RAFAKO GROUP

PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the nine months ended September 30th 2018

November 27th 2018

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

(PLN '000)

Interim condensed consolidated statement of comprehensive income

for the nine months ended September 30th 2018

	Note	9 months ended Sep 30 2018	9 months ended Sep 30 2017 (restated)	3 months ended Sep 30 2018	3 months ended Sep 30 2017 (restated)
Continuing operations					
Revenue	11.1	**883,216**	**1,328,667**	**259,085**	**456,798**
Revenue from sale of goods and services		881,516	1,326,745	258,168	456,931
Revenue from sale of materials		1,700	1,922	917	(133)
Cost of products and services sold	11.1	(796,962)	(1,194,092)	(235,995)	(402,307)
Cost of materials sold		(1,116)	(1,053)	(361)	(477)
Gross profit/(loss)		**85,138**	**133,522**	**22,729**	**54,014**
Other income	11.1	11,356	2,245	3,211	660
Distribution costs	11.1	(18,570)	(24,967)	(5,719)	(8,225)
Administrative expenses		(38,804)	(45,065)	(12,247)	(15,211)
Other expenses	11.1	(5,689)	(7,276)	(160)	(1,036)
Operating profit/(loss)		**33,431**	**58,459**	**7,814**	**30,202**
Finance income	11.1	6,229	1,554	604	391
Finance costs	11.1	(4,165)	(8,264)	(1,651)	29
Profit/(loss) before tax		**35,495**	**51,749**	**6,767**	**30,622**
Income tax expense	11.2	(14,248)	(25,517)	(5)	(12,850)
Net profit/(loss) from continuing operations		**21,247**	**26,232**	**6,762**	**17,772**

(PLN '000)

Interim condensed consolidated statement of comprehensive income

for the nine months ended September 30th 2018

	Note	*9 months ended Sep 30 2018*	*9 months ended Sep 30 2017 (restated)*	*3 months ended Sep 30 2018*	*3 months ended Sep 30 2017 (restated)*
Other comprehensive income for period		**(1,519)**	**(997)**	**(1,023)**	**(882)**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		(369)	(194)	(244)	(5)
Exchange differences on translating foreign operations attributable to non-controlling interests		8	(1)	(5)	7
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(361)**	**(195)**	**(249)**	**2**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income from actuarial gains/(losses)		(1,429)	(991)	(955)	(1,091)
Tax on other comprehensive income		271	189	181	207
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(1,158)**	**(802)**	**(774)**	**(884)**
Total comprehensive income for period		**19,728**	**25,235**	**5,739**	**16,890**
Net profit/(loss) attributable to:		**21,247**	**26,232**	**6,762**	**17,772**
Owners of the parent		21,671	25,845	7,028	17,490
Non-controlling interests		(424)	387	(266)	282
Comprehensive income attributable to:		**19,728**	**25,235**	**5,739**	**16,890**
Owners of the parent		20,144	24,849	6,010	16,601
Non-controlling interests		(416)	386	(271)	289
Weighted average number of shares		127,431,998	84,931,998	127,431,998	84,931,998
Basic/diluted earnings/(loss) per share, PLN	11.20	0.17	0.31	0.05	0.21

Racibórz, November 27th 2018

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

(PLN '000)

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

	Note	*Sep 30 2018*	*Dec 31 2017 (restated)*	*Sep 30 2017 (restated)*
ASSETS				
Non-current assets				
Property, plant and equipment	11.4	163,895	170,934	172,923
Goodwill		9,166	9,166	9,166
Intangible assets		8,046	8,905	9,171
Long-term trade and other receivables	11.7	39,841	39,385	45,229
Shares	11.8	1,358	242	293
Non-current financial assets	11.9	16,318	17,700	25,600
Deferred tax assets	11.2	34,473	42,542	38,740
Other current accruals and deferred income		9,825	1,689	–
		282,922	**290,563**	**301,122**
Current (short-term) assets				
Inventories	11.10	27,538	28,823	15,364
Short-term trade and other receivables	11.11	371,001	485,916	323,042
Amounts due from customers for contract work	10	369,280	259,119	348,787
Income tax asset		190	104	2,391
Derivative instruments		–	479	13
Other current financial assets	11.12	5,465	4,747	6,112
Short-term loans advanced		11,697	10,010	–
Cash and cash equivalents	11.13	123,845	180,291	140,068
Short-term accruals and deferrals		14,408	21,076	19,399
		923,424	**990,565**	**855,176**
Non-current assets held for sale		88	125	35
TOTAL ASSETS		**1,206,434**	**1,281,253**	**1,156,333**

Racibórz, November 27th 2018

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

(PLN '000)

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

	Note	*Sep 30 2018*	*Dec 31 2017 (restated)*	*Sep 30 2017 (restated)*
EQUITY AND LIABILITIES				
Equity				
Share capital	11.16	254,864	254,864	169,864
Share premium	11.19	165,119	173,708	95,340
Reserve funds		189,431	182,242	182,242
Translation reserve		(804)	(433)	(291)
Retained earnings/accumulated losses, including:		(30,135)	(52,050)	646
Profit/(loss) brought forward		(51,806)	(54,270)	(25,199)
Net profit/(loss) for period		21,671	2,220	25,845
		578,475	**558,331**	**447,801**
Equity attributable to non-controlling interests		8,211	8,628	9,296
		586,686	**566,959**	**457,097**
Non-current liabilities				
Bank and other borrowings		70	–	–
Finance lease liabilities		2,108	2,106	2,352
Employee benefit obligations and provisions	11.22, 11.23	21,216	21,184	23,614
Long-term trade and other payables	11.21	24,359	38,779	43,119
Other long-term provisions	11.24	32,318	29,497	5,555
Deferred tax liability		220	65	59
		80,291	**91,631**	**74,699**
Current liabilities				
Current portion of interest-bearing borrowings	15	111,669	98,728	81,976
Finance lease liabilities		2,331	2,445	2,588
Short-term trade and other payables	11.25	345,369	415,013	407,466
Income tax liability		579	2,280	–
Employee benefit obligations and provisions	11.26, 11.23	31,089	34,666	35,876
Gross amount due to customers for contract work	10	18,469	18,692	42,113
Other short-term provisions	11.27	9,564	34,931	38,691
Short-term accruals and deferrals		19,612	15,628	14,664
Grants		775	280	1,163
		539,457	**622,663**	**624,537**
Total liabilities		**619,748**	**714,294**	**699,236**
TOTAL EQUITY AND LIABILITIES		**1,206,434**	**1,281,253**	**1,156,333**

Racibórz, November 27th 2018

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(PLN '000)

Interim condensed consolidated statement of cash flows

for the nine months ended September 30th 2018

	Note	*9 months ended Sep 30 2018*	*9 months ended Sep 30 2017 (restated)*
Cash flows from operating activities			
Profit/(loss) before tax		**35,495**	**51,749**
Adjustments for:		**(100,494)**	**46,204**
Depreciation and amortisation		10,984	10,513
Foreign exchange gains/(losses)		2	–
Interest and dividends, net		2,721	1,611
(Gain)/loss from investing activities		(4,000)	(1,697)
Increase/(decrease) in liabilities/assets from valuation of derivative instruments		479	163
(Increase)/decrease in receivables	11.3	114,540	396,326
(Increase)/decrease in inventories		1,285	(1,381)
Increase/(decrease) in employee benefit obligations, excluding borrowings	11.3	(88,181)	(179,649)
Change in provisions, accruals and deferrals	11.3	(20,030)	(11,496)
Change in gross amounts due to and from customers for contract work	11.3	(110,384)	(163,214)
Income tax (paid)/received		(7,561)	(4,930)
Other		(349)	(42)
Net cash from operating activities		**(64,999)**	**97,953**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		1,225	1,641
Purchase of property, plant and equipment and intangible assets		(1,332)	(3,293)
Sale of financial assets		4,139	3,685
Purchase of financial assets		(1,209)	(243)
Repayment of loans advanced		10,150	–
Loans advanced		(11,500)	–
Interest on loans advanced		140	–
Dividends and interest received		10	25
Other		(2)	–
Net cash from investing activities		**1,621**	**1,815**
Cash flows from financing activities			
Payment of finance lease liabilities		(2,771)	(2,032)
Proceeds from borrowings		13,884	–
Repayment of borrowings		(877)	(64,573)
Payment of interest on borrowings		(29)	–
Interest paid		(2,261)	(1,990)
Bank fees		(1,111)	(90)
Other		519	1,654
Net cash from financing activities		**7,354**	**(67,031)**
Net increase/(decrease) in cash and cash equivalents		(56,024)	32,737
Net foreign exchange gains (losses)		(422)	(193)
Cash at beginning of period		180,291	107,524
Cash at end of period		123,845	140,068

Racibórz, November 27th 2018

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(PLN '000)

Interim condensed consolidated statement of changes in equity

for the nine months ended September 30th 2018

	Share capital	*Share premium*	*Reserve funds*	*Translation reserve*	*Retained earnings/ accumulated losses*
As at Jan 1 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(8,756)**
Adjustment to opening balance	–	–	–	–	(43,294)
As at Jan 1 2018 *(restated)*	**254,864**	**173,708**	**182,242**	**(433)**	**(52,050)**
Profit/(loss) from continuing operations	–	–	–	–	21,671
Other comprehensive income	–	–	–	(371)	(1,157)
Distribution of retained earnings	–	(8,589)	7,189	–	1,400
As at Sep 30 2018	**254,864**	**165,119**	**189,431**	**(804)**	**(30,135)**
As at Jan 1 2017	**169,864**	**95,340**	**175,365**	**(97)**	**(5,617)**
Adjustment to opening balance	–	–	–	–	(11,903)
As at Jan 1 2017 *(restated)*	**169,864**	**95,340**	**175,365**	**(97)**	**(17,520)**
Profit/(loss) from continuing operations	–	–	–	–	25,845
Other comprehensive income	–	–	–	(194)	(802)
Distribution of retained earnings	–	–	6,877	–	(6,877)
Change in Group structure	–	–	–	–	–
As at Sep 30 2017 *(restated)*	**169,864**	**95,340**	**182,242**	**(291)**	**646**

Racibórz, November 27th 2018

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NOTES

1. General information

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

RAFAKO S.A. is a listed joint stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland. The Company was established under a 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 and other Group companies were established for an indefinite period.

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

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

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 desulfurization and NOx reduction units.

The parent has a self-reporting branch in Turkey, which prepares its financial statements in accordance with Turkish law. The functional currency of the branch is EUR. Following completion of the projects for the execution of which the branch had been established, the Company's Management Board resolved to liquidate the branch.

These interim condensed consolidated financial statements for the nine months ended September 30th 2018 were authorised for issue by the parent's Management Board on November 29th 2018.

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

2. Basis of preparation

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

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

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

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

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

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

The main determinant of the RAFAKO Group's ability to continue as a going concern is the financial condition of the parent. For the Group to continue as a going concern, it is of key importance to secure an appropriate order book of a value enabling the Group to achieve positive financial performance, and to ensure access to financing necessary for the execution of contracts. Therefore, the main factor determining the Group's ability to continue as a going concern is the financial condition of the parent.

As at the end of September 2018, the value of the Group's order book was PLN 3.16bn (compared with PLN 3.05m as at the end of September 2017). In the pursuit of its strategy, from the beginning of the year to the issue date for these interim condensed consolidated financial statements, the Group won new contracts worth PLN 857m, including PLN 639m in the power segment and PLN 218m in the oil and gas segment (i.e. in the Group's new strategic business area). Among the key contracts won in 2018 are: the contract to construct the FGD system II at Ostrołęka Power Plant B, with a VAT-exclusive value of PLN 199.2m (PLN 245m VAT inclusive), of which the parent's share is PLN 126.2m; the contract to upgrade FGD systems at units 3, 4, 5 and 6 at the Bełchatów Power Plant, with a VAT-exclusive value of PLN 181.6m (PLN 223.4m VAT inclusive), and the contract to construct the Goleniów-Płoty section of the DN 700 Szczecin-Gdańsk pipeline, with a VAT-exclusive value of PLN 124.9m (PLN 153.6m VAT inclusive). The 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 acquire new major contracts, including for the construction of the Kędzierzyn gas compressor station and flue gas desulfurization units.

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

3. Significant accounting policies

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

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

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

3.2. IFRS 15

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

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

The Group companies provide general contracting services for turn-key construction projects for the power sector and the oil and gas industry.

a) Revenue from sale of products

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

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

i. Variable consideration

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

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

- Right of return

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

- Price adjustments

  The Group performs contracts containing inflation price adjustment clauses.

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

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

- Liquidated damages

  Liquidated damages paid by the Group to customers are recognised as a reduction of revenue.

ii. Warranties

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

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

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

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

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

c) Advance payments received from customers

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

d) Other adjustments

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

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

3.3. IFRS 9

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

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

a) Classification and measurement

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

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

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

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

b) Impairment

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

c) Hedge accounting

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

d) Other adjustments

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

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

3.4. Implementation of IFRS 16

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

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

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

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

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

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

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

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

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

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

(PLN '000)

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

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

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

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

(PLN '000)

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

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

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

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

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

	Distribution costs	*Other income*	*Cost of products and services sold*	*Costs of merchandise and materials sold*
Before adjustment	**(28,079)**	**(4,164)**	**(1,194,941)**	–
Adjustment to presentation of impairment losses on trade receivables	3,112	(3,112)	–	–
Adjustment to presentation of cost of merchandise and materials sold	–	–	1,053	(1,053)
Provisions for warranty repairs	–	–	(204)	–
Adjusted	**(24,967)**	**(7,276)**	**(1,194,092)**	**(1,053)**

4. Material judgements and estimates

4.1. Professional judgement

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

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

Classification of leases where the Group is the lessee

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

Embedded derivatives

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

Consortium agreements

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

4.2. Uncertainty of estimates

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

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

Impairment of assets

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

For further information on asset impairment as at the end of the reporting period, see Notes 11.7, 11.12 and 11.14 to these interim condensed consolidated financial statements.11.711.1211.14

Measurement of employee benefit obligations

Employee benefit obligations were estimated with actuarial methods.

The relevant assumptions are presented in Note 11.23. The change in employee benefit obligations in the reporting period resulted from the recognition of current service costs, interest expense and benefits paid.

Deferred tax asset

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

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Group relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 14.

Depreciation and amortisation rates

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

Revenue recognition

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

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

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

Revenue

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

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

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

Provision for expected contract losses

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

Provision for costs due to late contract completion

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

Provision for warranty repairs

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

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

Impairment of financial assets

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

Uncertainty related to tax settlements

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

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

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

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

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

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

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

Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

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

5. Change in estimates

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

6. Operating segments

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

The Group identifies the following operating segments:

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

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

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

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

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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	(779,933)	(52,986)	(832,919)	34,841	(798,078)
Total					
Gross profit/(loss)	78,407	5,453	83,860	1,278	85,138
Other income/(expenses)	(42,423)	(5,379)	(47,802)	(3,905)	(51,707)
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 Sep 30 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)

For the nine months ended September 30th 2017 or as at September 30th 2017	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	1,298,437	32,397	1,330,834	(2,167)	1,328,667
Inter-segment sales	4,714	12,604	17,318	(17,318)	–
Total segment revenue	1,303,151	45,001	1,348,152	(19,485)	1,328,667
Cost of products and materials sold	(1,181,429)	(38,151)	(1,219,580)	24,435	(1,195,145)
Total					
Gross profit/(loss)	121,722	6,850	128,572	4,950	133,522
Other income/(expenses)	(67,229)	(4,213)	(71,442)	(3,621)	(75,063)
Operating profit/(loss)	54,493	2,637	57,130	1,329	58,459
Finance income/(costs)	(6,242)	(34)	(6,276)	(434)	(6,710)
Profit/(loss) before tax	48,251	2,603	50,854	895	51,749
Income tax expense	(24,934)	(316)	(25,250)	(267)	(25,517)
Segment's net profit/(loss)	23,317	2,287	25,604	628	26,232
Results					
Depreciation and amortisation	9,305	1,317	10,622	(109)	10,513
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at Sep 30 2017 *(restated)*					
Segment assets	1,145,325	79,739	1,225,064	(68,731)	1,156,333
Segment liabilities	707,559	23,972	731,531	(32,295)	699,236
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	2,713	1,247	3,960	(3)	3,957

(PLN '000)

For the three months ended Sep 30 2018 or as at Sep 30 2018	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	248,330	13,201	261,531	(2,446)	259,085
Inter-segment sales	248	6,973	7,221	(7,221)	–
Total revenue	248,578	20,174	268,752	(9,667)	259,085
Cost of products and materials sold	(228,449)	(18,862)	(247,311)	10,955	(236,356)
Total					
Gross profit/(loss)	20,129	1,312	21,441	1,288	22,729
Other income/(expenses)	(11,909)	(1,654)	(13,563)	(1,352)	(14,915)
Operating profit/(loss)	8,220	(342)	7,878	(64)	7,814
Finance income/(costs)	(963)	88	(875)	(172)	(1,047)
Profit/(loss) before tax	7,257	(254)	7,003	(236)	6,767
Income tax expense	(248)	201	(47)	42	(5)
Segment's net profit/(loss)	7,009	(53)	6,956	(194)	6,762
Depreciation and amortisation	3,292	488	3,780	(24)	3,756
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at Sep 30 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	–	–	–	–	–
Capital expenditure	318	150	468	–	468

(PLN '000)

For the three months ended September 30th 2017 or as at September 30th 2017	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	443,644	13,697	457,341	(543)	456,798
Inter-segment sales	3,739	4,814	8,553	(8,553)	–
Total revenue	447,383	18,511	465,894	(9,096)	456,798
Cost of products and materials sold	(397,881)	(15,818)	(413,699)	10,915	(402,784)
Total					
Gross profit/(loss)	49,502	2,693	52,195	1,819	54,014
Other income/(expenses)	(21,386)	(1,409)	(22,795)	(1,017)	(23,812)
Operating profit/(loss)	28,116	1,284	29,400	802	30,202
Finance income/(costs)	598	(16)	582	(162)	420
Profit/(loss) before tax	28,714	1,268	29,982	640	30,622
Income tax expense	(11,854)	(172)	(12,026)	(824)	(12,850)
Segment's net profit/(loss)	16,860	1,096	17,956	(184)	17,772
Depreciation and amortisation	3,059	456	3,515	(37)	3,478
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at Sep 30 2017 *(restated)*					
Segment assets	1,145,325	79,739	1,225,064	(68,731)	1,156,333
Segment liabilities	707,559	23,972	731,531	(32,295)	699,236
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	401	233	634	–	634

(PLN '000)

7. Scope of consolidated financial statements

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

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

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

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

RAFAKO S.A.

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

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

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

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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*
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design , engineering and technology	District Court of Gliwice KRS 486911	full
RENG-NANO Sp. z o.o.* Racibórz	Manufacture of metal structures and components, repair and maintenance of finished metal goods	District Court of Gliwice KRS 663393	full
RAFAKO MANUFACTURING Sp. z o.o. Racibórz	Production of steam generators, excluding hot water central heating boilers	District Court of Gliwice KRS 739782	full

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

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

8. Changes in the Group structure

In the nine months ended September 30th 2018, there were a number of changes in the Group's structure.

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

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

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

10. Contracts

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

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

	Sep 30 2018	*Dec 31 2017 (restated)*
Revenue initially agreed in contract	7,422,270	6,365,263
Change in contract revenue	58,348	18,332
Aggregate contract revenue	**7,480,618**	**6,383,595**
Contract costs incurred as at reporting date	4,260,432	3,724,929
Costs expected to be incurred by contract completion date	2,601,417	2,082,435
Estimated aggregate contract costs	**6,861,849**	**5,807,364**
Estimated aggregate profit/(loss) on contracts, including:	**618,769**	**576,231**
profit	670,571	697,416
loss (-)	(51,802)	(121,185)

(PLN '000)

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

	Sep 30 2018	*Dec 31 2017 (restated)*
Prepayments received as at reporting date	128,808	53,478
Prepayments that can be set off against amounts due from customers for construction contract work	23,352	28,483
Retentions total	29,063	29,063
Contract costs incurred as at reporting date	4,261,871	3,808,392
Cumulative profit as at reporting date (+)	463,992	425,741
Cumulative loss as at reporting date (+)	(51,803)	(121,185)
Cumulative contract revenue as at reporting date	4,674,060	4,112,949
Amounts invoiced as at reporting date (progress billings)	4,297,996	3,887,716
Settlement of contracts (balance) as at the reporting date, including:	**376,065**	**225,233**
Contract assets less prepayments that can be set off	371,182	248,465
Contract liabilities	18,469	23,232

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

- PLN 122,717 thousand increase in contract assets,
- PLN 80,461 thousand increase in advance payments received from customers under contracts,
- recognition of revenue of PLN 223 thousand presented as at the end of 2017 under gross amount due to customers for contract work,
- PLN 13,063 change in estimated costs with a bearing on provisions for expected contract losses.

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

	Sep 30 2017
Contract costs incurred to date (cumulative)	5,263,264
Recognised profits less recognised losses to date (cumulative)	334,085
Contract revenue recognised by reference to the contract stage of completion (cumulative)	5,597,349
Progress billings (cumulative)	5,265,129
Gross amount due to customers for contract work (liability), including:	**(167,259)**
- advance payments received (liabilities arising from advances received)	(174,287)
- adjustment to advance payments received arising from amounts due from customers	49,141
- gross amount due to customers for contract work	(42,113)
Prepayments and deferred income from construction contracts, including:	**364,786**
- gross amount due from customers for contract work (asset)	339,760
- contract acquisition cost and other contract costs accounted for over time	25,026
Provision for liquidated damages for late contract completion or failure to meet guaranteed technical parameters	(4,795)
Provision for construction contract losses	(9,773)

10.1 Key contracts executed by the Group

10.1.1 Jaworzno Project

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

Accounting for the Jaworzno project:

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

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

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

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

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

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

10.1.2 Opole project

In February 2012, the parent, acting as the leader of a consortium comprising RAFAKO S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. executed a PLN 9.4bn (PLN 11.6bn with VAT included) contract with PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. − the "employer") for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No. 5 and power unit No. 6 at the Opole Power Plant, together with equipment and devices as well as all related buildings and structures.

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

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

Rules of accounting for the Opole Project:

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

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

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

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

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

For the nine months ended September 30th 2018, the Group posted revenue of PLN 883,216 thousand, down by PLN 445,451 thousand on the corresponding period of 2017. The decrease was mainly attributable to lower revenue from the contract to construct a 910 MW power generating unit at the Jaworzno III Power Plant, as most of the work on the project had already been completed in 2016 and 2017 (as at the end of September 2018, the percentage of project completion exceeded 81%).

Cost of sales in the reporting period amounted to PLN 798,078 thousand. Considering the Group's revenue and cost of sales, gross profit reached PLN 85,138 thousand.

In the current reporting period, distribution costs of PLN 18,570 recognised in the statement of profit or loss comprise costs of bid preparation and costs of PR and marketing activities.

Other income chiefly included reversal of provisions for the voluntary redundancy programme, for restructuring costs totalling PLN 5,857 thousand, and for other costs related to the prescription of one of the parent's trading partner's claims of PLN 2,550 thousand. In the first nine months, other income was also determined by gain on disposal of non-financial non-current assets of PLN 571 thousand, received grants of PLN 483 thousand, and received compensation of PLN 442 thousand.

Other expenses mainly included: 1. impairment losses on other receivables of PLN 661 thousand and trade receivables of PLN 2,197 thousand, 2. recognition of a provision for other expenses of PLN 513 thousand, 3. donations of PLN 232 thousand (September 30th 2017: PLN 1,896 thousand), 4. costs of repairs of property, plant and equipment of PLN 157 thousand (September 30th 2017: PLN 172 thousand).

In the nine months of 2018, the Group's finance income came mainly from a discount on long-term settlements of PLN 3,153 thousand, net foreign exchange gains of PLN 1,900 thousand, and interest on financial instruments of PLN 1,053 thousand (September 30th 2017: PLN 1,478 thousand).

Finance costs in the period chiefly included interest on financial instruments of PLN 2,289 thousand (September 30th 2017: PLN 2,047 thousand) and interest on employee benefit obligations of PLN 552 thousand (September 30th 2017: PLN 573 thousand), as well as commissions on bank borrowings of PLN 1,046 thousand (September 30th 2017: PLN 669 thousand).

(PLN '000)

11.2.Income tax

Income tax expense

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

Continuing operations	*9 months ended Sep 30 2018*	*9 months ended Sep 30 2017*
Consolidated statement of profit or loss		
Current tax	(5,754)	(10,214)
Current income tax expense	(6,071)	(10,346)
Adjustments to current income tax from previous years	317	132
Deferred tax	(8,494)	(15,303)
Related to recognition and reversal of temporary differences	(8,494)	(15,342)
Adjustments to deferred tax from previous years	–	39
Income tax expense in the consolidated statement of profit or loss	**(14,248)**	**(25,517)**
Deferred tax on other comprehensive income	271	189
Related to recognition and reversal of temporary differences	271	189
Adjustments to current income tax from previous years	–	–
Income tax expense recognised in other comprehensive income	**271**	**189**

(PLN '000)

Deferred income tax calculated as at September 30th 2018

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

	Statement of financial position		*Statement of comprehensive income for the nine months ended*	
	Sep 30 2018	*Dec 31 2017 (restated)*	*Sep 30 2018*	*Sep 30 2017*
- investment reliefs	(2)	(2)	–	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,494)	(16,295)	801	11
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	2,332	2,985	(653)	(49)
- difference between tax base and carrying amount of loans and receivables	4,869	4,084	785	384
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(74,310)	(67,230)	(7,080)	(24,898)
- difference between tax base and carrying amount of inventories	2,018	2,110	(92)	(76)
- provisions	14,322	60,284	(45,961)	11,095
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for contracts	74,191	30,913	43,278	(615)
- tax asset related to tax loss	16,178	17,470	(1,292)	(73)
- adjustment to costs of unpaid invoices	4,465	4,568	(103)	(1,445)
- other	5,684	3,590	2,094	517
Deferred tax expense, including:			**(8,223)**	**(15,149)**
Deferred tax expense/benefit disclosed in the statement of profit or loss			(8,494)	(15,303)
Deferred tax expense/benefit disclosed in other comprehensive income			271	189
Net deferred tax asset/(liability)	**34,253**	**42,477**		
including:				
Deferred tax assets	34,473	42,542		
Deferred tax liability	220	65		

As at September 30th 2018, the Group recognised a deferred tax asset on a tax loss of PLN 85,147 thousand, which will be offset against profits in future reporting periods.

In the first nine months of 2018, the parent reported a tax loss of PLN 34,825 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 Management Board of RAFAKO S.A. decided not to recognise a deferred tax asset on the tax loss recorded in the nine months ended September 30th 2018. The total amount of tax loss for 2015, 2016, 2017 and 2018 which was not recognised in deferred tax is PLN 192,522 thousand.

11.3.Significant items disclosed in the statement of cash flows

The PLN 114,540 thousand decrease in receivables disclosed in the interim condensed consolidated statement of cash flows for the nine months ended September 30th 2018 resulted mainly from:

- PLN (190,892) thousand decrease in trade receivables,
- PLN 14,201 thousand decrease in receivables from the state budget (including VAT),
- PLN (59,568) thousand increase in prepayments made,
- PLN (29,175) thousand increase in security deposits receivable,
- PLN (1,810) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the nine months ended September 30th 2018, see Note 0

The PLN 88,181 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN (128,118) thousand decrease in trade payables,
- PLN 80,461 thousand increase in advance payments received,
- PLN (18,587) thousand decrease in taxes and other duties payable,
- PLN (3,545) thousand decrease in employee benefits obligations and provisions (net of actuarial gains/(losses)
- change in actuarial gains/(losses) of PLN (1,429) thousand,
- PLN (16,963) thousand decrease in other liabilities.

The PLN (110,384) thousand change in gross amounts due to and from customers for contract work, disclosed in the statement of cash flows, was mainly caused by:

- PLN (110,161) thousand increase in gross amount due from customers for contract work and the related accruals and deferrals,
- PLN (223) thousand decrease in gross amount due to customers for contract work.

The PLN (20,030) thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN(1,253) thousand decrease in the provision for warranty repairs,
- PLN (14,415) thousand decrease in the provision for expected contract losses,
- PLN (8,069) thousand decrease in the provision for liquidated damages,
- PLN 2,516 thousand change in accruals and deferrals,
- PLN 1,191 thousand change in other provisions.

The cash flows of PLN 1,332 thousand relating to the purchase of property, plant and equipment and intangible assets resulted from acquisition of property, plant and equipment for PLN 1,103 thousand and of intangible assets for PLN 229 thousand.

Cash flows from financing activities were mainly affected by a PLN 11,334 thousand increase in debt outstanding under the overdraft facility and working capital facility advanced to the parent by PKO BP S.A.

(PLN '000)

11.4.Property, plant and equipment

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 of property, plant and equipment to/from assets held for sale	(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**

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

for the nine months ended Sep 30 2017	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2017	**23,754**	**89,344**	**54,122**	**9,161**	**795**	**1,409**	**178,585**
Transfers from property, plant and equipment under construction	–	821	2,273	–	–	(3,094)	–
Acquisitions	–	5	173	763	474	1,863	3,278
Lease agreements	–	–	–	110	–	–	110
Liquidation/sale	(4)	(135)	(1)	(169)	–	–	(309)
Exchange differences on translating foreign operations	–	–	(2)	(1)	(6)	–	(9)
Depreciation for period	–	(2,186)	(5,354)	(1,733)	(226)	–	(9,499)
Impairment loss for period	–	–	–	–	–	–	–
Acquisition of subsidiary	–	–	–	–	–	–	–
Other, including reclassification of property, plant and equipment to/from assets held for sale	59	680	31	(3)	–	–	767
Net carrying amount as at Sep 30 2017	**23,809**	**88,529**	**51,242**	**8,128**	**1,037**	**178**	**172,923**

(PLN '000)

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

	9 months ended Sep 30 2018	*9 months ended Sep 30 2017*
Purchase of property, plant and equipment and intangible assets*	3,549	3,957
Proceeds from sale of property, plant and equipment and intangible assets	1,192	1,641

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

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

11.6. Goodwill

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

11.7. Long-term trade and other receivables

	Sep 30 2018	*Dec 31 2017 (restated)*
Financial receivables		
Trade receivables	39,006	39,304
Impairment losses on trade receivables (-)	(90)	(89)
Net trade receivables	**38,916**	**39,215**
Retentions (security deposits)	736	105
Other financial receivables	–	65
Total financial receivables, net	**39,652**	**39,385**
Non-financial receivables		
Other non-financial receivables	228	–
Impairment losses on non-financial receivables (-)	(39)	–
Total non-financial receivables, net	**189**	–
Total long-term receivables, net	**39,841**	**39,385**

(PLN '000)

11.8.Shares in other entities

	Sep 30 2018	Dec 31 2017 (restated)
Shares in other listed companies	131	223
Shares in other non-listed companies	1,227	19
	1,358	**242**

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

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

11.9.Non-current financial assets

	Sep 30 2018	Dec 31 2017 (restated)
Long-term bonds	16,318	17,700
	16,318	**17,700**

11.9.1. Bonds

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

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

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

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

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

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

(PLN '000)

E, F, G, H and I bearer Bonds of PGB S.A. in the Catalyst alternative trading system took place on March 10th 2017 and the first listing of Series B1, C1, D1, G1, H1 and I1 bonds – on April 20th 2017.

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

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

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

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

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

11.10. Inventories

	Sep 30 2018	*Dec 31 2017 (restated)*
Materials (at net realisable value)	27,538	28,823
At cost	38,469	39,928
At net realisable value	27,538	28,823
Total inventories, at the lower of cost and net realisable value	**27,538**	**28,823**

* Inventories pledged as security for the Group's liabilities as at the reporting date are presented in Note 11.15.4

(PLN '000)

11.11. Short-term trade and other receivables

	Sep 30 2018	*Dec 31 2017 (restated)*
Financial receivables		
Trade receivables	181,469	357,733
Impairment losses on trade receivables (-)	(23,229)	(8,990)
Net trade receivables	**158,240**	**348,833**
Receivables on sale of property, plant and equipment and intangible assets	81	–
Security deposits	90,829	62,285
Receivables under court proceedings*	24,507	24,507
Other financial receivables	10,893	10,483
Impairment losses on financial receivables (-)	(24,330)	(24,228)
Total financial receivables, net	**260,220**	**421,880**
Non-financial receivables		
Income tax asset	190	104
Receivables under prepayments and advance payments	91,525	31,957
Receivables from the state budget	17,394	31,595
Other non-financial receivables	5,014	3,868
Impairment losses on non-financial receivables (-)	(3,152)	(3,384)
Total non-financial receivables, net	**110,971**	**64,140**
Total short-term receivables, net	**371,191**	**486,020**

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

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

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

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

Short-term trade receivables of PLN 158,240 thousand recognised in the interim condensed consolidated statement of financial position as at September 30th 2018 relate to trading contracts with domestic and foreign trading partners.

(PLN '000)

Security deposits of PLN 90,829 thousand disclosed in the statement of financial position relate mainly to projects implemented in the following areas:

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

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

A significant item of other receivables were advance payments, which as at September 30th 2018 amounted to PLN 91,525 thousand and included:

- Advance payment of PLN 44,101 thousand under a contract to construct fuel storage tanks;
- Advance payment of PLN 14,433 thousand under a contract to construct a biomass boiler island;
- Advance payment of PLN 8,074 thousand under a contract for gas pipeline construction;
- Advance payment of PLN 5,837 thousand under a contract to construct an LNG storage tank;
- Advance payment of PLN 4,128 thousand under a contract for the delivery and assembly of an NOx reduction unit.

11.12. Other current financial assets

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

* For a detailed description of bonds, see Note 11.9.1

11.13. Cash and cash equivalents

	Sep 30 2018	*Dec 31 2017 (restated)*	*Sep 30 2017*
Cash at bank and in hand	123,784	179,682	139,123
Short-term deposits for up to 3 months, including:	61	609	945
	123,845	**180,291**	**140,068**

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 2018, cash included restricted cash of PLN 103.7m (December 31st 2017: PLN 18.1m), 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)

11.14. Impairment losses on consolidated assets

	Property, plant and equipment	*Shares**	*Other financial assets*****	*Other non-financial assets*****	*Inventories***	*Prepayments and accrued income relating to accounting for construction contracts*	*Receivables****
Jan 1 2018	(68)	(4,978)	(10,500)	(5,676)	(11,105)	–	(36,749)
Adjustment to opening balance	–	–	–	–	–	(1,888)	(12,630)
January 1st 2018 *(restated)*	(68)	(4,978)	(10,500)	(5,676)	(11,105)	(1,888)	(49,379)
Recognised	(8)	(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)**
Jan 1 2017	(27)	(24,363)	(10,500)	(5,676)	(11,978)	–	(32,472)
Recognised	–	–	–	–	(796)	–	(4,551)
Reversed	–	66	–	–	–	–	806
Used	–	19,375	–	–	1,194	–	2,431
Sep 30 2017	**(27)**	**(4,922)**	**(10,500)**	**(5,676)**	**(11,580)**	**–**	**(33,786)**

* Impairment losses on shares in companies are recognised for shares in companies declared bankrupt and in connection with remeasurement of shares in companies which are in a company voluntary arrangement process.
** Inventory write-downs and write-down reversals are charged to cost of products and services sold.
*** Impairment losses on long- and short-term trade and other receivables, including contractual penalties.
**** The Parent's Management Board estimates that financial assets covered by an agreement concluded in 2012 are exposed to a significant risk of non-recoverability and has upheld its decision to recognise an impairment loss for the full amount of the project.

(PLN '000)

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

11.15.1. Property, plant and equipment pledged as security

As at September 30th 2018, property, plant and equipment pledged as security for the Group's liabilities amounted to PLN 135,839 thousand. The parent's property, plant and equipment of PLN 130,444 thousand are pledged as security for liabilities under the Multi-Purpose Credit Facility Agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the Agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights). In addition, liabilities under the credit facility agreements are secured over a subsidiary's buildings and structures worth PLN 3,742 thousand, as well as IT equipment and office containers worth PLN 1,653 thousand.

	Sep 30 2018	*Dec 31 2017 (restated)*
Mortgaged property, plant and equipment, including:	90,153	90,051
land	9,162	9,208
buildings and structures	80,991	80,843
Property, plant and equipment encumbered with registered pledge, including:	45,686	49,740
plant and equipment	44,240	48,688
vehicles	1,446	1,052
	135,839*	**139,791***

* The disclosed amounts include property, plant and equipment of PLN 88 thousand classified as held for sale (December 31st 2017: PLN 125 thousand).

11.15.2. Intangible items pledged as security

As at September 30th 2018, intangible assets worth PLN 9,582 thousand were pledged as security for the parent's liabilities (December 31st 2017: PLN 9,815 thousand). The assets are pledged as security for liabilities under the Multi-Purpose Credit Facility Agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW Project (a second-ranking registered pledge over a set of movables and rights).

11.15.3. Shares pledged as security

As at September 30th 2018, PLN 36,490 thousand (December 31st 2017: PLN 35,333 thousand) worth of shares were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the implementation of the Jaworzno III 910 MW Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over the shares held in E003B7 Sp. z o.o.).

11.15.4. Inventories pledged as security

As at September 30th 2018, inventories worth PLN 26,144 thousand were pledged as security for the parent's liabilities (December 31st 2017: PLN 26,320 thousand). The assets are pledged as security for liabilities under the Multi-Purpose Credit Facility Agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.15.5. Trade receivables pledged as security

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

11.16. Share capital

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

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

11.17. Par value per share

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

11.18. Shareholders' rights

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

11.19. Share premium

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

(PLN '000)

11.20. 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:

	9 months ended Sep 30 2018	*9 months ended Sep 30 2017*
Net profit/(loss) from continuing operations	21,247	26,232
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	21,671	25,845
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	84,931,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	127,431,998	84,931,998
Earnings/(loss) per share, PLN		
– basic/diluted earnings from profit/(loss) attributable to holders of ordinary shares for period	0.17	0.31

In the nine months ended September 30th 2018, the parent did not issue new shares.

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

11.21. Long-term trade and other payables

	Sep 30 2018	*Dec 31 2017 (restated)*
Financial liabilities		
Trade payables	24,297	38,714
Amounts payable for tangible and intangible assets	–	50
Retentions (security deposits)	19	–
Other liabilities	5	15
Total financial liabilities	**24,321**	**38,779**
Non-financial liabilities		
Other liabilities	38	–
Total non-financial liabilities	**38**	–
	24,359	**38,779**

(PLN '000)

11.22. Long-term employee benefit obligations

	Sep 30 2018	Dec 31 2017 (restated)
Amounts payable under voluntary redundancy programme	–	153
Unpaid bonus accrual	4	495
Provision for retirement severance payments	6,497	5,901
Provision for length-of-service awards	10,851	10,601
Provision for other employee benefits	3,864	4,034
	21,216	**21,184**

11.23. Post-employment and other benefits

Based on a valuation forecast made as at the end of the reporting period by a professional actuary, the 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 2018	Dec 31 2017 (restated)
As at January 1st	23,635	23,877
Interest expense	552	769
Current service costs	200	459
Actuarial (gains)/losses	1,429	(324)
Benefits paid	(1,851)	(2,537)
Recognition/reversal of provision for employee benefit obligations	–	1,060
Closing balance	**23,965**	**23,304**
Long-term provisions	21,212	20,536
Short-term provisions	2,753	2,768

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

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

**No data provided in the actuary's report.*

** 2% in 2018 and in subsequent years

11.24. Other long-term provisions

	Sep 30 2018	Dec 31 2017 (restated)
Provision for warranty repairs	32,318	17,202
	32,318	**17,202**

(PLN '000)

11.25. Short-term trade and other payables

	Sep 30 2018	Dec 31 2017 (restated)
Financial liabilities		
Trade payables	200,668	314,369
Amounts payable for tangible and intangible assets	167	974
Retentions (security deposits)	261	397
Other financial liabilities	511	–
Total financial liabilities	**201,607**	**315,740**
Non-financial liabilities		
Taxes and other duties payable	18,302	36,889
Advance payments and prepaid deliveries	–	–
Advance payments received from customers	105,456	24,995
Other non-financial liabilities	20,004	37,389
Total non-financial liabilities	**143,762**	**99,273**
	345,369	**415,013**

11.26. Short-term employee benefit obligations

	Sep 30 2018	Dec 31 2017 (restated)
Social security	8,539	9,087
Salaries and wages payable	8,804	8,519
Amounts payable under voluntary redundancy programme	490	1,443
Accrued holiday entitlements	3,866	5,428
Unpaid bonus accrual	6,825	7,421
Provision for retirement severance payments	760	763
Provision for length-of-service awards	1,430	1,582
Provision for other employee benefits	375	423
	31,089	**34,666**

11.27. Other short-term provisions

	Sep 30 2018	Dec 31 2017 (restated)
Provision for warranty repairs	7,327	11,401
Provision for expected contract losses	1,046	15,461
Provision for liquidated damages	–	8,069
Other provisions	1,191	–
	9,564	**34,931**

12. Objectives and policies of financial risk management

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

(PLN '000)

13. Derivative instruments

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

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

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

14. Financial instruments

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

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

	Carrying amount	
	Sep 30 2018	*Dec 31 2017 (restated)*
Assets at fair value through profit or loss	**131**	**702**
Derivative instruments	–	479
Long-term shareholdings	131	223
Assets measured at amortised cost	**333,352**	**515,564**
Bonds	21,783	22,447
Trade receivables	197,157	388,048
Investment receivables	81	–
Other financial receivables	102,634	73,217
Loans advanced	11,697	10,010
Cash and cash equivalents	**123,845**	**180,291**
	457,328	**674,715**

	Carrying amount	
	Sep 30 2018	*Dec 31 2017 (restated)*
Financial liabilities at amortised cost	**337,667**	**453,247**
Borrowings	111,739	98,728
Trade payables (including capital commitments)	225,133	354,107
Other financial liabilities	795	412
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**4,439**	**4,551**
Liabilities under leases and rental contracts with purchase option	4,439	4,551
	342,106	**462,830**

(PLN '000)

15. Borrowings

As at September 30th 2018, the Group's liabilities under bank and non-bank borrowings were PLN 111,739 thousand.

Borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings* Sep 30 2018	Dec 31 2017
Long-term borrowings:							
Siemens Finance Sp. z o.o.	blank promissory note	cash loan	PLN	1M WIBOR + margin	Jul 15 2021	70	–
						70	–
Short-term borrowings							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	current account overdraft facility of up to PLN 70m***	PLN	1M WIBOR + margin	Jun 30 2019****	66,334	55,137
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility of up to PLN 80m***	PLN	1M WIBOR or 1M EURIBOR + margin	Jun 30 2019****	43,301	43,419
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, mortgages, assignment of claims under insurance policy	PLN 1m overdraft facility	PLN	1M WIBOR + margin	Sep 6 2018	–	172
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, statements on submission to enforcement, mortgages, assignment of claims under insurance policy	working capital facility	PLN	1M WIBOR + margin Average 3M WIBOR	Aug 30 2018	2,000	–
Siemens Finance Sp. z o.o.	blank promissory note	cash loan	PLN	1M WIBOR + margin	Jul 15 2021	34	–
						111,669	**98,728**

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

** As at the date of these interim condensed consolidated financial statements, the parent had established mortgages on RAFAKO S.A.'s 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 29th 2018 to the multi-purpose credit facility agreement, the facility limit was set at PLN 200m, including an overdraft facility of up to PLN 70m and a working capital facility of up to PLN 80m.

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

(PLN '000)

16. Capital management

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

	Sep 30 2018	*Dec 31 2017 (restated)*
Debt to equity		
Equity attributable to owners of the parent	578,475	558,331
External capital (bank credit facility)	111,739	98,728
Total equity and liabilities	1,206,434	1,281,253
Capitalisation ratio	**0.48**	**0.44**

17. Provisions for costs

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

During the nine months ended September 30th 2018, the Group reviewed the amounts of recognised provisions for delay damages (including delays in meeting contractual obligations and the terms of assessing damages) under current contracts.

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

(PLN '000)

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

	*Provision for expected contract losses **	*Provision for jubilee benefits , retirement gratuity and Company Social Benefits Fund*	*Provision for holiday entitlement s***	*Provisions for warranty repairs***	*Provision for contractual penalties*	*Employee benefit obligations***	*Provision for credit losses on sureties*	*Provision for voluntary redundancy programme*	*Restructuring provision*	*Provision for other costs***	*Other provision s*
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 *(restated)*	**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**
Jan 1 2017	19,160	23,877	4,999	18,227	4,856	12,031	–	7,094	–	6,644	177
Provision recognised	2,805	3,009	287	7,271	4,823	3,373	–	6,480	407	2,805	3,009
Reversed	–	–	–	–	(678)	(4,533)	–	(6,574)	(6)	–	–
Utilised	(12,192)	(1,805)	(1,224)	(10,719)	(4,206)	(512)	(4,980)	(1,985)	(171)	(12,192)	(1,805)
Sep 30 2017	**9,773**	**25,081**	**4,062**	**14,779**	**4,795**	**10,359**	**2,114**	**4,565**	**407**	**9,773**	**25,081**

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

(PLN '000)

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

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

20. Capital commitments

As at September 30th 2018, the RAFAKO Group companies had commitments related to purchase of property, plant and equipment of PLN 167 thousand. Group companies had not signed agreements envisaging any capital expenditure to be made in 2018 which was not disclosed in the accounting books at the end of the reporting period.

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

	Sep 30 2018	*Dec 31 2017 (restated)*
Receivables under financial guarantees received mainly as security for performance of contracts, including:	690,639	669,672
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	51,933	24,507
- from related entities	38,265	13,864
Letters of credit	–	–
	742,572	**694,179**

	Sep 30 2018	*Dec 31 2017 (restated)*
Commitments under financial guarantees issued mainly as security for performance of contracts, including:	372,193	326,438
- to related entities	–	–
Liabilities under sureties, including:	1,294,375	1,294,375
- to related entities	1,294,375	1,294,375
Promissory notes issued as security, including:	37,328	15,374
- to related entities	1,884	1,884
Letters of credit	–	–
	1,703,896	**1,636,187**

In the first nine months of 2018, the RAFAKO Group recorded a PLN 67,709 thousand increase in contingent liabilities, which resulted from an increase in guarantees granted and an increase in promissory notes issued as security. In the first nine months of 2018, a number of guarantees were issued by banks and insurance companies to the Group's trading partners upon the Group companies' instructions, including mainly performance bonds of PLN 76,224 thousand and bid bonds of PLN 53,761 thousand. In this category of liabilities, the largest item was a performance bond of PLN 15,529 thousand, issued in July 2018. As at the end of September 2018, liabilities under sureties in issue were PLN 1,294,375 thousand. In this category of liabilities, the largest item was the sureties covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to develop new coal-fired generation capacities at TAURON Wytwarzanie S.A. – construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II. The largest item of guarantees which expired in the first nine months of 2018 was a PLN 9,000 thousand bid bond.

In the first nine months of 2018, the Group's contingent receivables (mainly under performance bonds) rose by PLN 48,393 thousand, including an increase of PLN 20,967 thousand in receivables under bank and insurance guarantees and an increase of PLN 27,426 thousand in receivables under promissory notes. The largest guarantee received in the first nine months of 2018 was a EUR 1,123 thousand performance bond. The largest guarantee which expired in the first nine months of 2018 was a EUR 431 thousand advance payment guarantee.

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 2017, available at:

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

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

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

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

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

(PLN '000)

23. Parent's Management Board and Supervisory Board

In the nine months ended September 30th 2018 and by the date of these interim condensed consolidated financial statements there were changes in the composition of the parent's Management Board. On February 20th 2018, Krzysztof Burek resigned from the position of Vice President of the parent's Management Board. RAFAKO S.A.'s Supervisory Board appointed Karol Sawicki as Vice President of the Management Board. On October 30th 2018, changes were made to the parent's governing bodies, in the pursuance of the parent's strategy and as a consequence of internal reorganisation of RAFAKO S.A.:

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

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

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

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

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

Helena Fic	– Chairwoman of the Supervisory Board
Małgorzata Wiśniewska	– Deputy Chairwoman of the Supervisory Board
Przemysław Schmidt	– Secretary of the Supervisory Board (independent member)
Krzysztof Gerula	– Member of the Supervisory Board (independent member)
Dariusz Szymański	– Member of the Supervisory Board
Adam Szyszka	– Member of the Supervisory Board (independent member)

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

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

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

(PLN '000)

25. Related-party transactions

In the nine months ended September 30th 2018 and September 30th 2017, the parent and its subsidiaries did not enter into any material transactions with related parties on non-arm's length terms.

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

Related party		*Sales to related parties in nine months ended Sep 30 2018/ Sep 30 2017*	*Purchases from related parties for the nine months ended Sep 30 2018/ Sep 30 2017*	*Receivables from related parties as at Sep 30 2018/ Dec 31 2017*	*Liabilities to related parties as at Sep 30 2018/ Dec 31 2017*
Parent:					
PBG S.A.	*2018*	2,914	3,647	24,548*	646
	2017	1,859	4,347	30,538*	558
PBG Group companies:					
PBG oil and gas Sp. z o.o.	*2018*	911	22,781	28,467	2,767
	2017	3,415	1,732	33,162	720
PBG ERIGO PROJEKT Sp. z o.o. PLATAN HOTEL SKA	*2018*	55	–	15	–
	2017	55	–	8	–
PBG DOM Sp. z o.o.	*2018*	3	–	2	–
	2017	7	–	1	–
PBG AVATIA Sp. z o.o.	*2018*	–	–	–	–
	2017	–	25	–	–
Entities related through personal links:					
SWGK KSIĘGOWOŚĆ Sp. z o.o.	*2018*	–	2,080	–	443
	2017	–	1,817	–	295
SWGK Consulting Sp. z o.o.	*2018*	–	10	–	–
	2017	–	150	–	49
Dwór w Smólsku Sp. z o.o.	*2018*	–	225	–	25
	2017	–	180	–	49
Mostostal Energomontaż Gliwice S.A.	*2018*				
	2017	–	–	–	57
PBG Foundation	*2018*	–	129	–	36
	2017	–	283	–	33

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

(PLN '000)

Related party		*Sales to related parties in nine months ended Sep 30 2018/ Sep 30 2017*	*Purchases from related parties for the nine months ended Sep 30 2018/ Sep 30 2017*	*Receivables from related parties as at Sep 30 2018/ Dec 31 2017*	*Liabilities to related parties as at Sep 30 2018/ Dec 31 2017*
Przedsiębiorstwo Inżynieryjne Ćwiertnia Sp. z o.o.	*2018*	–	–	509	–
	2017	–	–	516	–
BPIL Grzegorz Kiczor	*2018*	–	115	–	25
	2017	–	145	–	41
FCS Business Solutions Sp. z o.o.	*2018*	–	–	–	6
	2017	1	–	–	–
Polimex-Mostostal S.A.	*2018*	–	241	–	270
	2017	–	–	–	117
PONER Sp. z o.o.	*2018*	9	–	–	–
	2017	328	27	130	–
Economic Chamber of Energy and Environmental Protection	*2018*	–	2	–	14
	2017	–	23	–	–
MIKO-Tech Sp. z o.o.	*2018*	124	18,013	2	2,382
	2017	24	408	2	1,018
NRG Solutions Sp. z o.o.	*2018*	–	5	–	2
	2017	18	–	6	3
SWGK Podatki Sp. z o.o.	*2018*	–	–	–	–
	2017	–	80	–	–
Fic i Wspólnicy Kancelaria Radców Prawnych Sp.k.	2018	–	220	–	–

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

The Group has not published any forecasts for 2018.

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

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

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

(PLN '000)

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

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

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

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

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

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

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

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

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

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

29. 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*	*Number of voting*	*Ownership*	*% of*

(PLN '000)

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

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

(PLN '000)

30. 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 2018 was as follows:

	Base pay	*Awards*	*Other*
RAFAKO S.A. – parent			
Management Board	2,311	–	206
Supervisory Board	612	–	630
PGL-DOM Sp. z o.o. – subsidiary			
Management Board	81	43	–
Supervisory Board	141	–	–
RAFAKO ENGINEERING Sp. z o.o. – subsidiary			
Management Board	160	150	–
Supervisory Board	116	137	–
RAFAKO ENGINEERING Sp. z o.o. – indirect subsidiary			
Management Board	360	122	–
Supervisory Board	30	–	–
E001RK Sp. z o.o. – subsidiary			
Management Board	126	–	–
Supervisory Board	–	–	–
E003B7 Sp. z o.o. – subsidiary			
Management Board	1,167	1,017	–
Supervisory Board	810	720	–
RENG-NANO Sp. z o.o. – subsidiary			
Management Board	162	–	–
Supervisory Board	–	–	–

(PLN '000)

31. Order book

As at September 30th 2018, the value of the Group's order book was in excess of PLN 3.1bn. The largest item is the PLN 1.0bn Jaworzno Project, with PLN 0.1bn outstanding under the contract and attributable to the parent and PLN 0.9bn 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 0.4bn is still outstanding).

ORDER BOOK	
Sep 30 2018	**Dec 31 2017**
PLN ~3.16 bn	**PLN ~3.1 bn**

	ORDER BOOK as at Sep 30 2018	Due for execution in		
		Oct–Dec 2018	2019	after 2019
TOTAL	**~3.16bn**	**~0.35bn**	**~2,16bn**	**~0.65bn**
RAFAKO Group	**~2.22bn**	**~0.20bn**	**~1.39bn**	**~0.63bn**
Jaworzno 910 MW	**~0.94bn**	**~0.15bn**	**~0.77bn**	**~0.02bn**

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

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

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

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts executed for the delivery of products and services by subcontractors), which may have a positive or negative effect on the result for the period after September 30th 2018.
- The adequacy of provisions and impairment losses for current contracts;
- The risk that provisions may need to be recognised for contractual penalties for time overruns or failure to meet guaranteed technical specifications of certain contracts;
- The risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs;
- Currency movements − substantial changes in the PLN/EUR exchange rate may have a material effect on the profitability of EUR-denominated contracts;
- Risk of failure to obtain financial guarantees required to acquire and perform contracts.

(PLN '000)

33. Events after the reporting period

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

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

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

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

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

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

Signatures:

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