MW power generation unit in Jaworzno. In line with the adopted growth directions, the Group is actively involved in tender procedures and expects to win new major contracts.

3. Significant accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies presented in the Group's most recent consolidated financial statements for the year ended December 31st 2018, except for changes resulting from the application of IFRS 16 *Leases*, effective as of January 1st 2019. For information on the changes, see Note 3.1. The comparability of data for the period from January 1st to September 30th 2019 has been distorted due to the retrospective application of IFRS 16 as of January 1st 2019 without restating the comparative data, in accordance with the standard's practical expedients permitted under the transitional provisions.

3.1. New IFRS 16 *Leases*

The new standard supersedes IAS 17 and several interpretations. Apart from a new definition of a lease, it introduces material changes to lessee accounting, requiring lessees to recognise a right-of-use asset and a corresponding lease liability for each lease contract in the statement of financial position. Subsequently, the right-of-use asset is depreciated and the lease liability is measured at amortised cost. In certain situations specified by the standard, a lease liability is remeasured, with the effect of such remeasurement recognised, as a rule, as an adjustment to the right-of-use asset.

Practical expedients may be applied to short-term leases (of 12 months or less) and leases of low-value assets; the Group has incorporated these expedients into its accounting policies. As a consequence, a lease liability under such contracts is not recognised.

The accounting treatment of leases by lessors is similar to that prescribed under IAS 17.

The new standard had a material effect on the Group's financial statements. As at the end of 2018, the Group was a lessee under 56 operating lease and rental agreements concluded for periods from one to two years, under which the Group has the right to use properties and technical facilities.

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

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

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

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

As the Group elected to use the expedients, as at the date of initial application of IFRS 16 it applied IAS 36 to assess whether it was necessary to recognise impairment losses on the right-of-use assets. The assessment did not reveal such necessity.

For contracts classified as finance leases as at December 31st 2018 in accordance with IAS 17, the right-of-use asset was determined to equal the value of the leased assets in accordance with IAS 17. The amount of the lease liability at the date of the new standard's initial application was equal to the amount of the finance lease liability under IAS 17.

Following the application of IFRS 16, the Group recognised, as at the date of its initial application, a right-of-use asset of PLN 14,258 thousand. Right-of-use assets were presented in the statement of financial position under 'Right-of-use assets', while lease liabilities under 'Lease liabilities', broken down into current and non-current.

The Group estimated that the cumulative effect of the first application of the standard on retained earnings as at the date of initial application would be PLN 318 thousand.

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

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

(PLN '000)

The comparative data in the statement of comprehensive income for the nine months ended September 30th 2018 the presentation of which was changed compared with its presentation in the interim condensed financial statements for the nine months ended September 30th 2019 has been adjusted as follows:

	Cost of products and services sold	*Research costs*
Before adjustment	**796,962**	**–**
Adjustment to presentation of cost of merchandise and materials sold		–
Research costs	(6,547)	6,547
Adjusted	**790,415**	**6,547**

3.3. New IFRIC 23: *Uncertainty over Income Tax Treatments*

The interpretation of IAS 12 *Income Taxes* prescribes the approach to be taken when the interpretation of income tax laws is not unequivocal and it cannot be definitely established which tax treatment will be accepted by the taxation authority or a court. The management should first assess whether its interpretation is likely to be accepted by the tax authority. If so, this interpretation should be applied in preparing the financial statements. If not, the uncertainty of income tax amounts should be taken into account using the most-likely-amount or expected-value method. An entity should consider any changes in facts and circumstances affecting the estimated value or amount. Any adjustments to the value or amount are treated as a change of estimate in accordance with IAS 8. The new interpretation has no material effect on the Group's financial statements.

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

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

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

Embedded derivatives

At the end of each reporting period, the 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 service 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.

(PLN '000)

4.2. Uncertainty of estimates

The preparation of interim condensed consolidated financial statements requires the parent's Management Board's judgement in making numerous estimates and assumptions, which have an effect on the accounting policies applied and the amounts of assets, liabilities, income and expenses reported. Actual amounts may differ from the Management Board's estimates.

Information on the estimates and assumptions material to the consolidated financial statements is presented in the full-year consolidated financial statements for 2018. In these interim condensed consolidated financial statements, the Group also presented the effect of the Management Board's assumptions on the estimates of impairment losses (see Note 11.18), revenue from contracts with customers (see Note 10) and provisions (see Note 17).

5. 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:

	Sep 30 2019	*Dec 31 2018*	*Sep 30 2018*
USD	4.0000	3.7597	3.6519
EUR	4.3736	4.3000	4.3091
GBP	4.9313	4.7895	4.8842
CHF	4.0278	3.8166	3.7619
SEK	0.4077	0.4201	0.4492
TRY	0.7081	0.7108	1.0269

6. Change in estimates

In the nine months ended September 30th 2019 and as at that day, there were changes in estimates related to the Group's major projects, as discussed in detail in Note 10.

Following an increase in the cost of executing key contracts, the parent decided to revise its financial forecasts. Based on that revision, the Company identified evidence of possible impairment of assets.

Given that the parent expects the Group's financial performance to improve following negotiations with its key customers, the Management Board will monitor the forecasts on an ongoing basis and – in line with the accounting policies and the Group's practice – will test the parent's assets for impairment as at December 31st 2019.

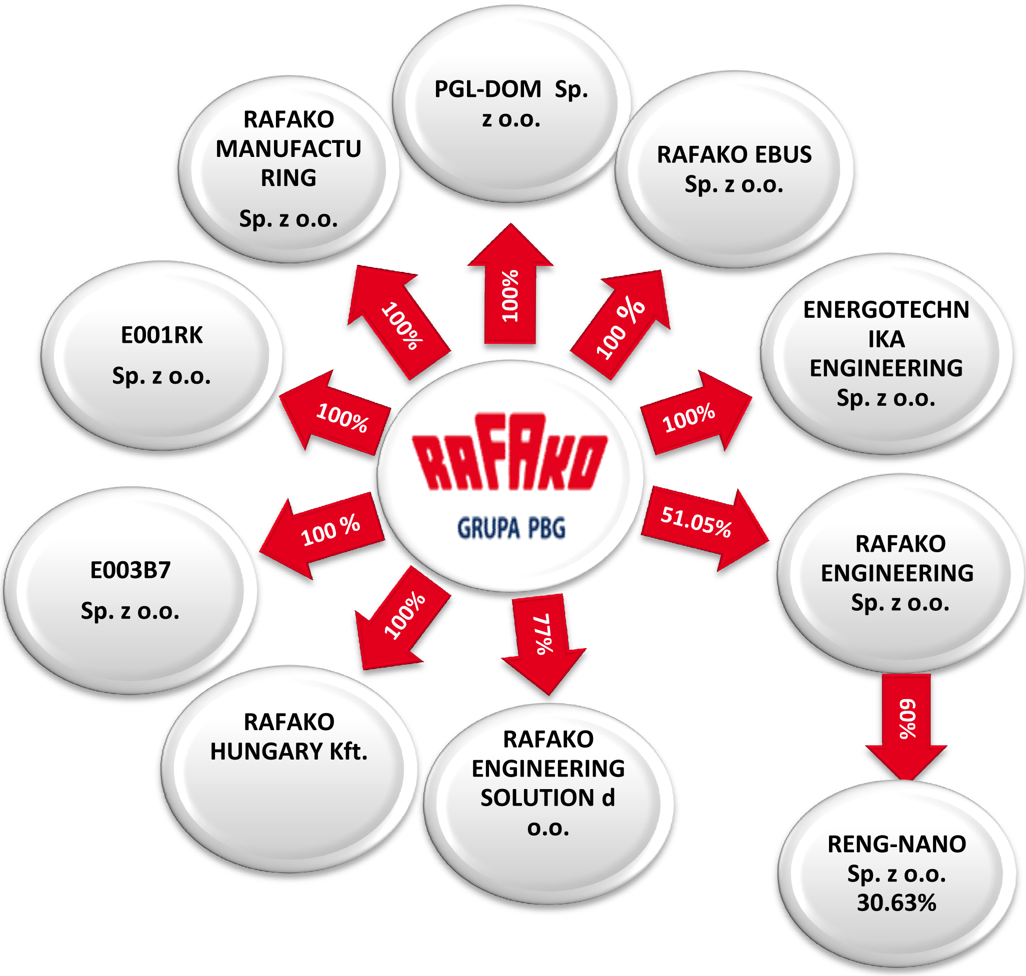
7. Scope of consolidated financial statements

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 September 30th 2019, the RAFAKO Group comprised the parent and ten subsidiaries operating in the power construction, services and trade sectors.

As at September 30th 2019, the following subsidiaries ("Companies", "Group Companies") were included in the Group's consolidated financial statements:



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

(PLN '000)

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*
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 building 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
RAFAKO MANUFACTURING Sp. z o.o. Racibórz	Production of steam generators, excluding hot water central heating boilers	District Court of Gliwice KRS 739782	full
RAFAKO EBUS Sp. z o.o. Racibórz	Manufacture of buses, electrical and electronic equipment for motor vehicles and manufacture of other motor vehicle parts and accessories	District Court of Gliwice KRS 798943	full

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

As at September 30th 2019 and December 31st 2018, 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

In the nine months ended September 30th 2019, there were a number of changes in the Group's structure.

In the first nine months of 2019, the parent established a new subsidiary RAFAKO EBUS Sp. z o.o., registered in the National Court Register on August 9th 2019 under entry No. 0000798943. The value of the acquired shares in the new company is PLN 5 thousand.

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. Contract assets and liabilities

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

	Sep 30 2019	*Dec 31 2018*
Gross contract assets	456,979	383,200
Impairment of contract assets (-)	(3,270)	(1,848)
Contract assets	453,709	381,352
Contract liabilities, including advance payments	256,234	173,499

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

The table below presents the effects of accounting for contracts, including revenue and costs of running contracts recognised in accordance with IFRS 15 as at September 30th 2019 and as at December 31st 2018, as well as gross amount due to customers for contract work and gross amount due from customers for contract work.

(PLN '000)

	Sep 30 2019	Dec 31 2018
Revenue initially agreed in contract	8,091,170	7,084,490
Change in contract revenue	64,190	90,726
Aggregate contract revenue	**8,155,360**	**7,175,216**
Contract costs incurred as at reporting date	5,239,906	4,280,233
Costs expected to be incurred by contract completion date	2,501,379	2,284,677
Estimated aggregate contract costs	**7,741,285**	**6,564,910**
Estimated aggregate profit/(loss) on contracts, including:	**414,075**	**610,306**
profit	564,600	665,896
loss (-)	(150,525)	(55,590)

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

	Sep 30 2019	Dec 31 2018
Advance payments received as at reporting date	204,448	137,246
Advance payments that can be set off against amounts due from customers for contract work	51,567	25,264
Contract costs incurred as at reporting date	5,254,215	4,284,312
Cumulative profit as at reporting date (+)	374,771	440,034
Cumulative loss as at reporting date (+)	(150,495)	(55,591)
Cumulative contract revenue as at reporting date	5,478,492	4,668,755
Amounts invoiced as at reporting date (progress billings)	5,073,296	4,321,807
Settlement of contracts (balance) as at the reporting date, including:	**405,195**	**346,948**
Contract assets less advance payments that can be set off	456,979	383,200
Contract liabilities	103,351	61,517

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

Contract assets:

	Sep 30 2019	Dec 31 2018
Contract assets at beginning of period	381,352	251,283
Revenue charged in the reporting period to contract assets	289,947	183,047
Total revenue restatements charged to contract assets	(48,143)	17,172
Changes in impairment losses on contract assets	(1,422)	(508)
Reclassification to trade receivables (-)	(168,025)	(69,642)
Contract assets at end of period	**453,709**	**381,352**

(PLN '000)

Contract liabilities:

	Sep 30 2019	Dec 31 2018
Contract liabilities at beginning of period	173,499	42,823
Performance obligations recognised in the reporting period as contract liabilities	62,229	54,464
Change in advance payments	40,901	97,852
Total revenue restatements charged to contract liabilities	171	1,725
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(20,566)	(23,365)
Contract liabilities at end of period	**256,234**	**173,499**

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

10.1 Key contracts executed by the Group

10.1.1 Jaworzno Project

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of a supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The final division of work within the consortium was agreed on August 4th 2013 based on the amendments made to the consortium agreement, which related to RAFAKO S.A. taking over 99.99% of the project deliveries (with 0.01% remaining for Mostostal Warszawa) and changing the distribution of consideration due to the consortium members to reflect the members' actual shares in the project. The contract for the construction of the Jaworzno III Power generation unit was concluded on April 17th 2014. The current contract sum (following the execution of Annex 6) is PLN 4,485,514,439.95 (VAT exclusive). In terms of value, it is the largest contract ever performed by RAFAKO S.A.

Currently, work is being performed on the last phase of the Jaworzno Project, i.e. the commissioning and start-up phase, which will be continued until unit is placed in service. After the completion of the milestone relating to placement of the unit in service, the warranty period under the contract will commence, during which the final measurements of guaranteed technical parameters are to be performed within 12 months from placing the unit in service. During the warranty period, the employer will receive the as-built documentation and the invoice for the last milestone, in line with the schedule of works and expenditures. The contract will be completed on time if the individual stages of the commissioning process go smoothly. Any identified defect or failure of machinery or equipment, unexpected technical problems in process units or electrical systems, particularly at the interface between the units/electrical systems and equipment, as well as the necessity to perform unscheduled additional work may cause a delay in the contract performance. If the contract is not completed by the prescribed deadline, i.e. the placement-in-service report is not signed, the employer may charge penalties for delayed performance of the contract, which could have a material adverse effect on the performance and financial position of both RAFAKO S.A. and the SPV implementing the project.

On September 17th 2019, RAFAKO S.A. and its subsidiary E003B7 spółka z ograniczoną odpowiedzialnością of Racibórz entered into negotiations with Nowe Jaworzno Grupa TAURON spółka z ograniczoną odpowiedzialnością of Jaworzno to amend the contract of April 17th 2014 for the construction of a 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 main purpose of the negotiations is to make certain changes to the unit's guaranteed technical parameters, to improve the parameters of emissions of certain harmful substances into the atmosphere; as well as to the parameters of the permitted fuel for combustion in the unit. RAFAKO S.A. would like to note that, if given, the customer's consent to extending the scope of work could affect the overall construction schedule and the contract price.

While performing the contract, RAFAKO S.A. identified opportunities to ensure that, upon completion of certain optimisation work, tests and analyses, the unit would comply with the requirements relating to permitted emission levels of selected harmful substances, as set out in the Best Available Techniques ("BAT") Conclusions, as well as opportunities to extend the range of fuels for combustion in the unit that would enable the employer to burn fuels with parameters different from those specified in the contract while meeting the environmental protection standards defined in the BAT Conclusions. The purpose of making the above changes to the unit's technical specifications is to reduce emissions of certain harmful substances into the environment, which would be beneficial to the employer and its stakeholders. In addition, broadening the range of permitted fuels would provide the employer with new opportunities to purchase fuel on the market, thus reducing the risks related to possible shortages in the supply of coal, which is the fuel specified in the contract. This would open new commercial opportunities to contract fuel supplies for the employer. RAFAKO S.A. would like to further note that some of the optimisation measures designed to enable the unit to meet the new/amended group B guaranteed technical parameters during warranty measurements, can only be implemented after the unit has been placed in commercial operation and when it is running, and they would require significant engagement of the contractor's and its subcontractors' personnel.

Accounting for the Jaworzno Project:

To execute 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), performed mainly in 2015–2017.

For the purposes of the project, RAFAKO S.A. and E003B7 Sp. z o.o. signed agreements with financial institutions, under which the companies secured bank guarantees and insurance bonds required to deliver the project. The total value of the bonds and guarantees is PLN 587.5m. At the same time, RAFAKO S.A.'s and E003B7 Sp. z o.o.'s assets were pledged as security for these instruments. On March 1st 2017, RAFAKO S.A. signed an annex to the contract with the employer. Under the annex, the project completion date was postponed and the contract value was increased, as described in detail in Note III.1 to the Directors' Report on the RAFAKO Group's operations in 2017.

Given the arrangements with the guarantee providers, RAFAKO S.A. does not plan for E003B7 sp. z o.o. to pay any dividend before the expiry of the guarantee agreements as this could result in an adverse response from the guarantee providers.

In the consolidated financial statements, RAFAKO S.A. sets off project-related income, expenses and settlements between RAFAKO and the special purpose vehicle. In its separate financial statements, the Company does not recognise revenue and expenses related to the portion of work performed by E003B7 Sp. z o.o. − they are reported in the separate financial statements of E003B7 Sp. z o.o. and the consolidated financial statements of the RAFAKO Group.

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

Change in estimates for the Jaworzno Project

In the nine months ended September 30th 2019, the parent and the subsidiary updated the estimated costs of the contract of April 17th 2014 with Nowe Jaworzno Grupa Tauron sp. z o.o. of Jaworzno for the construction of the supercritical 910 MW power generation unit at Jaworzno III Power Plant – Power Plant II, including the steam generator, turbine generator set, main building, electrical and I&C systems.

A change in the overall result on the contract for the first nine months of 2019 was PLN -113.2m, reflecting a change in total estimated revenue and expenses, while the effect of the contract implementation on the Group's consolidated net profit or loss for the first nine months of 2019 was PLN -86.7m.

The contractor's analysis of changes in prices applicable to subcontracts (excluding the contract with Siemens companies) shows that the difference between the actual cost and the forecast was PLN 99.3m. Taking into account the risk assumed in the contractor's bid, the difference between the actual cost and the forecast was PLN 65.9m. In the parent's and the SPV's opinion, the above circumstances give grounds for increasing the contractor's remuneration due to an extraordinary change in relations. Having completed the above work, on March 19th 2019 the parent and the SPV submitted to the employer a request for increasing the contract price by PLN 65.9m.
Negotiations are currently under way between Tauron S.A. and RAFAKO S.A. concerning the scope of the project. They chiefly relate to a possible change in the fuel parameters and compliance with additional environmental requirements. This is likely to entail a change in the contract schedule and the scheduled commissioning date.

10.1.2 Opole Project

In February 2012, RAFAKO S.A., acting as the leader of a consortium comprising RAFAKO S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A., executed a PLN 9.4bn (PLN 11.6bn with VAT included) contract with PGE Elektrownia Opole S.A.

(currently PGE Górnictwo i Energetyka Konwencjonalna S.A. – the "employer") for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit 5 and power unit 6 at the Opole Power Plant, together with equipment and devices as well as all related buildings and structures.

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

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

On October 10th 2018, RAFAKO S.A., Polimex-Mostostal S.A., Mostostal Warszawa S.A., and GE Power signed with PGE Górnictwo i Energetyka Konwencjonalna S.A. an annex to the contract of February 15th 2012 for the construction of power generating units 5 and 6 at the Opole Power Plant of PGE GiEK S.A., performed by the Consortium and GE Power sp. z o.o., which is a general designer and consortium leader managing the execution of the Project. Under the Annex, the deadlines for commissioning units 5 and 6 were changed to June 15th 2019 and September 30th 2019, respectively. The Company confirms that the commissioning deadline for the units has been met.

Rules of accounting for the Opole Project:

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

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

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

10.1.3. Vilnius Project

In the first nine months of 2019, the parent updated the estimated costs of the contract of September 29th 2016 with JSC VILNIAUS KOGENERACINĖ JĖGAINĖ for the construction of a biofuel-fired co-generation unit comprising fluidised bed boilers, biofuel storage and feeder systems, and a flue gas treatment system. The price of the contract and annexes thereto is EUR 149,224,058 (exclusive of VAT).

The additional cost of the contract, as estimated by RAFAKO S.A., amounts to PLN 68.4m (while the estimated revenue went up by PLN 10.9m – reflecting mainly a strengthening of the euro), due mainly to extraordinary price increases during the Vilnius Project performance, work which, in the parent's opinion, went beyond the project's scope and longer than assumed execution of the project (through no fault of RAFAKO), due in particular to delays in the employer's performance under the contract resulting in delayed orders for deliveries and services, whose prices increased dramatically owing to the expiry of relevant bids. The parent also estimated additional costs related to changes in the contract's scope introduced by the employer, resulting in the need to perform some additional work.

At the same time, the parent estimated its claims for the reasons indicated above at PLN 60.7m. RAFAKO S.A. is currently holding negotiations with the employer to reach an agreement that would take account of all RAFAKO S.A.'s claims. Given the good cooperation with the employer so far and well documented additional work by RAFAKO, the Company expects the negotiations to achieve the desired end.

The effect of the contract implementation on the Group's consolidated net profit or loss for the first nine months of 2019 was PLN -30.7m.

10.1.4. Kozienice Project

In the first nine months of 2019, the parent updated the estimated costs of the contract of September 30th 2016 with ENEA Wytwarzanie Sp. z o.o. for delivery and installation of a catalytic flue gas NO_x reduction system for AP-1650 boilers 9 and 10 and for upgrade of the electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. The VAT-exclusive contract sum is PLN 289,182,112.00.

The additional cost of the contract, as estimated by RAFAKO S.A., amounts to PLN 52.9m, due mainly to an extraordinary increase in market prices during the contract performance and to work which, in the Company's opinion, went beyond the contract's scope, including in particular an increase in costs under contracts settled based on unit rates, claims raised in 2019 by major subcontractors, resulting from some necessary additional work, costs related to longer than assumed execution of the contract, resulting from additional work performed, as well as additional services and deliveries related to an electrostatic precipitator.

(PLN '000)

At the same time, the parent estimated its claims against the employer for the reasons indicated above at PLN 67.8m. Given a lack of agreement with the employer that would take account of RAFAKO S.A.'s claims, at the end of August and beginning of September 2019, the composition of pre-court mediation teams was agreed. Given its good cooperation with the employer so far and well documented additional work by RAFAKO, the Company expects the mediation to achieve the desired end of including the cost of the additionally performed work in the contract sum and agreeing on the execution of an annex under which the contract completion deadline would be postponed.

The effect of the contract implementation on the Group's consolidated net profit or loss for the first nine months of 2019 was PLN -52.9m.

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

11.1. Revenue and operating segments

In the nine months ended September 30th 2019, there were no changes in the Group's accounting policies with respect to the identification of operating segments and the rules of measuring revenue, profit or loss, and assets of the segments which were presented in the Group's most recent full-year consolidated financial statements.

11.1.1. Revenue from sale of goods and services

	9 months ended Sep 30 2019	*12 months ended Dec 31 2018*	*9 months ended Sep 30 2018*
Net revenue from sale of products	55,487	44,086	793,538
Net revenue from sale of services	758,668	1,216,255	85,074
including: from related entities	1,881	4,847	3,872
Net revenue from sale of other goods	2,659	5,588	3,506
Other income	–	317	(479)
Exchange differences on trade receivables	350	154	(123)
Net revenue from sale of goods and services, total	**817,164**	**1,266,400**	**881,516**
including: from related entities	1,881	4,847	3,872

In the nine months ended September 30th 2019, the Group reported revenue of PLN 817,744 thousand, down by PLN 65,472 thousand on the corresponding period of 2018.

The decrease in revenue in 2019 was due mainly to lower revenue from the Jaworzno 910 MW Project, which fell from PLN 459.8m in the first nine months of 2018 to PLN 144.8m in the same period of the current year. At the same time, the parent's revenue went up from PLN 444.7m to PLN 653.7m., the increase driven mainly by sales under the contract to construct a biofuel-fired co-generation unit for Lithuania's UAB VILNIAUS KOGENERACINĖ JĖGAINĖ, the contract to construct two steam generating units on the Lombok Island in Indonesia, and the commencement of work under significant contracts in the new oil and gas segment.

11.1.2. Revenue from sale of materials

	9 months ended Sep 30 2019	*12 months ended Dec 31 2018*	*9 months ended Sep 30 2018*
Revenue from sale of merchandise and materials	580	2,418	1,700
including: from related entities	–	–	–
Net revenue from sale of merchandise and materials, total	**580**	**2,418**	**1,700**
including: from related entities	–	–	–

(PLN '000)

11.1.3. Revenue by geography

	9 months ended Sep 30 2019	*12 months ended Dec 31 2018*	*9 months ended Sep 30 2018*
Revenue from sales to domestic customers	483,927	987,689	682,447
including: from related entities	1,881	4,847	3,872
Revenue from sales to foreign customers	333,817	281,129	200,769
including: from related entities	–	–	–
Net sales revenue, total	**817,744**	**1,268,818**	**883,216**
including: from related entities	1,881	4,847	3,872

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

Revenue from sales to related entities is presented in detail in Note 25 to these consolidated financial statements.

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

Trading partner	*% of total sales*	*9 months ended Sep 30 2019*
Nowe Jaworzno Grupa TAURON Sp. z o.o.	22.5%	184,344
UAB VILNIAUS KOGENERACINĖ JĖGAINĖ	18.9%	154,794
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	11.7%	95,934
Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	10.3%	84,218
Other	36.6%	298,454
Total	**100%**	**817,744**

11.1.4. 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. RAFAKO MANUFACTURING Sp. z o.o.
Products for oil and gas sector	RAFAKO S.A. RAFAKO ENGINEERING 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. RAFAKO EBUS 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 desulfurisation systems; flue gas deNOx technologies; particles removal 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.

The 'Products for oil and gas sector' segment offers surface systems for oil and gas production, LNG unloading, regasification and storage facilities, oil and gas pipelines, fuel tanks, as well as technical and sanitary installations.

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 nine months ended September 30th 2019 or as at September 30th 2019	*Power and environmental protection facilities*	*Products for oil and gas sector*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue						
Sales to external customers	709,413	102,573	12,283	824,269	(6,525)	817,744
Inter-segment sales	643	–	36,961	37,604	(37,604)	–
Total segment revenue	710,056	102,573	49,244	861,873	(44,129)	817,744
Cost of products and materials sold	(867,733)	(99,593)	(41,128)	(1,008,454)	43,605	(964,849)
Total						
Gross profit/(loss)	(157,677)	2,980	8,116	(146,581)	(524)	(147,105)
Other income/(expenses)	(50,550)	(5,693)	(6,928)	(63,171)	(3,747)	(66,918)
Operating profit/(loss)	(208,227)	(2,713)	1,188	(209,752)	(4,271)	(214,023)
Finance income/(costs)	576	8	(677)	(93)	(61)	(154)
Profit/(loss) before tax	(207,651)	(2,705)	511	(209,845)	(4,332)	(214,177)
Income tax expense	14,057	–	(232)	13,825	823	14,648
Segment's net profit/(loss)	(193,594)	(2,705)	279	(196,020)	(3,509)	(199,529)
Results						
Depreciation and amortisation	10,867	163	2,192	13,222	92	13,314
Share of profit of associates and joint ventures	–	–	–	–	–	–
Assets and liabilities as at September 30th 2019						
Segment assets	1,216,592	91,605	95,168	1,403,365	(119,542)	1,283,823
Segment liabilities	883,614	43,358	37,579	964,551	(78,625)	885,926
Other information						
Investments in associates and joint ventures	–	–	–	–	–	–
Capital expenditure	1,904	344	717	2,965	–	2,965

(PLN '000)

For the nine months ended September 30th 2018 or as at September 30th 2018	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	857,313	33,024	890,337	(7,121)	883,216
Inter-segment sales	1,027	25,415	26,442	(26,442)	–
Total segment revenue	858,340	58,439	916,779	(33,563)	883,216
Cost of products and materials sold	(773,386)	(52,986)	(826,372)	34,841	(791,531)
Total					
Gross profit/(loss)	84,954	5,453	90,407	1,278	91,685
Other income/(expenses)	(48,970)	(5,379)	(54,349)	(3,905)	(58,254)
Operating profit/(loss)	35,984	74	36,058	(2,627)	33,431
Finance income/(costs)	2,631	250	2,881	(817)	2,064
Profit/(loss) before tax	38,615	324	38,939	(3,444)	35,495
Income tax expense	(14,666)	(234)	(14,900)	652	(14,248)
Segment's net profit/(loss)	23,949	90	24,039	(2,792)	21,247
Results					
Depreciation and amortisation	9,629	1,452	11,081	(97)	10,984
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at September 30th 2018					
Segment assets	1,219,144	84,292	1,303,436	(97,002)	1,206,434
Segment liabilities	651,298	26,059	677,357	(57,609)	619,748
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	2,614	935	3,549	–	3,549

(PLN '000)

The Group's principal business comprises the manufacture of the following product groups:

Product group name	*9 months ended Sep 30 2019*	*12 months ended Dec 31 2018*	*9 months ended Sep 30 2018*
Power generation units and steam generators	247,587	163,261	91,643
Revenue under the Jaworzno 910 MW Project	144,764	649,235	459,791
Air pollution control systems	152,134	270,191	194,180
Power equipment, machinery and components, and related services	163,312	139,146	111,139
Services and products for oil and gas sector	93,078	44,234	24,301
Other revenue	16,869	2,751	2,162
Total	**817,744**	**1,268,818**	**883,216**

11.2. Distribution costs, operating income and expenses and finance income and costs

Cost of sales in the reporting period amounted to PLN 964,849 thousand. As a combined effect of the Group's revenue and cost of sales, gross loss reached PLN 147,105 thousand.

The main reason behind the Q3 2019 loss posted by the Group were the expenses already incurred and budgeted under the Jaworzno Project. The increase in those expenses was mainly attributable to the prolonged commissioning process, entailing postponed completion of the assembly, finishing work and supervision contracts. Also included were the expenses under newly signed contracts to perform additional work for the project owner, beyond the scope of the main contract (the companies are in the process of negotiating an annex that would expand the scope of work under the contract).

In the current reporting period, distribution costs of PLN 17,038 recognised in the statement of profit or loss comprise costs of bid preparation and costs of PR and marketing activities.

Other income included mainly grants received of PLN 604 thousand and the reversal of impairment losses on assets totalling PLN 310 thousand. In the first nine months of the year, other income also included PLN 471 thousand in compensation and PLN 275 thousand in liquidated damages received, as well as PLN 201 thousand of gain on disposal of non-current non-financial assets.

Other expenses chiefly included impairment losses on contract receivables of PLN 1,236 thousand and trade receivables of PLN 1,677 thousand, as well as donations of PLN 1,490 thousand.

In the first nine months of 2019, the Group's finance income came mainly from a discount on long-term accounts payable and receivable of PLN 3,888 thousand and interest on financial instruments of PLN 1,272 thousand (September 30th 2018: PLN 1,053 thousand).

Finance costs in the period included chiefly interest on financial instruments of PLN 3,038 thousand (September 30th 2018: PLN 2,160 thousand), impairment losses recognised on loans advanced of PLN 685 thousand, as well as commissions on bank borrowings of PLN 516 thousand (September 30th 2018: PLN 1,046 thousand).

(PLN '000)

11.3. Income tax

Income tax expense

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

Continuing operations	*9 months ended Sep 30 2019*	*9 months ended Sep 30 2018*
Consolidated statement of profit or loss		
Current tax	(1,182)	(5,754)
Current income tax expense	(1,182)	(6,071)
Adjustments to current income tax from previous years	–	317
Deferred tax	15,830	(8,494)
Related to recognition and reversal of temporary differences	15,830	(8,494)
Adjustments to deferred tax from previous years	–	–
Income tax expense in the consolidated statement of profit or loss	**14,648**	**(14,248)**

Continuing operations	*9 months ended Sep 30 2019*	*9 months ended Sep 30 2018*
Deferred tax on other comprehensive income	50	271
Related to recognition and reversal of temporary differences	50	271
Adjustments to current income tax from previous years	–	–
Income tax expense recognised in other comprehensive income	**50**	**271**

(PLN '000)

Deferred income tax calculated as at September 30th 2019

Deferred income tax calculated as at September 30th 2019 relates to:

	Statement of financial position		*Statement of comprehensive income*	
	Sep 30 2019	*Dec 31 2018*	*Sep 30 2019*	*Sep 30 2018*
- investment reliefs	(1)	(2)	1	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(14,902)	(14,660)	(242)	801
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,526	2,113	(587)	(653)
- difference between tax base and carrying amount of loans and receivables	5,450	4,781	669	785
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(81,898)	(69,638)	(12,260)	(7,080)
- difference between tax base and carrying amount of inventories	1,911	1,954	(43)	(92)
- provisions	17,211	15,161	2,050	(45,961)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	116,680	76,200	40,480	43,278
- tax asset related to tax loss	224	16,625	(16,401)	(1,292)
- adjustment to costs of unpaid invoices	3,593	3,856	(263)	(103)
- other	7,940	5,464	2,476	2,094
Deferred tax expense/benefit disclosed in the statement of profit or loss			15,830	(8,494)
Deferred tax expense/benefit disclosed in other comprehensive income			50	271
			15,880	**(8,223)**
Net deferred tax asset/(liability), including:	**57,734**	**41,854**		
Deferred tax assets	57,737	42,006		
Deferred tax liability	3	152		

As at September 30th 2019, the Group recognised a deferred tax asset on a tax loss of PLN 1,179 thousand, which will be offset against profits in future reporting periods.

In the period to September 6th 2019, the parent wrote off a tax loss asset of PLN 16,178 thousand. The total amount of tax loss for 2015, 2016, 2017 and 2019 which was not recognised in deferred tax is PLN 294,942 thousand.

In the 12 months of 2018, the parent reported a tax loss of PLN 2,977 thousand. The parent assessed its ability to realise a deferred tax asset on account of the tax loss based on tax forecasts. In line with the prudent valuation principle, the parent's Management Board decided not to recognise a deferred tax asset on the tax loss recorded in the 12 months of 2018. The total amount of tax loss for 2015, 2016, 2017 and 2018 which was not recognised in deferred tax is PLN 160,517 thousand.

11.4. Significant items disclosed in the statement of cash flows

The PLN 151,724 thousand decrease in receivables disclosed in the interim condensed consolidated statement of cash flows for the nine months ended September 30th 2019 resulted mainly from:

- PLN 136,970 thousand decrease in trade receivables,
- PLN (19,252) thousand increase in receivables from the state budget (including VAT),
- PLN 18,317 thousand decrease in advance payments made,
- PLN 17,538 thousand decrease in security deposits receivable,
- PLN (1,849) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the nine months ended September 30th 2019, see Note 11.15.

The PLN 771 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

- PLN 27,133 thousand increase in trade payables,
- PLN (17,048) thousand decrease in taxes and other duties payable,
- PLN (3,024) thousand decrease in employee benefit obligations and provisions,
- change in actuarial gains/(losses) of PLN (263) thousand,
- PLN (6,027) thousand decrease in other liabilities.

The PLN 10,377 thousand change in gross amounts due to and from customers for contract work disclosed in the statement of cash flows was caused primarily by:

- PLN (72,358) thousand increase in gross amount due from customers for contract work and the related accruals and deferrals,
- PLN 82,735 thousand increase in gross amounts due to customers for contract work,

The PLN 18,710 thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN 2,712 thousand increase in the provision for warranty repairs,
- PLN 10,631 thousand increase in the provision for expected contract losses,
- PLN 7,172 thousand change in accruals and deferrals,
- PLN (1,601) thousand adjustment to accruals and deferrals related to implementation of IFRS 16,
- PLN (204) thousand change in other provisions.

The cash flows of PLN 544 thousand relating to the acquisition of property, plant and equipment and intangible assets resulted from the purchase of property, plant and equipment for PLN 437 thousand and of intangible assets for PLN 107 thousand.

Cash flows from financing activities were mainly affected by a PLN 19,383 thousand increase in debt outstanding under the overdraft facility and working capital facility advanced to the parent by PKO BP S.A.

(PLN '000)

11.5.Goodwill and intangible assets

Sep 30 2019	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2019	**9,166**	**7,870**	**109**	**28**	**17,173**
Acquisitions	–	38	–	108	146
Transfers from intangible assets under development	–	136	–	(136)	–
Amortisation for the year	–	(1,098)	(44)	–	(1,142)
As at Sep 30 2019	**9,166**	**6,946**	**65**	**–**	**16,177**

* Intangible assets pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.19.2

Dec 31 2018	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2018	**9,166**	**8,040**	**168**	**697**	**18,071**
Acquisitions	–	354	–	364	718
Transfers from intangible assets under development	–	1,033	–	(1,033)	–
Amortisation for the year	–	(1,557)	(59)	–	(1,616)
As at Dec 31 2018	**9,166**	**7,870**	**109**	**28**	**17,173**

Sep 30 2018	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2018	**9,166**	**8,040**	**168**	**697**	**18,071**
Acquisitions	–	110	–	229	339
Transfers from intangible assets under development	–	878	–	(878)	–
Amortisation for the year	–	(1,154)	(44)	–	(1,198)
As at Sep 30 2018	**9,166**	**7,874**	**124**	**48**	**17,212**

In the nine months ended September 30th 2019, goodwill did not change and amounted to PLN 9,166 thousand as at as at September 30th 2019.

(PLN '000)

11.6.Property, plant and equipment

For the nine months ended September 30th 2019	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2019	**23,703**	**84,743**	**44,595**	**7,220**	**793**	**196**	**161,250**
Adjustment to opening balance following implementation of IFRS 16	–	–	(1,340)	(5,134)	(324)	–	(6,798)
Net carrying amount as at Jan 1 2019	**23,703**	**84,743**	**43,255**	**2,086**	**469**	**196**	**154,452**
Transfers from property, plant and equipment under construction	–	96	203	–	35	(334)	–
Acquisitions	–	–	46	28	261	333	668
Liquidation/sale	(64)	(966)	(172)	(88)	(74)	–	(1,364)
Exchange differences on translating foreign operations	–	–	1	1	(5)	–	(3)
Depreciation for period	–	(2,253)	(4,759)	(881)	(200)	–	(8,093)
Impairment loss for period	–	285	66	96	–	–	447
Other, including reclassification to/from other asset category	(1)	(40)	77	1,290	–	–	1,326
Net carrying amount as at Sep 30 2019*	**23,638**	**81,865**	**38,717**	**2,532**	**486**	**195**	**147,433**

*Tangible assets pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.19.1

For the 12 months ended December 31st 2018	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2018	**23,759**	**87,741**	**50,059**	**8,160**	**961**	**254**	**170,934**
Transfers from property, plant and equipment under construction	–	57	627	–	–	(684)	–
Acquisitions	–	–	1,047	–	106	669	1,822
Lease agreements	–	–	179	2,392	187	–	2,758
Liquidation/sale	(52)	(33)	(316)	(403)	–	(43)	(847)
Translation reserve	–	–	(10)	2	(1)	–	(9)

(PLN '000)

Depreciation for period	–	(2,955)	(6,897)	(2,897)	(460)	–	(13,209)
Impairment loss for period	–	–	(51)	(114)	–	–	(165)
Other, including reclassification to/from other asset category	(4)	(67)	(43)	80	–	–	(34)
Net carrying amount as at Dec 31 2018	**23,703**	**84,743**	**44,595**	**7,220**	**793**	**196**	**161,250**

For the nine months ended Sep 30 2018	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2018	**23,759**	**87,748**	**50,060**	**8,152**	**957**	**258**	**170,934**
Transfers from property, plant and equipment under construction	–	57	473	–	–	(530)	–
Acquisitions	–	–	125	–	84	579	788
Lease agreements	–	–	179	2,059	187	–	2,425
Borrowing costs	–	–	(48)	(8)	–	(43)	(99)
Liquidation/sale	(51)	(5)	(261)	(13)	–	–	(330)
Exchange differences on translating foreign operations	–	–	(10)	1	(3)	–	(12)
Depreciation for period	–	(2,216)	(5,132)	(2,112)	(326)	–	(9,786)
Impairment loss for period	–	–	5	(4)	–	–	1
Other, including reclassification to/from other asset category	(4)	(74)	55	(3)	–	–	(26)
Net carrying amount as at Sep 30 2018	**23,704**	**85,510**	**45,446**	**8,072**	**899**	**264**	**163,895**

(PLN '000)

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

	9 months ended Sep 30 2019	*9 months ended Sep 30 2018*
Purchase of property, plant and equipment and intangible assets*	2,965	3,549
Proceeds from sale of property, plant and equipment and intangible assets	1,663	1,192

* 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.

11.8.Right-of-use assets

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

	Land	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*Total*
As at Jan 1 2019						
Gross carrying amount	–	–	738	6,621	–	7,359
Adjustment following implementation of IFRS 16	249	8,434	6,389	1,369	324	16,765
Accumulated depreciation and impairment	–	–	(261)	(2,807)	–	(3,068)
Net carrying amount	**249**	**8,434**	**6,866**	**5,183**	**324**	**21,056**
As at Sep 30 2019						
Gross carrying amount	249	8,157	7,177	7,320	618	23,521
Accumulated depreciation and impairment	(86)	(1,320)	(1,857)	(2,671)	(456)	(6,390)
Net carrying amount	**163**	**6,837**	**5,320**	**4,649**	**162**	**17,131**

The economic useful lives of those assets are consistent with the lease terms, ranging from 13 to 48 months. The Company depreciates leased assets with the straight-line method.

(PLN '000)

As at September 30th 2019, future minimum lease payments under such contracts and the net present value of minimum lease payments were as follows:

	Sep 30 2019		*Dec 31 2018*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	4,547	4,342	2,723	2,306
from 1 to 5 years	8,726	7,049	2,738	2,546
Over 5 years	2,804	2,571	–	–
Total minimum lease payments	**16,077**	**13,962**	**5,461**	**4,852**
Less finance costs	(2,115)	–	(609)	–
Present value of minimum lease payments, including:	**13,962**	**13,962**	**4,852**	**4,852**
short-term	4,342	4,342	2,306	2,306
long-term	9,620	9,620	2,546	2,546

The Company does not recognise liabilities under short-term leases or leases for which the underlying asset is of low value. In addition, contingent lease payments are not recognised under lease liabilities. In the first nine months of 2019, the related costs were as follows:

	Sep 30 2019
Short-term leases	7,572
Leases of low-value assets	–
Total	**7,572**

In the reporting period, no expenses were recognised on account of contingent lease payments and no sublease payments were made as the assets are used exclusively by Group companies.

(PLN '000)

11.9.Other long-term receivables

	Sep 30 2019	Dec 31 2018
Financial receivables		
Security deposits/retentions	572	332
Other financial receivables	46,400	39,737
Impairment losses on financial receivables (-)	(89)	(123)
Other long-term financial receivables, net	**46,883**	**39,946**
Non-financial receivables		
Other non-financial receivables	458	450
Other non-financial receivables, net	**458**	**450**
Total other long-term receivables, net	**47,341**	**40,396**

11.10. Shares in other entities

	Sep 30 2019	Dec 31 2018
Shares in other listed companies	113	160
Shares in other non-listed companies	1,376	1,228
	1,489	**1,388**

*Shares pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.19.3

In the nine months ended September 30th 2019, the parent purchased one share in InnoEnergy Central Europe Sp. z o.o. for PLN 147 thousand.

11.11. Non-current financial assets

	Sep 30 2019	Dec 31 2018
Long-term bonds	–	14,066
	–	**14,066**

11.11.1. Bonds

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

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

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

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

Redemption Date	Nov 21 2019*	Dec 31 2019	Jun 30 2020	Total
Series	G,G1 and G3	H,H1 and H3	I, I1 and I3	
Amount of Bonds to be redeemed *(PLN '000)*	61,934.8	46,875.6	238,445.7	347,256.1
including: *Bonds acquired by RAFAKO S.A. at redemption price*	4,996	3,781	19,045	27,822
Impairment loss on bonds	(142)	(188)	(2,682)	(3,012)
Value of bonds as disclosed in the financial statements	4,854	3,593	16,363	24,810

*pursuant to a resolution of the Bondholders Meeting for holders of Series G Bonds issued by PBG S.A. dated October 15th 2019, the redemption date for Series G, G1 and G3 bonds was changed from June 30th 2019 to November 21st 2019.

2. In accordance with the terms of issue, the bonds issued by PGB S.A. have been secured bonds within the meaning of the Bonds Act of January 15th 2015. The bonds are secured primarily with a registered pledge over 42,466,000 RAFAKO shares in a book-entry form (currently representing 33.3% of RAFAKO's share capital), mortgages over the PBG Group's properties, registered pledges over other selected assets of the PBG Group, including over shares in selected companies of the PBG Group (including PBG oil and gas Sp. z o.o), sureties and declarations of voluntary submission to enforcement up to PLN 1,065,000,000.00.
3. PBG S.A. agreed to arrange for the Bonds to be converted into book-entry form and listed on the WSE ATS Market or Bondspot ATS Market within three months of their issue (from the date of each Bond Issue). By decisions of the Warsaw Stock Exchange Management Board of March 9th 2017 and April 19th 2017, the first listing of Series B, C, D, E, F, G, H and I bearer Bonds of PGB S.A. in the Catalyst alternative trading system took place on March 10th 2017 and the first listing of Series C1, D1, G1, H1 and I1 bonds – on April 20th 2017.

As at the date of these interim condensed consolidated financial statements, the parent PBG S.A. redeemed Series B1, C1, D1, E1 and F1 bonds worth in aggregate PLN 11,026,800 as scheduled.

As at the date of these interim condensed consolidated financial statements, in accordance with the terms and conditions of the Bonds acquired by the Company and issued by PBG S.A., the outstanding bonds of PBG S.A. (with a total value of PLN 347.3m) were secured with the above security interests, including in particular a registered pledge over RAFAKO shares held directly and indirectly by PBG S.A. In the opinion of the Company's Management Board, the provided security and the total amount payable under the Bonds as at the date of these consolidated financial statements are sufficient to consider the receivables as recoverable.

The total net value of the bonds as at September 30th 2019 was PLN 24,810 thousand.

(PLN '000)

11.12. Inventories

	Sep 30 2019	*Dec 31 2018*
Materials (at net realisable value):	**32,063**	**30,985**
At cost	41,941	41,272
At net realisable value	32,063	30,985
Finished goods	**934**	**3,168**
At cost	934	3,168
At net realisable value	934	3,168
Total inventories, at the lower of cost and net realisable value	**32,997**	**34,153**

* Inventories pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.19.4

11.13. Other current financial assets

	Sep 30 2019	*Dec 31 2018*
Advance payment to acquire the right to a loan	10,400	10,400
Impairment loss on advance payment to acquire the right to a loan	(10,400)	(10,400)
Short-term bonds*	24,810	7,608
	24,810	**7,608**

* For a detailed description of bonds, see Note 11.11.1

11.14. Cash and cash equivalents

	Sep 30 2019	*Dec 31 2018*	*Sep 30 2018*
Cash at bank and in hand	77,386	88,090	123,784
Short-term deposits for up to 3 months, including:	37	602	61
	77,423	**88,692**	**123,845**

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 September 30th 2019, cash included restricted cash of PLN 48.6m (December 31st 2018: PLN 79.5m), being cash held by the subsidiary E003B7 Sp. z o.o. and earmarked for the Jaworzno contract. From the RAFAKO Group's perspective, this cash 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).

(PLN '000)

11.15. Short-term trade and other receivables

	Sep 30 2019	Dec 31 2018
Financial receivables		
Trade receivables	157,895	313,117
Impairment losses on trade receivables (-)	(12,535)	(24,090)
Net trade receivables	**145,360**	**289,027**
Receivables on sale of property, plant and equipment and intangible assets	–	303
Security deposits	70,858	88,636
Receivables under court proceedings*	28,223	25,869
Other financial receivables	10,858	10,837
Impairment losses on financial receivables (-)	(24,371)	(24,189)
Total financial receivables, net	**230,928**	**390,483**
Non-financial receivables		
Receivables under prepayments and advance payments	107,301	125,618
Receivables from the state budget	31,974	12,722
Other non-financial receivables	6,407	6,820
Impairment losses on non-financial receivables (-)	(3,039)	(3,100)
Total non-financial receivables, net	**142,643**	**142,060**
Total short-term receivables, net	**373,571**	**532,543**

*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 145,360 thousand recognised in the interim condensed consolidated statement of financial position as at September 30th 2019 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 70,858 thousand disclosed in the statement of financial position relate mainly to projects implemented in the following areas:

- Construction of a coal-fired steam unit – PLN 17,708 thousand;
- SCR system – PLN 8,780 thousand;
- Construction of a coke gas-fired power generation unit – PLN 7,137 thousand;
- Manufacture of high-pressure parts of a boiler for an incineration plant – PLN 5,874 thousand.

(PLN '000)

The change in security deposits in the nine months ended September 30th 2019 was primarily attributable to a PLN 7,109 thousand cash deposit paid in connection with the construction of a coke gas-fired power generation unit, a PLN 11,168 thousand cash deposit returned in connection with the upgrade of a flue gas desulfurisation system, and a PLN 15,362 thousand cash deposit returned in connection with the construction of a gas pipeline.

A significant item of other receivables were advance payments, which as at September 30th 2019 amounted to PLN 107,301 thousand and included:

- Advance payment of PLN 44,740 thousand towards a contract to construct fuel storage tanks;
- Advance payment of PLN 19,784 thousand under a contract to construct a biomass boiler island;
- Advance payment of PLN 12,998 thousand under a contract for gas pipeline construction;
- Advance payment of PLN 9,560 thousand under a contract to construct an LNG storage tank.

11.16. Short-term prepayments and accrued income

	Sep 30 2019	*Dec 31 2018*
Costs of bank and insurance guarantees	5,796	8,452
Costs of obtaining contracts with customers	420	2,938
Other costs	11,005	8,051
Prepayments and accrued income	**17,221**	**19,441**

(PLN '000)

11.17. Loans advanced

Loans	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Receivables under advanced loans*	
						Sep 30 2019	*Dec 31 2018*
Short-term loans							
PBG S.A. (formerly PBG oil and gas Sp. z o.o.)*	Blank promissory note with a promissory note declaration	PLN 10m cash loan to finance day-to-day operations	PLN	1M WIBOR + margin	31-12-2019	9,722	10,302
PBG S.A. (formerly PBG oil and gas Sp. z o.o.)*	Blank promissory note	PLN 10m cash loan to finance day-to-day operations	PLN	1M WIBOR + margin	31-12-2019	1,091	1,049
						10,813	**11,351**

**On June 3rd 2019, PBG oil and gas Sp. z o.o. was merged into PBG S.A.*

(PLN '000)

11.18. Impairment losses on consolidated assets

	Property, plant and equipment	*Shares**	*Other financial assets****	*Other non-financial assets****	*Inventories***	*Contract assets*	*Receivables****
Jan 1 2019	(518)	(4,975)	(10,400)	(5,676)	(10,287)	(1,848)	(51,502)
Recognised	(2)	(47)	–	–	–	(1,422)	(3,832)
Reversed	–	–	–	–	115	–	1,771
Used	448	–	–	–	294	–	13,529
Sep 30 2019	**(72)**	**(5,022)**	**(10,400)**	**(5,676)**	**(9,878)**	**(3,270)**	**(40,034)**
Jan 1 2018	(68)	(4,978)	(10,500)	(5,676)	(11,105)	–	(36,749)
Adjustment to opening balance	–	–	–	–	–	(1,888)	(12,630)
Jan 1 2018	(68)	(4,978)	(10,500)	(5,676)	(11,105)	(1,888)	(49,379)
Recognised	(8)	(92)	–	–	(465)	(562)	(3,049)
Reversed	10	–	–	–	–	–	1,161
Used	–	–	–	–	638	–	427
Sep 30 2018	**(66)**	**(5,070)**	**(10,500)**	**(5,676)**	**(10,932)**	**(2,450)**	**(50,840)**

* 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 trade and other receivables, including liquidated damages.
**** 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.

With respect to trade receivables for which lifetime expected losses are estimated, the Group is not exposed to credit risk related to a single major trade partner. In consequence, impairment losses are estimated on a collective basis and the receivables have been grouped based on the past due period. Allowances are estimated based mainly on historical data on days past due and an analysis of days past due and actual payments over the last five years.

(PLN '000)

As at September 30th 2019 and the comparative date, the gross amounts of individual groups and impairment losses were as follows:

	Assets assets	Current	Trade receivables 0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
Sep 30 2019								
Location: Poland								
Impairment loss rate	0.85%	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	456,979	54,470	15,385	8,048	4,624	2,845	6,659	549,010
Impairment loss	(3,270)	(385)	(118)	(1,590)	(233)	(1,030)	(6,481)	(13,107)
Location: outside Poland								
Impairment loss rate	–	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	–	57,078	3,210	113	296	2,507	2,660	65,864
Impairment loss	–	(487)	(27)	(37)	(164)	(1,701)	(282)	(2,698)
Total impairment losses	**(3,270)**	**(872)**	**(145)**	**(1,627)**	**(397)**	**(2,731)**	**(6,763)**	**(15,805)**

	Assets assets	Current	Trade receivables 0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
Dec 31 2018								
Location: Poland								
Impairment loss rate	0.85%	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	383,200	220,404	681	3,349	1,913	2,343	18,230	630,120
Impairment loss	(1,848)	(1,046)	(216)	(61)	(192)	(2,178)	(18,030)	(23,571)
Location: outside Poland								
Impairment loss rate	–	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	–	39,411	20,549	2,009	1,827	22	2,378	66,196
Impairment loss	–	(336)	(175)	(647)	(1,013)	(15)	(181)	(2,367)
Total impairment losses	**(1,848)**	**(1,382)**	**(391)**	**(708)**	**(1,205)**	**(2,193)**	**(18,211)**	**(25,938)**

As at September 30th 2019, an impairment loss of PLN 24,371 thousand was recognised on other short-term financial receivables in a gross amount of PLN 109,939 thousand (December 31st 2018: a PLN 24,189 thousand impairment loss on other receivables in a gross amount of PLN 125,645 thousand).

(PLN '000)

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

11.19.1. Property, plant and equipment pledged as security

As at September 30th 2019, property, plant and equipment pledged as security for the Group's liabilities amounted to PLN 125,326 thousand. The parent's property, plant and equipment of PLN 123,892 thousand is pledged as security for liabilities under the multi-purpose facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights). In addition, a subsidiary's buildings and structures worth PLN 1,193 thousand, as well as IT equipment and office containers worth PLN 241 thousand are pledged as security for liabilities under the credit facility agreements.

	Sep 30 2019	*Dec 31 2018*
Mortgaged property, plant and equipment, including:	84,854	89,469
land	9,162	9,162
buildings and structures	75,692	80,307
Property, plant and equipment encumbered with registered pledge, including:	40,472	43,940
plant and equipment	38,329	42,740
vehicles	2,143	1,200
	125,326	**133,409***

* The disclosed amounts include property, plant and equipment of PLN 78 thousand classified as held for sale (December 31st 2018: PLN 175 thousand).

11.19.2. Intangible items pledged as security

As at September 30th 2019, intangible assets worth PLN 8,443 thousand were pledged as security for the parent's liabilities (December 31st 2018: PLN 9,339 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising under the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.19.3. Shares pledged as security

As at September 30th 2019, PLN 36,626 thousand (December 31st 2018: PLN 36,520 thousand) worth of the parent's equity interests in subsidiaries and other entities were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the surety agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over the shares held in E003B7 Sp. z o.o.).

11.19.4. Inventories pledged as security

As at September 30th 2019, inventories worth PLN 29,880 thousand were pledged as security for the parent's liabilities (December 31st 2018: PLN 29,391 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the surety agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.19.5. Trade receivables pledged as security

As at September 30th 2019, trade receivables of PLN 11,516 thousand were pledged as security for guarantees and borrowings received by the Group (December 31st 2018: PLN 20,170 thousand).

11.20. Share capital

In the nine months ended September 30th 2019, RAFAKO S.A.'s share capital remained unchanged and as at September 30th 2019 amounted to PLN 254,864 thousand.

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

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

11.21. Par value per share

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

11.22. Shareholders' rights

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

11.23. Share premium

In the nine months ended September 30th 2019, there were no changes in the share premium, and as at September 30th 2019 the share premium was PLN 165,119 thousand.

11.24. 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 applied to calculate basic earnings/(loss) per share:

(PLN '000)

	9 months ended Sep 30 2019	*9 months ended Sep 30 2018*
Net profit/(loss) from continuing operations	(199,529)	21,247
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	**(199,255)**	21,671
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	127,431,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	127,431,998	127,431,998
Earnings/(loss) per share, PLN		
– basic/diluted earnings from profit/(loss) attributable to holders of ordinary shares for period	(1.57)	0.17

In the nine months ended September 30th 2019, the parent did not issue new shares.

The Group does not present diluted earnings per share for the nine months ended September 30th 2019 as it does not have any dilutive financial instruments.

11.25. Other non-current liabilities

	Sep 30 2019	*Dec 31 2018*
Financial liabilities		
Retentions (security deposits)	40	19
Other liabilities	15,691	12,921
Total financial liabilities	**15,731**	**12,940**

11.26. Long-term employee benefit obligations

	Sep 30 2019	*Dec 31 2018*
Unpaid bonus accrual	5	13
Provision for retirement gratuity	7,249	6,946
Provision for length-of-service awards	11,230	12,198
Provision for other employee benefits	4,304	4,447
	22,788	**23,604**

11.27. Post-employment and other benefits

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

	Sep 30 2019	*Dec 31 2018*
As at Jan 1	26,207	23,304
Interest expense	543	741
Current service costs	402	531

(PLN '000)

Actuarial (gains)/losses	264	4,275
Benefits paid	(1,784)	(2,644)
Closing balance	**25,632**	**26,207**
Long-term provisions	22,782	23,590
Short-term provisions	2,850	2,617

The main assumptions adopted by the actuary as at September 30th 2019 and for the nine months ended September 30th 2019, as well as for the 12 months ended December 31st 2018 to determine the amount of the obligation were as follows:

	Sep 30 2019	*Dec 31 2018*
Discount rate (%)	2.8	2.8
Expected inflation rate (%)*	–	–
Employee turnover rate	7.5	7.5
Expected growth of salaries and wages (%)**	2	2

11.28. Other long-term provisions

	Sep 30 2019	*Dec 31 2018*
Provision for warranty repairs	33,644	30,228
	33,644	**30,228**

11.29. Short-term trade and other payables

	Sep 30 2019	*Dec 31 2018*
Financial liabilities		
Trade payables	330,869	306,511
Amounts payable for tangible and intangible assets	237	704
Retentions (security deposits)	385	271
Other financial liabilities	272	199
Total financial liabilities	**331,763**	**307,685**

(PLN '000)

	Sep 30 2019	Dec 31 2018
Non-financial liabilities		
Taxes and other duties payable	4,177	21,225
Advance payments and prepaid deliveries	79	–
Other liabilities	879	–
Other non-financial liabilities	6,673	13,598
Total non-financial liabilities	**11,808**	**34,823**
	343,571	**342,508**

11.30. Short-term employee benefit obligations and provisions

	Sep 30 2019	Dec 31 2018
Social security	8,858	9,036
Salaries and wages payable	9,323	8,491
Amounts payable under voluntary redundancy programme	–	145
Accrued holiday entitlements	4,045	4,202
Unpaid bonus accrual	2,910	5,712
Provision for retirement gratuity	736	541
Provision for length-of-service awards	1,751	1,754
Provision for other employee benefits	378	328
	28,001	**30,209**

11.31. Other short-term provisions

	Sep 30 2019	Dec 31 2018
Provision for warranty repairs	9,621	10,326
Provision for expected contract losses	14,309	3,678
Other provisions	999	1,147
	24,940	**15,151**

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 2018.

(PLN '000)

13. Financial instruments

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.

The value of financial assets presented in the consolidated statement of financial position as at September 30th 2019 and December 31st 2018 relates to the following categories of financial instruments defined in IFRS 9:

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

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	
Classes and categories of financial assets	*Sep 30 2019*	*Dec 31 2018*
Assets at fair value through profit or loss	**113**	**160**
Long-term shareholdings	113	160
Assets at fair value through other comprehensive income	**1,376**	**1,228**
Long-term shareholdings	1,376	1,228
Assets at amortised cost	**313,434**	**463,456**
Bonds	24,810	21,675
Trade receivables	191,671	328,642
Receivables on sale of property, plant and equipment and intangible assets	–	303
Other financial receivables*	86,140	101,485
Loans advanced	10,813	11,351
Cash and cash equivalents	**77,423**	**88,692**
	392,346	**553,536**

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

The value of financial liabilities presented in the statement of financial position as at September 30th 2019 and December 31st 2018 relates to the following categories of financial instruments defined in IFRS 9:

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

(PLN '000)

Classes and categories of financial liabilities	*Carrying amount* *Sep 30 2019*	*Dec 31 2018*
Financial liabilities at amortised cost	**468,241**	**424,193**
Borrowings	120,749	103,568
Trade payables (including capital commitments)	346,795	320,131
Other financial liabilities	697	494
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**13,963**	**4,852**
Liabilities under leases and rental contracts with purchase option	13,963	4,852
	482,204	**429,045**

The table below presents financial assets and liabilities recognised at fair value in the consolidated financial statements, classified in accordance with a 3-level fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 – inputs for the asset or liability, other than quoted prices included within Level 1, based on observable market variables,
- Level 3 – inputs for the asset or liability that are not based on observable market variables.

Sep 30 2019	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	**113**	–	–
Long-term shareholdings	113	–	–
Assets at fair value through other comprehensive income	**1,376**	–	–
Long-term shareholdings	1,376	–	–

Dec 31 2018	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	**160**	–	–
Long-term shareholdings	160	–	–
Assets at fair value through other comprehensive income	**1,228**	–	–
Long-term shareholdings	1,228	–	–

In the reporting period, there were no material transfers between Level 1 and Level 2 of the fair value hierarchy.

14. Derivative instruments

As at September 30th 2019, the Group did not carry any open currency forward contracts.

As at September 30th 2019, 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.

(PLN '000)

15. Borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Sep 30 2019*	*Dec 31 2018*
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 2020****	69,146	60,081
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO's cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising the entire business of the Company, revolving working capital facility of up to PLN 44m		PLN	1M WIBOR or 1M EURIBOR + margin	Jun 30 2020****	42,325	40,749
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 to cover liabilities related to payments made under bank guarantees	PLN	1M WIBOR + margin	Jun 30 2020****	8,298	–
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	Sep 5 2019	910	892

(PLN '000)

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Sep 30 2019*	*Dec 31 2018*
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, statements on submission to enforcement, mortgages, assignment of claims under insurance policy	PLN 2m working capital facility agreement	PLN	1M WIBOR + margin	Aug 30 2019	–	1,750
Siemens Finance Sp. z o.o.	blank promissory note	Loan agreement	PLN	1M WIBOR + margin	Jul 15 2021	37	35
						120,716	**103,507**

*The facility is secured by receivables under contracts executed by RAFAKO S.A.;

**As at the date of these interim condensed consolidated financial statements, the parent 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 interim condensed consolidated financial statements, in accordance with the annex of June 28th 2019 to the multi-purpose credit facility agreement, the facility limit was set at PLN 200m, including an overdraft facility of up to PLN 70m until January 31st 2020 and up to PLN 50m until from February 1st 2020, as well as a working capital facility of up to PLN 44m;

****As at the date of issue of these interim condensed consolidated financial statements, in accordance with the annex of June 28th 2019 to the multi-purpose credit facility agreement, the term of the facility and its repayment date were extended until June 30th 2020.

(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 equity and liabilities).

	Sep 30 2019	*Dec 31 2018*
Debt to equity		
Equity	397,897	597,335
Borrowed funds (bank and non-bank borrowings)	120,749	103,568
Total equity and liabilities	1,283,823	1,357,521
Capitalisation ratio (equity / total assets)	**0.31**	**0.44**
Total financing sources		
Equity	397,897	597,335
Borrowed funds (bank and non-bank borrowings)	120,749	103,568
Finance leases	13,962	4,852
Capital-to-total financing sources ratio	**2.95**	**5.51**
EBITDA		
Operating profit/(loss)	(214,023)	40,531
Depreciation and amortisation	13,314	14,825
EBITDA	**(200,709)**	**55,356**
Debt		
Borrowings and other debt instruments	120,749	103,568
Finance leases	13,962	4,852
Debt to EBITDA	**(0.67)**	**1.96**

(PLN '000)

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

	Provision for expected contract losses	*Provision for length-of-service awards, retirement gratuity payments and Company Social Benefits Fund*	*Provision for unused holiday entitlement*	*Provision for warranty repairs*	*Provision for for liquidated damages*	*Employee benefit obligations*	*Provision for credit losses on sureties*	*Provision for voluntary redundancy programme*	*Restructuring provision*	*Provision for other costs*	*Other provisions*
Jan 1 2019	**3,677**	**26,207**	**4,202**	**40,553**	–	**5,725**	**1,549**	**145**	–	**571**	**233**
Recognised	23,108	1,209	668	10,180	–	2,407	1,418	–	–	–	264
Reversed	(12,476)	–	(825)	(2,020)	–	(116)	(71)	(4)	–	(107)	–
Utilised	–	(1,784)	–	(5,448)	–	(5,101)	–	(141)	–	–	(266)
Sep 30 2019	**14,309**	**25,632**	**4,045**	**43,265**	–	**2,915**	**2,896**	–	–	**464**	**231**
Jan 1 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	–	–	–	–
Jan 1 2018	**14,109**	**23,305**	**5,402**	**42,800**	**9,760**	**7,670**	**1,618**	**1,596**	**8,368**	**3,936**	**196**
Provision recognised	957	2,515	595	13,230	322	6,222	–	–	–	542	351
Reversed	(9,612)	(191)	–	(4,806)	(6,361)	(983)	–	(110)	(5,747)	(2,749)	–
Utilised	(4,408)	(1,852)	(2,131)	(11,579)	(3,399)	(6,080)	–	(1,008)	(2,588)	(119)	(384)
Sep 30 2018	**1,046**	**23,777**	**3,866**	**39,645**	–	**6,829**	**1,618**	**478**	**33**	**1,610**	**163**

(PLN '000)

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

In the nine months ended September 30th 2019, the parent did not issue, redeem or repay any debt or equity securities.

19. Dividends paid or declared

In the nine months ended September 30th 2019, 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 September 30th 2019, the RAFAKO Group companies did not recognise any commitments related to purchase of property, plant and equipment . Group companies had not signed agreements envisaging any capital expenditure to be made in 2019 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

	Sep 30 2019	*Dec 31 2018*
Receivables under financial guarantees received mainly as security for performance of contracts, including:	697,083	721,149
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	58,983	57,198
- from related entities	53,074	55,605
Letters of credit	5,637	–
	761,703	**778,913**

	Sep 30 2019	*Dec 31 2018*
Commitments under financial guarantees issued mainly as security for performance of contracts, including:	540,925	419,849
- to related entities	–	–
Liabilities under sureties, including:	1,182,207	1,237,935
- to related entities	–	–
Promissory notes issued as security, including:	32,990	38,136
- to related entities	576	–
Letters of credit	–	–
	1,756,122	**1,695,920**

In the first nine months of 2019, the RAFAKO Group recorded a PLN 60,202 thousand increase in contingent liabilities, which mainly resulted from an increase in guarantees granted. In the first nine months of 2019, a number of guarantees were issued by banks and insurance companies to trading partners upon the Company's instructions, including performance bonds of PLN 159,437 thousand, advance payment guarantees of PLN 63,237 thousand and bid bonds of PLN 22,573 thousand. In this category of liabilities, the largest item was a performance bond of PLN 35,547 thousand, issued in June 2019. As at the end of September 2019, liabilities under sureties in issue were PLN 1,182,207 thousand. In this category of liabilities, the largest item was the sureties covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to develop new coal-fired generation capacities at TAURON Wytwarzanie S.A. – construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II. The largest item of guarantees expired in the first nine months of 2019 was a EUR 2,310 thousand performance bond.

As at September 30th 2019, the Group had access to available guarantee facilities totalling PLN 606,183.9 thousand, including bank guarantee limits of PLN 223,871.7 thousand and insurance guarantee limits of PLN 382,312.2 thousand.

In the first nine months of 2019, the RAFAKO Group's contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 17,210 thousand, including a decrease of PLN 24,066 thousand in receivables under bank and insurance guarantees, partly offset by an increase of PLN 1,785 thousand in receivables under promissory notes and PLN 5,637 thousand in receivables under letters of credit. The largest item of guarantees received in the first nine months of 2019 was a EUR 775 thousand performance bond. The largest guarantee which expired in the first nine months of 2019 was a EUR 3,684 thousand advance payment guarantee.

22. Litigation and disputes

As at the date of these interim condensed consolidated financial statements, the Group companies were 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 2018, available at:

https://www.rafako.com.pl/relacje-inwestorskie/raporty-okresowe?page=18083

The cases described in Notes 37.1 and 37.2 to the full-year financial statements are considered closed. No significant changes occurred with respect to the other cases.

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

As at the date of these interim financial statements, the parent presented changes in the status of its dispute with Wärtsilä Finland Oy relative to that presented in the Group's most recent consolidated financial statements for the year ended December 31st 2018. The negotiations held with that client over the first nine months of 2019 concerning substitute performance did not lead to any agreement. RAFAKO S.A. disagrees with the client's decision, considering it groundless and incompatible with the contract, and repudiates the claim in its entirety. The client failed to provide any documentation regarding costs of the substitute performance, estimated by the client at EUR 3,527 thousand. RAFAKO S.A. performed its work in line with the contract, to the extent practicable, based on technical documentation made available by the client and the arrangements regarding the effect of project changes on the contract price and schedule. By a letter of September 16th 2019, the client submitted a notice of unilateral termination of the contract, claiming that RAFAKO S.A. had allegedly discontinued the performance of a part of the contract.

On September 16th 2019, PKO BP received calls on two bank guarantees for payment of a total of EUR 2,687,800.00. Wärtsilä Finland Oy's call on the bank guarantees was not preceded by filing any financial claim against RAFAKO S.A. RAFAKO S.A. is of the opinion that the calls for payment are unfounded.

On September 25th 2019, PKO BP S.A. made payments under the two guarantees. As the contract was secured by two bank guarantees, one of them issued under the MPCF, a working capital facility of PLN 8,297.7 thousand was made available to partly replace the guarantee sub-limit. The transaction should have no adverse effect on the Group's current financial condition, as RAFAKO S.A. has access to MPCF limits (the MPCF agreement expiring on June 30th 2020) which will be drawn to finance the performance bonds issued by PKO BP in favour of Wärtsilä.

RAFAKO S.A. repudiates the client's claims in their entirety, preparing a request for arbitration. The amounts drawn on account of the guarantee have been recognised under 'Receivables under court proceedings'. Since the parent's Management Board regards the probability of recovering these funds as high, it has decided not to recognise any impairment loss on the disputed amounts.

23. Parent's Management Board and Supervisory Board

In the nine months ended September 30th 2019 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 August 19th 2019, the mandate of Mr Jerzy Wiśniewski, President of the Management Board of RAFAKO S.A., expired due to his passing.

On September 2nd 2019, the Supervisory Board made the following changes to the parent's Management Board:

- Mr Jarosław Dusiło was removed from the position of Vice President of RAFAKO S.A.'s Management Board,
- Mr Jerzy Ciechanowski was appointed to the Company's Management Board as its Vice President,
- Ms Helena Fic, Chair of the Supervisory Board, was delegated to serve as President of the Management Board for a period of three months.

The Supervisory Board also decided to announce a competitive process to select a new President of the RAFAKO S.A. Management Board.

On November 25th 2019, PBG S.A., in the exercise of special rights vested in that shareholder under the parent's Articles of Association, removed Ms Helena Fic from the Supervisory Board, whereupon she ceased to serve as President of RAFAKO S.A.'s Management Board, to which she had been temporarily delegated by the Supervisory Board.

On November 27th 2019, the composition of RAFAKO S.A.'s Management Board changed as follows:

- The Supervisory Board appointed Mr Paweł Jarczewski to the parent's Management Board as its President.
- The Supervisory Board delegated Mr Jerzy Karney, Member of the Supervisory Board, to temporarily serve as Member of the Management Board for a period of three months.

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

Paweł Jarczewski – President of the Management Board
Agnieszka Wasilewska-Semail – Vice President of the Management Board
Jerzy Ciechanowski – Vice President of the Management Board
Jerzy Karney – delegated from the Supervisory Board to temporarily serve as Member of the Management Board.

In the nine months ended September 30th 2019 and by the date of these interim condensed consolidated financial statements, there were no changes in the composition of the Supervisory Board. RAFAKO S.A.

On November 25th 2019, PBG S.A., in the exercise of special rights vested in that shareholder under RAFAKO S.A.'s Articles of Association, changed the composition of the parent's Supervisory Board:

- removing Ms Helena Fic and Mr Dariusz Szymański from the Supervisory Board, and
- appointing Mr Jerzy Karney and Mr Michał Maćkowiak to the Supervisory Board.

(PLN '000)

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

Małgorzata Wiśniewska	– Chairwoman of the Supervisory Board
Jerzy Karney -	Deputy Chairman of the Supervisory Board delegated to temporarily serve as Member of the Management Board
Przemysław Schmidt	– Secretary of the Supervisory Board (independent member)
Krzysztof Gerula	– Member of the Supervisory Board (independent member)
Michał Maćkowiak	– Member of the Supervisory Board
Adam Szyszka	– Member of the Supervisory Board (independent member)
Michał Sikorski	– Member of the Supervisory Board

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

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

In the reporting and comparative periods, the Group companies did not enter into any transactions with members of their management boards, other than transactions described in Note 25.

25. Related-party transactions

The related parties of the RAFAKO Group are its key management personnel, subsidiaries exempt from consolidation and other related parties, including entities controlled by the management boards of Group companies. The Group's other key related parties include PBG S.A. and PBG oil and gas Sp. z o.o.

Outstanding balances of receivables and liabilities are usually settled in cash. For information on contingent liabilities associated with related parties, see Note 21.

In the first nine months of 2019, the parent and its subsidiaries did not enter into any material transactions with related parties on non-arm's length terms. All transactions with related parties are executed on terms applied by the Group in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are applied. A related party must ensure that a contract is performed in accordance with the relevant documentation, give a warranty for a specified period, and provide security in the form of a performance bond. Related parties are also required to accept standard liquidated damages clauses, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

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

	Operating income	
	Jan 1– Sep 30 2019	*Jan 1– Sep 30 2018*
Sales to:		
Entities related through equity links:	1,881	3,883
Entities related through personal links:	94	133
TOTAL	**1,975**	**4,016**

(PLN '000)

	Receivables	
	Sep 30 2019	*Dec 31 2018*
Sales to:		
Entities related through equity links:	68,185	62,447
Entities related through personal links:	71	511
TOTAL	**68,256**	**62,958**

** Including bonds from PBG S.A. described in Note 11.11.1*

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

	Purchases (costs, assets)	
	Jan 1– Sep 30 2019	*Jan 1– Sep 30 2018*
Purchases from:		
Entities related through equity links:	51,138	26,428
Entities related through personal links:	13,310	21,040
TOTAL	**64,448**	**47,468**

	Liabilities	
	Sep 30 2019	*Dec 31 2018*
Purchases from:		
Entities related through equity links:	1,743	415
Entities related through personal links:	9,245	3,738
TOTAL	**10,988**	**4,153**

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

The Group has not published any forecasts for 2019.

27. Brief description of the Company's material achievements and failures in Q3 2019

On July 24th 2019, RAFAKO S.A. received a letter from PGE Górnictwo i Energetyka Konwencjonalna S.A. notifying the Company that its bid had been selected by the employer as the best bid in the procedure to award a contract for 'Comprehensive upgrade of the Flue Gas Desulfurisation Systems on units 8–12 at PGE GiEK S.A.'s Bełchatów Power Plant Branch. The VAT-exclusive value of the Company's bid is PLN 244,940,000 (PLN 301,276,200 inclusive of VAT). On September 5th 2019, the Company and PGE Górnictwo i Energetyka Konwencjonalna S.A. signed a contract for 'Comprehensive upgrade of the Flue Gas Desulfurisation Systems on units 8–12 at PGE GiEK S.A.'s Bełchatów Power Plant Branch'. The time to complete the contract is 28 months from its date.

(PLN '000)

On September 17th 2019, RAFAKO S.A. and its subsidiary Sp. z o.o entered into negotiations with Nowe Jaworzno Grupa TAURON Sp. z o.o of Jaworzno to amend the contract of April 17th 2014 for the construction of a 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 main purpose of the negotiations is to make certain changes to the Unit's Guaranteed Technical Parameters, to improve the parameters of emissions of certain harmful substances, as well as to the parameters of the permitted fuel for combustion in the Unit. The Company would like to note that, if given, the Employer's consent to extending the scope of work could affect the overall Unit construction schedule and the price of the contract. During performance of the contract, the Company has identified opportunities to ensure that, upon completion of certain optimisation work, tests and analyses, the unit would comply with the requirements relating to permitted emission levels of selected harmful substances, as set out in the Best Available Techniques Conclusions ("BAT Conclusions"), as well as opportunities to extend the range of fuels for combustion in the Unit that would enable the Employer to burn fuels with parameters different from those specified in the Contract while meeting the environmental protection standards defined in the BAT Conclusions. The purpose of making the above changes to the Unit's technical specifications is to reduce emissions of certain harmful substances to the environment, which would be beneficial to the Employer and its stakeholders. In addition, broadening the range of permitted fuels would provide the Employer with new opportunities to purchase fuel on the market, thus reducing the risks related to possible shortages in the supply of coal, which is the fuel specified in the Contract. This would open new commercial opportunities to contract fuel supplies for the Employer.

The Company would like to further note that some of the optimisation measures designed to enable the Unit to meet the new/amended Group B Guaranteed Technical Parameters during Warranty Measurements, can only be implemented after the Unit has been placed in commercial operation and when it is running, and they would require significant engagement of the contractor's and its subcontractors' personnel.

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 managed by PFR TFI S.A. (**)	12,615,769	12,615,769	9.90%	9.90%
Other	72,350,229	72,350,229	56.78%	56.78%

(*) 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.

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:

(PLN '000)

	Company name	*As at Sep 30 2019*	*Increase*	*Decrease*	*As at Nov 29 2019*
Member of the Management Board					
Agnieszka Wasilewska-Semail – Vice President of the Management Board	RAFAKO S.A.	60,245	–	–	60,245
Jarosław Dusiło* Vice President of the Management Board	RAFAKO S.A.	44,000	–	–	–
Member of the Supervisory Board		–	–	–	–

* On September 2nd 2019, the Supervisory Board removed Mr Jarosław Dusiło from the position of Vice President of the Management Board, as described in Note 23

30. Factors with a material bearing on the Group's performance in Q4 2019

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts executed for the delivery of products and services by subcontractors), which may have a positive or negative effect on the result for the period after September 30th 2019.
- The adequacy of provisions and impairment losses for current contracts;
- The risk that provisions may need to be recognised for liquidated damages in respect of time overruns or failure to meet guaranteed technical specifications of certain contracts;
- The risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs;
- Currency movements − substantial changes in the PLN/EUR exchange rate may have a material effect on the profitability of EUR-denominated contracts;
- Risk of failure to obtain financial guarantees required to acquire and perform contracts.

31. Financial highlights translated into EUR

The financial highlights for the periods covered by these financial statements were translated into the euro at the mid-exchange rates quoted by the National Bank of Poland, and in particular:

- the exchange rate effective for the last day of the reporting period, Sep 30 2019: 4.3736 PLN/EUR, Dec 31 2018: 4.3000 PLN/EUR,
- the average exchange rate for the period, calculated as the arithmetic mean of the exchange rates effective for the last day of each month in the period: Jan 1 - Sep 30 2019: 4.3022; PLN/EUR, Jan 1 - Dec 31 2018: 4.2617 PLN/EUR,

The highest and lowest exchange rates for each period were as follows: Jan 1 - Sep 30 2019: 4,3891/4,2406, PLN/EUR, Jan 1 - Dec 31 2018: 4,3978/4,1423 PLN/EUR.

	Sep 30 2019	Dec 31 2018	Sep 30 2019	Dec 31 2018
	PLN '000		EUR '000	
Statement of financial position				
Assets	1,283,823	1,357,521	293,539	315,703
Non-current liabilities	81,819	69,531	18,707	16,170
Current liabilities	804,107	690,655	183,855	160,617
Equity	397,897	597,335	90,977	138,915
PLN/EUR exchange rate at end of period			4.3736	4.3000

The table below sets forth the highlights from the statement of financial position, statement of profit or loss and statement of cash flows, translated into the euro.

	Jan 1– Sep 30 2019	Jan 1– Sep 30 2018	Jan 1– Sep 30 2019	Jan 1– Sep 30 2018
	PLN '000		EUR '000	
Statement of comprehensive income				
Revenue	817,744	883,216	190,076	207,861
Operating profit/(loss)	(214,023)	33,431	(49,747)	7,868
Profit/(loss) before tax	(214,177)	35,495	(49,783)	8,354
Net profit/(loss) attributable to the parent	(199,255)	21,671	(46,315)	5,100
Earnings per share (PLN)	(1.57)	0.18	(0.36)	0.04
Average PLN/EUR exchange rate in the period			4.3022	4.2491
Statement of cash flows				
Net cash from operating activities	(19,858)	(64,999)	(4,616)	(15,297)
Net cash from investing activities	1,187	1,621	276	381
Net cash from financing activities	7,406	7,354	1,721	1,731
Net increase/(decrease) in cash and cash equivalents	(11,265)	(56,024)	(2,618)	(13,185)
Average PLN/EUR exchange rate in the period			4.3022	4.2491

(PLN '000)

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

The remuneration paid to members of the Management and Supervisory Boards of Group companies for the nine months ended September 30th 2019 was as follows:

	Base pay	*Awards*	*Other*
RAFAKO S.A. – the parent			
Management Board	1,460	–	67
Supervisory Board	682	–	464
PGL-DOM Sp. z o.o. – a subsidiary			
Management Board	81	43	–
Supervisory Board	152	–	–
RAFAKO ENGINEERING Sp. z o.o. – a subsidiary			
Management Board	419	150	–
Supervisory Board	140	271	–
RAFAKO ENGINEERING Sp. z o.o. – an indirect subsidiary			
Management Board	532	–	8
Supervisory Board	52	–	–
E001RK Sp. z o.o. – a subsidiary			
Management Board	126	–	–
Supervisory Board	–	–	–
E003B7 Sp. z o.o. – a subsidiary			
Management Board	1,227	891	–
Supervisory Board	818	720	–
RENG-NANO Sp. z o.o. – a subsidiary			
Management Board	162	–	–
Supervisory Board	–	–	–

(PLN '000)

33. Order book

As at September 30th 2019, the value of the Group's order book was close to PLN 3.2bn. The largest item is the PLN 0.7bn Jaworzno Project, with PLN 0.1bn outstanding under the contract and attributable to the parent and PLN 0.6bn outstanding under the contract and attributable 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 0.1bn is still outstanding).

	ORDER BOOK (PLNm)		Due for execution in		
	as at Sep 30 2018	as at Sep 30 2019	Oct–Dec 2019	2020	after 2020
RAFAKO	2,167	2,401	665	1,343	393
SPV Jaworzno	617	616	241	375	–
Other	62	20	15	5	–
TOTAL	**3,160**	**3,037**	**921**	**1,723**	**393**

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

a. The order book value is equal to the aggregate amount of the Group's consideration under individual contracts executed by Group companies by September 30th 2019; the figure does not include any planned contracts that have not yet been signed, but it does include contracts signed conditionally;
b. The order book value is disclosed as at September 30th 2019; actual revenue from contracts and performance periods depend on a number of factors, which may be outside the Group's control.

34. Events after the reporting period

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

On October 14th 2019, RAFAKO S.A.'s Management Board passed a resolution to establish a branch of the Company, to be based in Solec Kujawski. Pursuant to the resolution, the Management Board resolved to establish the Branch as a separate organisational unit of the Company based on assets to be used to manufacture and sell electric vehicles and to provide related design and research and development services. The Company's Branch will operate under the name of RAFAKO S.A. Solec Kujawski Branch, and its registered address will be at ul. Haska 3, 86-050 Solec Kujawski, Poland.

On October 17th 2019, the Company, acting through its subsidiary E003B7 Sp. z o.o., and Nowe Jaworzno Grupa TAURON Sp. z o.o. closed the negotiations of key amendments to the contract of April 17th 2014 for the construction of a 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. In the course of the negotiations, the parties agreed that certain additional tasks will be performed under the Contract. These include delivery of an additional layer of catalyst and an additive dispensing system for the flue gas desulfurization unit to reduce mercury emissions as well as extension of the fuel mix to enable combustion of a wider range of coal types. After the generating unit is placed in service, the consortium will carry out optimisation tasks to check whether the unit meets the changed technical parameters. The implementation of these changes will have a positive effect on the technical and environmental parameters of the unit and will help to optimise its costs during operation. The expanded scope of work will reduce emissions of noxious substances from the unit, and the extended fuel mix will allow the TAURON Group to achieve greater flexibility in coal procurement.

(PLN '000)

The parties agreed that an annex to the contract will need to be signed regarding in particular its price and construction schedule. During the negotiations, the parties agreed that the VAT-exclusive price specified in the contract will be increased by PLN 52,308,355.89 and that the placement-in-service report in respect of the unit must be signed within 69 months and 15 days from the date of the contract, but not later than on January 31st 2020. All amendments to the contract covered by the negotiations require corporate approvals and may require approval from certain other parties.

On November 25th 2019, the composition of the parent's Management Board and Supervisory Board changed, as described in more 24 to these interim condensed consolidated financial statements.

35. Authorisation for issue

These interim condensed consolidated financial statements of the Group were authorised for issue on November 29th 2019 by a resolution of the RAFAKO S.A. Management Board of November 29th 2019.

Signatures:

Paweł Jarczewski	President of the Management Board	....
Agnieszka Wasilewska-Semail	Vice President of the Management Board	....
Jerzy Ciechanowski	Vice President of the Management Board	....
Jerzy Karney	Acting Member of the Management Board	....
Jolanta Markowicz	Chief Accountant	....