RAFAKO S.A.

PBG GROUP

INTERIM CONDENSED FINANCIAL STATEMENTS

for the nine months ended September 30th 2019

November 29th 2019

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(PLN '000)

Interim condensed statement of comprehensive income

for the nine months ended September 30th 2019

	Note	*9 months ended Sep 30 2019*	*9 months ended Sep 30 2018*	*3 months ended Sep 30 2019*	*3 months ended Sep 30 2018*
Continuing operations					
Revenue	10.1	**653,741**	**444,691**	**232,738**	**130,390**
Revenue from sale of goods and services		652,811	442,614	232,585	129,436
Revenue from sale of materials		930	2,077	153	954
Cost of products and services sold	10.2	(715,984)	(389,699)	(220,294)	(116,354)
Cost of materials sold		(670)	(1,114)	(119)	(360)
Gross profit/(loss)		**(62,913)**	**53,878**	**12,325**	**13,676**
Other income	10.2	6,101	13,755	2,521	4,122
Distribution costs		(16,762)	(18,347)	(4,614)	(5,487)
Administrative expenses		(26,771)	(30,481)	(8,114)	(9,102)
Other expenses	10.2	(7,544)	(2,896)	(4,067)	(407)
Research costs		(6,928)	(6,547)	(1,650)	(2,623)
Operating profit/(loss)		**(114,817)**	**9,362**	**(3,599)**	**179**
Finance income	10.2	4,318	5,883	1,453	324
Finance costs	10.2	(4,262)	(3,816)	(342)	(1,509)
Profit/(loss) before tax		**(114,761)**	**11,429**	**(2,488)**	**(1,006)**
Income tax expense	10.3	(3,894)	(9,431)	563	1,340
Net profit/(loss) from continuing operations		**(118,655)**	**1,998**	**(1,925)**	**334**

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

	Note	*9 months ended Sep 30 2019*	*9 months ended Sep 30 2018*	*3 months ended Sep 30 2019*	*3 months ended Sep 30 2018*
Other comprehensive income for period		**(213)**	**(1,505)**	**197**	**(995)**
Items to be reclassified to profit/(loss) in subsequent reporting periods		–	–	–	–
Exchange differences on translating foreign operations		–	(347)	–	(223)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		–	**(347)**	–	**(223)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income due to actuarial gains/(losses)		(263)	(1,429)	243	(954)
Tax on other comprehensive income	10.3	50	271	(46)	182
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(213)**	**(1,158)**	**197**	**(772)**
Total comprehensive income for period		**(118,868)**	**493**	**(1,728)**	**(661)**
Weighted average number of shares		127,431,998	127,431,998	127,431,998	127,431,998
Basic earnings/(loss) per share, PLN		(0.93)	0.02	(0.02)	0.00
Diluted earnings/(loss) per share, PLN		(0.93)	0.02	(0.02)	0.00

Racibórz, November 29th 2019

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

(PLN '000)

Interim condensed statement of financial position
as at September 30th 2019

	Note	*Sep 30 2019*	*Dec 31 2018*	*Sep 30 2018*
ASSETS				
Non-current assets				
Property, plant and equipment	11.3	123,928	132,814	135,641
Goodwill		1,774	1,774	1,774
Intangible assets		6,669	7,594	7,859
Right-of-use assets	11.5	9,429	–	–
Other long-term receivables	11.6	11,925	5,224	4,762
Shares	11.7	36,626	36,520	36,490
Other non-current financial assets	11.8	26,651	36,242	36,979
Deferred tax assets	10.3	32,461	36,304	28,960
Long-term prepayments and accrued income		5,575	5,603	9,678
		255,038	**262,075**	**262,143**
Current (short-term) assets				
Inventories	11.9	29,880	29,391	26,144
Short-term trade and other receivables	11.12	312,020	392,644	299,196
Contract assets	9	321,276	205,149	204,972
Other current financial assets	11.10	24,810	7,608	5,465
Loans advanced		–	–	408
Cash and cash equivalents	11.11	27,346	5,404	14,491
Short-term prepayments and accrued income	11.13	16,196	15,301	9,729
		731,528	**655,497**	**560,405**
Non-current assets held for sale		78	163	66
TOTAL ASSETS		**986,644**	**917,735**	**822,614**

(PLN '000)

Interim condensed statement of financial position

as at September 30th 2019

	Note	*Sep 30 2019*	*Dec 31 2018*	*Sep 30 2018*
EQUITY AND LIABILITIES				
Equity				
Share capital	11.16	254,864	254,864	254,864
Share premium	11.19	165,119	165,119	165,119
Reserve funds		15,902	11,600	11,600
Translation reserve		–	–	(684)
Retained earnings/accumulated losses, including:		(160,010)	(37,157)	(37,156)
Profit/(loss) brought forward		(41,355)	(41,459)	(39,154)
Net profit/(loss) for period		(118,655)	4,302	1,998
		275,875	**394,426**	**393,743**
Non-current liabilities				
Finance lease liabilities		3,481	1,223	1,371
Employee benefit obligations and provisions	11.22	22,679	23,495	21,127
Other non-current liabilities	11.21	12,451	9,647	10,703
Other long-term provisions	11.24	16,737	14,515	17,377
		55,348	**48,880**	**50,578**
Current liabilities				
Bank and other borrowings	15	119,768	100,831	109,634
Finance lease liabilities		2,675	1,148	1,358
Short-term trade and other payables	11.25	269,007	206,429	212,217
Employee benefit obligations and provisions	11.26	19,646	19,091	23,278
Amount due to customers for contract work	9	221,248	132,656	22,663
Other short-term provisions	11.27	22,654	13,088	8,226
Short-term accruals and deferred income		144	139	142
Grants		279	1,047	775
		655,421	**474,429**	**378,293**
Total liabilities		**710,769**	**523,309**	**428,871**
TOTAL EQUITY AND LIABILITIES		**986,644**	**917,735**	**822,614**

Racibórz, November 29th 2019

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

(PLN '000)

Interim condensed statement of cash flows

for the nine months ended September 30th 2019

	Note	*9 months ended Sep 30 2019*	*12 months ended Dec 31 2018*	*9 months ended Sep 30 2018*
Cash flows from operating activities				
Profit/(loss) before tax		**(114,761)**	**6,931**	**11,429**
Adjustments for:		**125,352**	**(159,968)**	**(164,347)**
Depreciation and amortisation		9,530	10,904	8,096
Foreign exchange gains/(losses)		–	4	1
Interest and dividends, net		3,346	4,177	3,043
(Gain)/loss from investing activities		(3,223)	(3,280)	(3,479)
Increase/(decrease) in liabilities under FX contracts		–	479	479
(Increase)/decrease in receivables	11.1	69,196	(109,348)	(14,161)
(Increase)/decrease in inventories		(489)	(3,071)	176
Increase/(decrease) in liabilities and provisions, excluding borrowings	11.1	64,948	(60,442)	(71,688)
Change in provisions, accruals and deferrals	11.1	9,325	(25,376)	(25,877)
Change in contract assets and liabilities	11.1	(27,535)	25,611	(61,269)
Income tax (paid)/received		–	323	324
Other		254	51	8
Net cash from operating activities		**10,591**	**(153,037)**	**(152,918)**
Cash flows from investing activities				
Sale of property, plant and equipment and intangible assets		456	451	391
Purchase of property, plant and equipment and intangible assets	11.1	(502)	(1,209)	(1,171)
Purchase of financial assets		(153)	(1,249)	(1,249)
Sale of financial assets		–	4,139	4,139
Dividends and interest		–	3	–
Other		–	402	(2)
Net cash from investing activities		**(199)**	**2,537**	**2,108**
Cash flows from financing activities				
Payment of finance lease liabilities		(3,507)	(2,321)	(1,879)
Proceeds from borrowings		19,383	2,267	11,334
Interest paid		(2,552)	(2,976)	(2,140)
Bank fees		(1,013)	(1,102)	(1,091)
Other		(761)	777	503
Net cash from financing activities		**11,550**	**(3,355)**	**6,727**
Net increase/(decrease) in cash and cash equivalents		21,942	(153,855)	(144,083)
Net foreign exchange gains (losses)		–	338	(347)
Cash at beginning of period	11.11	5,404	158,921	158,921
Cash at end of period	11.11	27,346	5,404	14,491

Racibórz, November 29th 2019

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Interim condensed statement of changes in equity

for the nine months ended September 30th 2019

	Share capital	*Share premium*	*Reserve funds*	*Translation reserve*	*Retained earnings/ accumulated losses*	*Total equity*
As at Jan 1 2019	**254,864**	**165,119**	**11,600**	–	**(37,157)**	**394,426**
Adjustment to opening balance following implementation of IFRS 16	–	–	–	–	318	318
As at Jan 1 2019	**254,864**	**165,119**	**11,600**	–	**(36,839)**	**394,744**
Profit/(loss) from continuing operations	–	–	–	–	(118,655)	(118,655)
Other comprehensive income	–	–	–	–	(214)	(214)
Distribution of retained earnings	–	–	4,302	–	(4,302)	–
As at Sep 30 2019	**254,864**	**165,119**	**15,902**	–	**(160,010)**	**275,875**
As at Jan 1 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(71,222)**	**426,074**
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(32,824)	(32,824)
As at Jan 1 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(104,046)**	**393,250**
Profit/(loss) from continuing operations	–	–	–	–	1,998	1,998
Other comprehensive income	–	–	–	(347)	(1,158)	(1,505)
Distribution of retained earnings	–	(8,589)	(57,461)	–	66,050	–
As at Sep 30 2018	**254,864**	**165,119**	**11,600**	**(684)**	**(37,156)**	**393,743**

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Interim condensed statement of changes in equity
for the nine months ended September 30th 2019

	Share capital	*Share premium*	*Reserve funds*	*Translation reserve*	*Retained earnings/ accumulated losses*	*Total equity*
As at Jan 1 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(71,222)**	**426,074**
Adjustment to opening balance following changes in accounting policies for provisions for warranty repairs	–	–	–	–	(9,959)	(9,959)
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(22,865)	(22,865)
As at Jan 1 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(104,046)**	**393,250**
Profit/(loss) from continuing operations	–	–	–	–	4,302	4,302
Other comprehensive income	–	–	–	337	(3,463)	(3,126)
Distribution of retained earnings	–	(8,589)	(57,461)	–	66,050	–
As at Dec 31 2018	**254,864**	**165,119**	**11,600**	–	**(37,157)**	**394,426**

Racibórz, November 29th 2019

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NOTES

1. General information

RAFAKO S.A. (the "Company") is a listed joint-stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland. The Company was established under a notary deed of January 12th 1993. On August 24th 2001, it was entered in the Business Register maintained by the District Court in Gliwice, 10th Commercial Division of the National Court Register, under No. KRS 0000034143. The Company's Industry Identification Number (REGON) is 270217865. The Company's shares are listed on the Warsaw Stock Exchange.

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

The Company was established for an indefinite term.

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

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

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

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

The Company also prepared interim condensed consolidated financial statements for the nine months ended September 30th 2019, which were authorised for issue by the Company's Management Board on November 29th 2019.

2. Basis of preparation of the interim condensed financial statements

These interim condensed financial statements of the Company for the nine months ended September 30th 2019 have been prepared in accordance with EU-endorsed International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

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

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

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

These interim condensed financial statements of the Company have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the reporting date.

To continue as a going concern, a key prerequisite is for the Company to maintain financial liquidity and build an adequate order book (and primarily to secure financing sufficient to perform its contracts).

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

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

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

As at the end of September 2019, the value of the Company's order book was PLN 2,401m (compared with PLN 2,167m as at the end of September 2018). In pursuit of its strategy, from the beginning of 2019 to the issue date of these financial statements, the Company won new contracts worth PLN 971m, including PLN 684m in the power sector, PLN 169m in the oil and gas sector (the new strategic business area) and PLN 118m in the construction sector. Major contracts won in 2019 include a contract to construct a coke gas-fired power generation unit at JSW KOKS S.A.'s KKZ Branch - Radlin Coking Plant with a VAT-exclusive value of PLN 289m (PLN 355.5m inclusive of VAT), a contract to comprehensively upgrade the Flue Gas Desulfurisation Systems on units 8-12 at PGE GiEK S.A.'s Bełchatów Power Plant Branch with a VAT-exclusive value of PLN 244.9m (PLN 301.3m inclusive of VAT), a contract to construct the Kędzierzyn Gas Compressor Station, signed as part of a consortium with PBG S.A., with a VAT-exclusive value of PLN 168.7m (PLN 207.5m inclusive of VAT), with the Company's share of 95%; and a contract to construct the St. John Paul II Memory and Identity Museum in Toruń with a VAT-exclusive value of PLN 117.7m (PLN 144.7m inclusive of VAT). The Company makes every effort to ensure that the value of contracts in the order book enables it to secure revenue necessary to cover its operating expenses and generate profit in the long term, also after the completion of the contract to construct the 910 MW power generation unit in Jaworzno. In line with the adopted growth directions, the Company is actively involved in tender procedures and expects to win new major contracts.

3. Significant accounting policies

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

3.1. New IFRS 16 *Leases*

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

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

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

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

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

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

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

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

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

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

The Company has estimated that the combined effect of the first application of the standard on retained earnings as at the date of initial application will be PLN 318 thousand.

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

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

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

	Cost of products and services sold	*Research costs*
Before adjustment	**396,246**	–
Research costs	(6,547)	6,547
Adjusted	**389,699**	**6,547**

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

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

4. Material judgements and estimates

4.1. Professional judgement

When preparing interim condensed financial statements, the Management Board of the Company has to make certain judgements, assumptions and estimates which affect the presented revenue, costs, assets, liabilities, as well as related notes and disclosures concerning contingent liabilities. Uncertainties related to these assumptions and estimates may result in material changes to carrying amounts of assets and liabilities in the future, because actual amounts may differ from amounts estimated by the Management Board.

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

Classification of leases where the Company is the lessee

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

Embedded derivatives

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

Consortium agreements

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

4.2. Uncertainty of estimates

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

Information on the estimates and assumptions material to the financial statements is presented in the full-year financial statements for 2018. In these interim condensed financial statements, the Company also presented the effect of the Management Board's assumptions on the estimates of impairment losses (see Note 11.14), revenue from contracts with customers (see Note 9) and provisions (see Note 16.1).

(PLN '000)

5. Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	Sep 30 2019	*Dec 31 2018*	*Sep 30 2018*
USD	4.0000	3.7597	3.6754
EUR	4.3736	4.3000	4.2714
GBP	4.9313	4.7895	4.8055
CHF	4.0278	3.8166	3.7638
SEK	0.4077	0.4201	0.4149
TRY	0.7081	0.7108	0.6134

6. Change in estimates

In the nine months ended September 30th 2019 and as at that day, there was a change in estimates related to the Company's major projects, as discussed in detail in Note9.

Following an increase in the cost of executing key contracts, the Company decided to revise its financial forecasts. Based on that revision, the Company identified evidence of possible impairment of assets. Given that the Company expects its financial performance to improve following negotiations with key customers, the Management Board will monitor the forecasts on an ongoing basis and – in line with the accounting policies and the Company's practice – will test the Company's assets for impairment as at December 31st 2019.

7. Changes in Company structure

No changes occurred in the Company structure in the nine months ended September 30th 2019.

8. Seasonality and cyclical nature of the Company's operations

The operations of the Company are not affected by seasonality or periodic fluctuations that could materially impact its financial performance.

9. Contract assets and liabilities

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

	Sep 30 2019	*Dec 31 2018*
Gross contract assets	324,122	206,997
Impairment of contract assets (-)	(2,846)	(1,848)
Contract assets	321,276	205,149
Contract liabilities, including advance payments	221,248	132,656

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

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

(PLN '000)

	Sep 30 2019	*Dec 31 2018*
Revenue initially agreed in contract	3,986,004	2,987,821
Change in contract revenue	29,055	69,565
Aggregate contract revenue	**4,015,059**	**3,057,386**
Contract costs incurred as at reporting date	1,822,681	1,114,203
Costs expected to be incurred by contract completion date	2,016,542	1,696,048
Estimated aggregate contract costs	**3,839,223**	**2,810,251**
Estimated aggregate profit/(loss) on contracts, including:	**175,836**	**247,135**
profit	325,933	302,086
loss (-)	(150,097)	(54,951)

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

	Sep 30 2019	*Dec 31 2018*
Advance payments received as at reporting date	153,965	76,064
Advance payments that can be set off against amounts due from customers for construction contract work	35,596	11,382
Contract costs incurred as at reporting date	1,836,988	1,118,280
Cumulative profit as at reporting date (+)	181,522	162,385
Cumulative loss as at reporting date (+)	(150,097)	(54,951)
Cumulative contract revenue as at reporting date	1,868,414	1,225,713
Amounts invoiced as at reporting date (progress billings)	1,611,466	1,074,902
Settlement of contracts (balance) as at the reporting date, including:	**256,948**	**150,811**
Contract assets less advance payments that can be set off	324,122	206,997
Contract liabilities	102,770	67,566

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

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

Contract assets:

	Sep 30 2019	*Dec 31 2018*
Contract assets at beginning of period	205,149	137,583
Revenue charged in the reporting period to contract assets	289,307	171,551
Total revenue restatements charged to contract assets	(48,143)	17,688
Changes in impairment losses on contract assets	(998)	(507)
Reclassification to trade receivables (-)	(124,039)	(121,166)
Contract assets at end of period	**321,276**	**205,149**

(PLN '000)

Contract liabilities:

	Sep 30 2019	*Dec 31 2018*
Contract liabilities at beginning of period	132,656	39,479
Performance obligations recognised in the reporting period as contract liabilities	53,941	67,566
Change in advance payments	53,390	42,153
Total revenue restatements charged to contract liabilities	171	1,725
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(18,910)	(18,245)
Contract liabilities at end of period	**221,248**	**132,656**

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

9.1. Key contracts executed by the Company

9.1.1. Jaworzno Project

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of a supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The final division of work within the consortium was agreed on August 4th 2013 based on the amendments made to the consortium agreement, which related to RAFAKO S.A. taking over 99.99% of the project deliveries (with 0.01% remaining for Mostostal Warszawa) and changing the distribution of consideration due to the consortium members to reflect the members' actual shares in the project. The contract for the construction of the Jaworzno III Power generation unit was concluded on April 17th 2014. The current contract sum (following the execution of Annex 6) is PLN 4,485,514,439.95 (VAT exclusive). In terms of value, it is the largest contract ever performed by RAFAKO S.A. Currently, work is being performed on the last phase of the Jaworzno Project, i.e. the start-up and commissioning phase, which will be continued until the unit is placed in service. After the completion of the milestone relating to placement of the unit in service, the warranty period under the contract will commence, during which the final measurements of guaranteed technical parameters are to be performed within 12 months from placing the unit in service. During the warranty period, the employer will receive the as-built documentation and the invoice for the last milestone, in line with the schedule of works and expenditures. The contract will be completed on time if the individual stages of the start-up process go smoothly. Any identified defect or failure of machinery or equipment, unexpected technical problems in process units or electrical systems, particularly at the interface between the units/electrical systems and equipment, as well as the necessity to perform unscheduled additional work may cause a delay in the contract performance. If the contract is not completed by the prescribed deadline, i.e. the placement-in-service report is not signed, the employer may charge penalties for delayed performance of the contract, which could have a material adverse effect on the performance and financial position of both RAFAKO S.A. and the SPV implementing the project.

On September 17th 2019, RAFAKO S.A. and its subsidiary E003B7 spółka z ograniczoną odpowiedzialnością of Racibórz entered into negotiations with Nowe Jaworzno Grupa TAURON spółka z ograniczoną odpowiedzialnością of Jaworzno to amend the contract of April 17th 2014 for the construction of a supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems. The main purpose of the negotiations is to make certain changes to the unit's guaranteed technical parameters, to improve the parameters of emissions of certain harmful substances into the atmosphere; as well as to the parameters of the permitted fuel for combustion in the unit. RAFAKO S.A. would like to note that, if given, the customer's consent to extending the scope of work could affect the overall construction schedule and the contract price.

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

Accounting for the Jaworzno Project:

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 particle removal unit), scheduled mainly for 2015–2017.

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

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

In the consolidated financial statements, RAFAKO S.A. sets off project-related income, expenses and settlements between RAFAKO and the special purpose vehicle. In its separate financial statements, RAFAKO S.A. recognises only revenue and expenses related to its own scope of work, i.e. 11.3% of the total scope of work to be performed on the Jaworzno Project. In its separate financial statements, the Company does not recognise revenue and expenses related to the portion of work performed by E003B7 Sp. z o.o. − they are reported in the separate financial statements of E003B7 Sp. z o.o. and the consolidated financial statements of the RAFAKO Group.

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

Change in estimates for the Jaworzno Project

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

A change in the overall result on the contract work attributable to RAFAKO S.A. for the first nine months of 2019 was PLN -4.3m, reflecting a change in total estimated revenue and expenses, while the effect of the contract implementation on the Company's net profit or loss for the first nine months of 2019 was PLN -2m.

The contractor's analysis of changes in prices applicable to subcontracts (excluding the contract with Siemens companies) shows that the difference between the actual cost and the forecast was PLN 99,302,336.64. Taking into account the risk assumed in the contractor's bid, the difference between the actual cost and the forecast was PLN 65,974,380.23. In the Company's and the SPV's opinion, the above circumstances give grounds for increasing the contractor's remuneration due to an extraordinary change in relations. Having completed the above work, on March 19th 2019 the Company and the SPV submitted to the employer a request for increasing the contract price by PLN 65,974,380.23.

Negotiations are currently under way between Tauron S.A. and RAFAKO S.A. concerning the scope of the project. They chiefly relate to a possible change in the fuel parameters and compliance with additional environmental requirements. This is likely to entail a change in the contract schedule and the scheduled commissioning date.

9.1.2. Opole Project

In February 2012, the Company, acting as the leader of a consortium comprising RAFAKO S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A., executed a PLN 9.4bn (PLN 11.6bn with VAT included) contract with PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. – the "employer") for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit 5 and power unit 6 at the Opole Power Plant, together with equipment and devices as well as all related buildings and structures.

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

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

On October 10th 2018, RAFAKO S.A., Polimex-Mostostal S.A., Mostostal Warszawa S.A., and GE Power signed with PGE Górnictwo i Energetyka Konwencjonalna S.A. an annex to the contract of February 15th 2012 for the construction of power generating units No. 5 and No. 6 at the Opole Power Plant of PGE GiEK S.A., performed by the Consortium and GE Power sp. z o.o., which is a general designer and consortium leader managing the execution of the project. Under the Annex, the deadlines for commissioning units 5 and 6 were set for June 15th 2019 and September 30th 2019, respectively. The Company confirms that the commissioning deadlines for both units have been met.

Rules of accounting for the Opole Project:

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

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

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

9.1.3. Vilnius Project

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

The additional cost of the contract, as estimated by the Company, amounts to PLN 68m (while the estimated revenue went up by PLN 10.9m – reflecting mainly a strengthening of the euro), due mainly to extraordinary price increases during the Vilnius Project performance, work which, in the Company's opinion, went beyond the project's scope and longer than assumed execution of the project (through no fault of the Company), due in particular to delays in the employer's performance under the contract resulting in delayed orders for deliveries and services, whose prices increased dramatically owing to the expiry of relevant bids. The Company also estimated additional costs related to changes in the contract's scope introduced by the employer, resulting in the need to perform some additional work.

The Company has estimated the related claims at PLN 60.7m. The Company is still holding negotiations with the employer to reach an agreement that would take account of all RAFAKO S.A.'s claims. Given the good cooperation with the employer so far and well documented additional work by RAFAKO S.A., the Company expects the negotiations to achieve the desired end.

The effect of the Vilnius contract implementation on RAFAKO S.A.'s net profit or loss for the nine months of 2019 was PLN -30.3m.

(PLN '000)

9.1.4. Kozienice Project

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

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

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

The effect of the contract implementation on RAFAKO S.A.'s net profit or loss for the nine months of 2019 was PLN (-)52.9m.

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

10.1 Revenue and operating segments

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

10.1.1. Revenue from sale of goods and services

	9 months ended Sep 30 2019	*12 months ended Dec 31 2018*	*9 months ended Sep 30 2018*
Net revenue from sale of products	55,486	44,085	381,394
including: from related entities	350	3,796	653
Net revenue from sale of services	594,316	591,578	58,316
including: from related entities	2,685	5,655	4,238
Revenue from sale of other goods	2,659	4,382	3,506
Other income	–	317	(479)
Exchange differences on trade receivables	350	155	(123)
Net revenue from sale of goods and services, total	**652,811**	**640,517**	**442,614**
including: from related entities	3,035	9,451	4,891

*For a detailed description of the provision for liquidated damages, affecting the Company's revenue, see Note 16.1.

In the nine months ended September 30th 2019, the Company generated revenue of PLN 653,741 thousand, up PLN 209,050 thousand year on year, with the growth mainly reflecting increased participation in ongoing projects, including in the contract to build a biomass-fired co-generation unit for UAB VILNIAUS KOGENERACINĖ JĖGAINĖ of Lithuania, the contract to construct two steam generating units on the Lombok Island in Indonesia, as well as the commencement of large contracts in the newly entered oil and gas business segment.

(PLN '000)

10.1.2. Revenue from sale of materials

	9 months ended Sep 30 2019	*12 months ended Dec 31 2018*	*9 months ended Sep 30 2018*
Revenue from sale of materials	930	2,796	2,077
including: from related entities	–	–	–
Net revenue from sale of merchandise and materials, total	**930**	**2,796**	**2,077**
including: from related entities	–	–	–

10.1.3. Revenue by geography

	9 months ended Sep 30 2019	*12 months ended Dec 31 2018*	*9 months ended Sep 30 2018*
Revenue from sales to domestic customers	326,947	376,594	257,213
including: from related entities	3,036	5,954	4,536
Revenue from sales to foreign customers	326,794	266,719	187,478
including: from related entities	–	3,497	355
Net sales revenue, total	**653,741**	**643,313**	**444,691**
including: from related entities	3,036	9,451	4,891

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

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

Trading partner	*% of total sales*	*9 months ended Sep 30 2019*
UAB VILNIAUS KOGENERACINĖ JĖGAINĖ	23.7%	154,794
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	14.7%	95,934
Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	12.9%	84,218
PT. PLN (Persero)	11.1%	72,791
Other	37.6%	246,004
Total	**100%**	**653,741**

(PLN '000)

10.1.4. Operating segments

As at September 30th 2019, the Company identified two operating segments of the market, i.e. 'Power and environmental protection facilities' and 'Products for the oil and gas sector'. The Management Board assesses the Company's performance based on its financial statements. In previous reporting periods, the Company operated in a single market segment of 'Power and environmental protection facilities'.

For the nine months ended September 30th 2019 or as at September 30th 2019	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Revenue			
Sales to external customers	83,618	570,123	653,741
Inter-segment sales	–	–	–
Total segment revenue	83,618	570,123	653,741
Cost of products and materials sold	(79,895)	(636,759)	(716,654)
Total			
Gross profit/(loss)	3,723	(66,636)	(62,913)
Other income/(expenses)	(5,692)	(46,212)	(51,904)
Operating profit/(loss)	(1,969)	(112,800)	(114,817)
Finance income/(costs)	8	48	56
Profit/(loss) before tax	(1,961)	(112,800)	(114,761)
Income tax expense	–	(3,894)	(3,894)
Segment's net profit/(loss)	(1,961)	(116,694)	(118,655)
Results			
Depreciation and amortisation	(163)	(9,367)	(9,530)
Share of profit of associates and joint ventures	–	–	–
Assets and liabilities as at September 30th 2019			
Segment assets	91,605	895,039	986,644
Segment liabilities	43,357	667,412	710,769
Other information			
Investments in associates and joint ventures	–	–	–
Capital expenditure	344	2,096	2,440

(PLN '000)

The Company's core business comprises the manufacture of the following product groups:

Product group name	*9 months ended September 30th 2019*	*9 months ended September 30th 2018*
Power generation units and steam generators	247,067	84,851
Revenue under the Jaworzno 910 MW Project	7,832	50,868
Air pollution control systems	149,341	193,917
Power equipment, machinery and components, and related services	150,079	97,310
Services and products for oil and gas sector	83,618	13,699
Other revenue	15,804	4,046
Total	**653,741**	**444,691**

10.2 Distribution costs, operating income and expenses and finance income and costs

In the nine months ended September 30th 2019, cost of sales was PLN 716,654 thousand. As a combined effect of the Company's revenue and cost of sales, gross loss reached PLN 62,913 thousand.

In the current reporting period, distribution costs of PLN 16,762 thousand recognised in the statement of profit or loss comprise costs of bid preparation and costs of PR and marketing activities.

The largest component of other income was PLN 3,944 thousand income from a surety provided to the subsidiary E003B7 Sp. z o.o. (September 30th 2018: PLN 4,033 thousand). Furthermore, in the first nine months of 2019, the value of grants received was PLN 579 thousand and the Company reversed impairment losses on assets in the amount of PLN 219 thousand, including reversal of impairment losses on property, plant and equipment of PLN 163 thousand.

Other expenses chiefly included impairment losses on receivables of PLN 1,649 thousand and contract receivables of PLN 1,236 thousand, as well as donations of PLN 1,306 thousand (September 30th 2018: PLN 231 thousand).

In the first nine months of 2019, the Company's finance income came mainly from a discount on long-term accounts receivable and payable of PLN 3,611 thousand (September 30th 2018: PLN 3,640 thousand), and interest on financial instruments of PLN 492 thousand (September 30th 2018: PLN 329 thousand).

Finance costs in the period chiefly included interest on financial instruments of PLN 3,095 thousand (September 30th 2018: PLN 2,218 thousand) and interest on employee benefit obligations of PLN 544 thousand (September 30th 2018: PLN 552 thousand).

10.3 Income tax

Income tax expense

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

	9 months ended Sep 30 2019	*9 months ended Sep 30 2018*
Statement of profit or loss		
Current tax	–	323
Current income tax expense	–	–
Adjustments to current income tax from previous years	–	323
Deferred tax	(3,894)	(9,754)
Related to recognition and reversal of temporary differences	(3,894)	(9,754)
Adjustments to deferred tax from previous years	–	–
Income tax expense in the statement of profit or loss	**(3,894)**	**(9,431)**

	9 months ended Sep 30 2019	*9 months ended Sep 30 2018*

Deferred tax on other comprehensive income	50	271
Related to recognition and reversal of temporary differences	50	271
Income tax expense recognised in other comprehensive income	**50**	**271**

Deferred income tax calculated as at September 30th 2019

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

	Statement of financial position		*Statement of comprehensive income for nine months ended*	
	Sep 30 2019	*Dec 31 2018*	*Sep 30 2019*	*Sep 30 2018*
- investment reliefs	(1)	(2)	1	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(14,556)	(14,165)	(391)	747
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,526	2,113	(587)	(654)
- difference between tax base and carrying amount of loans and receivables	4,645	4,117	528	173
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(48,280)	(28,506)	(19,775)	(12,453)
- difference between tax base and carrying amount of inventories	1,911	1,954	(43)	(92)
- provisions	13,620	11,248	2,372	(5,288)
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	37	27	10	(4)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	68,640	39,418	29,222	9,190
- tax loss	–	16,178	(16,178)	(1,239)
- adjustment to costs of unpaid invoices	3,593	3,856	(263)	–
- other	1,326	66	1,260	137
Deferred tax expense/benefit disclosed in the statement of profit or loss			(3,894)	(9,754)
Deferred tax expense/benefit disclosed in other comprehensive income			50	271
			(3,844)	(9,483)
Net deferred tax asset/(liability) including:	**32,461**	**36,304**		
Deferred tax assets	32,461	36,304		
Deferred tax liability	–	–		

In the nine months ended September 30th 2019, the Company wrote off a tax loss asset of PLN 16,178 thousand. The total amount of tax loss for 2015, 2016, 2017, 2018 and 2019 which was not recognised in deferred tax is PLN 294,942 thousand.

In the 12 months of 2018, the Company recorded a tax loss of PLN 2,977 thousand. The Company assessed its ability to realise a deferred tax asset on account of a tax loss based on tax forecasts. In line with the prudent valuation principle, the Company's Management Board decided not to recognise a deferred tax asset on the tax loss recorded in the 12 months ended December 31st 2018.

11.1. Significant items of the statement of cash flows

The PLN 69,196 thousand increase in receivables disclosed in the statement of cash flows for the nine months ended September 30th 2019 resulted mainly from:

- PLN 62,641 thousand decrease in trade receivables,
- PLN 189 thousand decrease in receivables from the state budget (including VAT),
- PLN (5,698) thousand increase in advance payments made,
- PLN 18,422 thousand decrease in security deposits receivable,
- PLN (4,475) thousand increase in receivables under sureties,
- PLN (1,883) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the nine months ended September 30th 2019, see Note 11.12.

The PLN 64,948 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

- PLN 85,865 thousand increase in trade payables,
- PLN (14,181) thousand decrease in taxes and other duties payable,
- PLN (261) thousand decrease in employee benefits obligations and provisions (net of actuarial gains/(losses)),
- PLN (6,475) thousand decrease in other liabilities.

The PLN (27,535) thousand change in gross amounts due to and from customers for contract work disclosed in the statement of cash flows was caused primarily by:

- PLN (116,127) thousand increase in amounts due from customers for contract work,
- PLN 88,592 thousand decrease in gross amount due to customers for contract work.

The PLN 9,325 thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN 1,771 thousand increase in the provision for warranty repairs,
- PLN 10,232 thousand increase in the provision for expected contract losses,
- PLN (862) thousand change in accruals and deferrals,
- PLN (1,601) thousand adjustment to accruals and deferrals related to implementation of IFRS 16,
- PLN (215) thousand change in other provisions.

The cash flows of PLN 502 thousand relating to the purchase of property, plant and equipment and intangible assets resulted from acquisition of property, plant and equipment for PLN 394 thousand and of intangible assets for PLN 108 thousand.

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

(PLN '000)

11.2. Goodwill and intangible assets

Sep 30 2019	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2019	**1,774**	**7,565**	**29**	**9,368**
Acquisitions	–	–	108	108
Transfers from intangible assets under development	–	137	(137)	–
Amortisation for the year	–	(1,033)	–	(1,033)
As at Sep 30 2019	**1,774**	**6,669**	–	**8,443**

*Intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.15.2

Dec 31 2018	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2018	**1,774**	**8,041**	**698**	**10,513**
Acquisitions	–	–	361	361
Transfers from intangible assets under development	–	1,031	(1,031)	–
Amortisation for the year	–	(1,507)	–	(1,507)
As at Dec 31 2018	**1,774**	**7,565**	**29**	**9,368**

Sep 30 2018	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2018	**1,774**	**8,041**	**698**	**10,513**
Acquisitions	–	–	230	230
Transfers from intangible assets under development	–	878	(878)	–
Amortisation for the year	–	(1,110)	–	(1,110)
As at Sep 30 2018	**1,774**	**7,808**	**51**	**9,633**

(PLN '000)

11.3. Property, plant and equipment

For the nine months ended September 30th 2019	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2019	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**132,814**
Adjustment to opening balance following implementation of IFRS 16	–	–	(476)	(4,156)	–	(4,632)
Net carrying amount as at Jan 1 2019	**9,184**	**76,752**	**41,227**	**1,019**	**–**	**128,182**
Acquisitions	–	–	–	–	303	303
Liquidation/sale	–	–	(125)	(84)	–	(209)
Transfers from property, plant and equipment under construction	–	96	203	–	(299)	–
Depreciation for period	–	(2,017)	(3,606)	(257)	–	(5,880)
Impairment of property, plant and equipment in period	–	–	66	96	–	162
Other, including reclassification to/from other asset category	–	–	78	1,292	–	1,370
Net carrying amount as at Sep 30 2019	**9,184**	**74,831**	**37,843**	**2,066**	**4**	**123,928**

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

For the 12 months ended December 31st 2018	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2018	**9,232**	**79,329**	**46,303**	**5,495**	**5**	**140,364**
Acquisitions	–	–	–	–	669	669
Lease agreements	–	–	178	1,660	–	1,838
Liquidation/sale	(48)	(5)	(45)	(395)	–	(493)
Transfers from property, plant and equipment under construction	–	57	617	–	(674)	–
Exchange differences on translating foreign operations	–	–	(11)	–	–	(11)
Depreciation for period	–	(2,629)	(5,208)	(1,560)	–	(9,397)
Impairment of property, plant and equipment in period	–	–	(51)	(113)	–	(164)
Other, including reclassification to/from other asset category	–	–	(80)	88	–	8

Net carrying amount as at Dec 31 2018	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**132,814**

(PLN '000)

For the nine months ended Sep 30 2018	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2018	**9,232**	**79,329**	**46,303**	**5,495**	**5**	**140,364**
Acquisitions	–	–	–	–	579	579
Lease agreements	–	–	179	1,603	–	1,782
Liquidation/sale	(48)	(5)	(37)	(13)	–	(103)
Transfers from property, plant and equipment under construction	–	57	463	–	(520)	–
Exchange differences on translating foreign operations	–	–	(11)	–	–	(11)
Depreciation for period	–	(1,972)	(3,891)	(1,124)	–	(6,987)
Impairment loss for period	–	–	5	(3)	–	2
Other, including reclassification to/from other asset category	–	–	18	(3)	–	15
Net carrying amount as at Sep 30 2018	**9,184**	**77,409**	**43,029**	**5,955**	**64**	**135,641**

(PLN '000)

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

	9 months ended Sep 30 2019	*9 months ended Sep 30 2018*
Purchase of property, plant and equipment and intangible assets*	2,248	2,591
Proceeds from sale of property, plant and equipment	204	214

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

The Company's capital expenditure on property, plant and equipment involved chiefly expenditure on purchases and upgrades of production plant and equipment and computer hardware as well as purchases of vehicles. The expenditure was financed with internally generated funds and finance leases.

11.5. Right-of-use assets

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

	Land	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Total*
As at Jan 1 2019					
Gross carrying amount	–	–	738	6,621	7,359
Adjustment to opening balance following implementation of IFRS 16	249	1,322	5,526	49	7,146
Accumulated depreciation and impairment	–	–	(261)	(2,466)	(2,727)
Net carrying amount	**249**	**1,322**	**6,003**	**4,204**	**11,778**
As at Sep 30 2019					
Gross carrying amount	249	1,477	6,271	5,055	13,052
Accumulated depreciation and impairment	(86)	(597)	(1,656)	(1,284)	(3,623)
Net carrying amount	**163**	**880**	**4,615**	**3,771**	**9,429**

The economic useful lives of those assets are consistent with the lease terms, ranging from 24 to 60 months. The Company depreciates leased assets with the straight-line method.

(PLN '000)

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

	Sep 30 2019		Dec 31 2018	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	2,533	2,675	1,373	1,148
from 1 to 5 years	4,348	3,481	1,376	1,223
Total minimum lease payments	**6,881**	**6,156**	**2,749**	**2,371**
Less finance costs	(725)	–	(378)	–
Present value of minimum lease payments, including:	**6,156**	**6,156**	**2,371**	**2,371**
short-term	2,675	2,675	1,148	1,148
long-term	3,481	3,481	1,223	1,223

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

	Sep 30 2019
Short-term leases	2,099
Leases of low-value assets	–
Total	**2,099**

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

11.6. Other long-term receivables

	Sep 30 2019	*Dec 31 2018*
Financial receivables		
Security deposits/retentions	383	233
Other long-term receivables	11,542	4,991
Other long-term financial receivables, net	**11,925**	**5,224**
Total other long-term receivables, net	**11,925**	**5,224**

11.7. Shares in subsidiaries and other entities

	September 30th 2019	*December 31st 2018*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	35,137	35,132
Shares in other listed companies	113	160
Shares in other non-listed companies	1,376	1,228
	36,626	**36,520**

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

In the nine months ended September 30th 2019, the Company purchased one share in InnoEnergy Central Europe Sp. z o.o. for PLN 147 thousand. Additionally, in the first nine months of 2019, the Company established a new subsidiary RAFAKO EBUS Sp. z o.o., registered in the National Court Register on August 9th 2019 under entry No. 0000798943. The value of the acquired shares in the new company is PLN 5 thousand.

11.8. Other non-current financial assets

	Sep 30 2019	*Dec 31 2018*
Receivables under sureties provided to related entities	26,651	22,176
Long-term bonds	–	14,066
	26,651	**36,242**

11.8.1. Bonds

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

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

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

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

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

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

(PLN '000)

2. In accordance with the terms of issue, the bonds issued by PGB S.A. have been secured bonds within the meaning of the Bonds Act of January 15th 2015. The Bonds are secured primarily by a registered pledge over 42,466,000 RAFAKO shares in book-entry form (currently representing 33.2% of RAFAKO's share capital), mortgages over the PBG Group's properties, registered pledges over other selected assets of the PBG Group, including shares in selected companies of the PBG Group, sureties and declarations of voluntary submission to enforcement up to PLN 1,065,000,000.00.
3. PBG S.A. agreed to arrange for the Bonds to be converted into book-entry form and listed on the WSE ATS Market or Bondspot ATS Market within three months of their issue (from the date of each Bond Issue). By decisions of the Warsaw Stock Exchange Management Board of March 9th 2017 and April 19th 2017, the first listing of Series B, C, D, E, F, G, H and I bearer Bonds of PGB S.A. in the Catalyst alternative trading system took place on March 10th 2017 and the first listing of Series C1, D1, G1, H1 and I1 Bonds – on April 20th 2017.

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

As at the date of these interim condensed financial statements, in accordance with the terms and conditions for the Bonds acquired by the Company and issued by PBG S.A., the outstanding bonds of PBG S.A. (with a total value of PLN 353.3m) were secured by the abovementioned security instruments, including in particular a registered pledge over RAFAKO shares held directly and indirectly by PBG S.A. In the opinion of the Company's Management Board, the provided collateral and the total amount payable under the Bonds as at the date of these interim condensed financial statements are sufficient to consider the receivables as recoverable.

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

11.9. Inventories

	Sep 30 2019	*Dec 31 2018*
Total inventories, at the lower of cost and net realisable value		
At cost	39,758	39,678
At net realisable value	29,880	29,391
	29,880	**29,391**

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

11.10. Other current financial assets

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

* For a detailed description of bonds, see Note 11.8.1

(PLN '000)

11.11. Cash and cash equivalents

	Sep 30 2019	*Dec 31 2018*	*Sep 30 2018*
Cash at bank and in hand	27,309	5,386	14,430
Short-term deposits for up to 3 months, including:	37	18	61
- deposits pledged as security for contingent liabilities	–	–	–
	27,346	**5,404**	**14,491**

Cash at banks earns interest at variable rates linked to the reference rates prevailing on the interbank market. Short-term deposits, classified as cash, are placed for various periods, usually of one day to one month, depending on the Company's immediate cash requirement, and earn interest at rates agreed with the bank.

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

11.12. Short-term trade and other receivables

	Sep 30 2019	*Dec 31 2018*
Financial receivables		
Trade receivables	117,893	198,667
Impairment losses on trade receivables (-)	(7,149)	(18,731)
Net trade receivables	**110,744**	**179,936**
Receivables on sale of property, plant and equipment and intangible assets	–	252
Security deposits	69,883	88,455
Receivables under court proceedings*	28,223	25,869
Other financial receivables	10,483	10,483
Impairment losses on financial receivables (-)	(24,371)	(24,189)
Total financial receivables, net	**194,962**	**280,806**
Non-financial receivables		
Receivables under prepayments and advance payments	105,071	99,373
Receivables from the state budget	9,712	9,901
Other non-financial receivables	5,314	5,664
Impairment losses on non-financial receivables (-)	(3,039)	(3,100)
Total non-financial receivables, net	**117,058**	**111,838**
Total short-term receivables, net	**312,020**	**392,644**

* The Company recognised an impairment loss on the receivables in an amount corresponding to the risk of their non-recoverability. For a detailed description of disputed receivables, see Note 21 to these interim condensed financial statements.

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

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

(PLN '000)

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

Short-term trade receivables of PLN 110,744 thousand recognised in the statement of financial position as at September 30th 2019 relate to trading contracts with domestic and foreign contractors.

Security deposits of PLN 69,883 thousand disclosed in the statement of financial position as at September 30th 2019 relate mainly to projects implemented in the following areas:

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

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

A significant item of other receivables were advance payments, which as at September 30th 2019 amounted to PLN 105,071 thousand and included:

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

11.13. Short-term prepayments and accrued income

	Sep 30 2019	*Dec 31 2018*
Prepayments and accrued income		
Costs of bank and insurance guarantees	4,672	3,572
Costs of obtaining contracts with customers	420	2,938
Other costs	11,104	8,791
Prepayments and accrued income	**16,196**	**15,301**

(PLN '000)

11.14. Impairment of assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Prepayments and accrued income relating to accounting for construction contracts*	*Receivables****
Jan 1 2019	**(4,973)**	**(10,400)**	**(5,676)**	**(10,287)**	**(1,848)**	**(46,020)**
Recognised	(49)	–	–	–	(998)	(3,551)
Used	–	–	–	295	–	13,290
Reversed	–	–	–	115	–	1,722
Sep 30 2019	**(5,022)**	**(10,400)**	**(5,676)**	**(9,877)**	**(2,846)**	**(34,559)**
Jan 1 2018	**(4,973)**	**(10,500)**	**(5,676)**	**(11,105)**	**–**	**(33,155)**
Adjustment to opening balance	–	–	–	–	(1,341)	(12,181)
Jan 1 2018	**(4,973)**	**(10,500)**	**(5,676)**	**(11,105)**	**(1,341)**	**(45,336)**
Recognised	(92)	–	–	(464)	(562)	(751)
Used	61	–	–	450	–	–
Reversed	–	–	–	–	–	377
Sep 30 2018	**(5,004)**	**(10,500)**	**(5,676)**	**(11,119)**	**(1,903)**	**(45,710)**

* Impairment losses on shares in companies are recognised for shares in companies declared bankrupt and in connection with remeasurement of shares in companies.

** Inventory write-downs and write-down reversals are charged to cost of products and services sold.

*** Impairment losses on long- and short-term trade and other receivables, including liquidated damages, disputed receivables and security deposits.

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

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

(PLN '000)

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

	Contract assets	Trade receivables Current	0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
Sep 30 2019								
Location: Poland								
Impairment loss rate	0.85%	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	324,122	42,313	13,681	4,928	418	1,187	1,417	388,066
Impairment loss	(2,846)	(361)	(117)	(1,587)	(232)	(806)	(1,348)	(7,297)
Location: outside Poland	–							
Impairment loss rate	–	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	–	57,078	3,210	113	296	2,507	2,660	65,864
Impairment loss	–	(487)	(27)	(37)	(164)	(1,701)	(282)	(2,698)
Total impairment losses	**(2,846)**	**(848)**	**(144)**	**(1,624)**	**(396)**	**(2,507)**	**(1,630)**	**(9,995)**

	Assets assets	Trade receivables Current	0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
Dec 31 2018								
Location: Poland								
Impairment loss rate	0.85%	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	206,997	117,301	334	188	169	2	15,260	340,251
Impairment loss	(1,848)	(1,001)	(3)	(60)	(94)	(2)	(15,204)	(18,212)
Location: outside Poland								
Impairment loss rate	–	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	–	39,411	20,549	2,009	1,827	22	2,510	66,328
Impairment loss	–	(336)	(175)	(647)	(1,013)	(15)	(181)	(2,367)
Total impairment losses	**(1,848)**	**(1,337)**	**(178)**	**(707)**	**(1,107)**	**(17)**	**(15,385)**	**(20,579)**

As at September 30th 2019, an impairment loss of PLN 24,371 thousand was recognised on other short-term financial receivables in a gross amount of PLN 108,589 thousand (December 31st 2018: a PLN 24,189 thousand impairment loss on other receivables in a gross amount of PLN 125,059 thousand).

(PLN '000)

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

11.15.1. Property, plant and equipment pledged as security

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

	Sep 30 2019	*Dec 31 2018*
Mortgaged property, plant and equipment, including:	83,661	85,754
land	9,162	9,162
buildings and structures	74,499	76,592
Property, plant and equipment encumbered with registered pledge, including:	40,231	42,640
plant and equipment	38,088	41,400
vehicles	2,143	1,200
	123,892*	**128,394***

* The disclosed amounts include PLN 78 thousand of property, plant and equipment classified as held for sale (December 31st 2018: PLN 163 thousand).

11.15.2. Intangible items pledged as security

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

11.15.3. Shares pledged as security

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

11.15.4. Inventories pledged as security

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

11.15.5. Trade receivables pledged as security

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

11.16. Share capital

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

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

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

11.17. Par value per share

The par value of the shares is PLN 2 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 2019, there were no changes in the share premium, and as at September 30th 2019 the share premium was PLN 165,119 thousand.

11.20. Earnings /(loss) per share

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

(PLN '000)

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

	9 months ended Sep 30 2019	*9 months ended Sep 30 2018*
Net profit/(loss) from continuing operations	(118,655)	1,998
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(118,655)	1,998
Net profit/(loss) attributable to holders of ordinary shares used to calculate earnings/(loss) per share	**(118,655)**	**1,998**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	127,431,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	127,431,998	127,431,998
Earnings/(loss) per share		
– basic/diluted earnings/(loss) from profit/(loss) for period	(0.93)	0.02

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

11.21. Other non-current liabilities

	Sep 30 2019	*Dec 31 2018*
Financial liabilities		
Other non-current liabilities	12,451	9,647
	12,451	**9,647**

11.22. Long-term employee benefit obligations and provisions

	Sep 30 2019	*Dec 31 2018*
Unpaid bonus accrual	5	13
Provision for retirement gratuity	7,140	6,838
Provision for length-of-service awards	11,230	12,197
Provision for other employee benefits	4,304	4,447
	22,679	**23,495**

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11.23. Post-employment and other benefits

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

	Sep 30 2019	*Dec 31 2018*
As at Jan 1	26,097	23,185
Interest expense	544	741
Current service costs	401	540
Actuarial (gains)/losses	264	4,275
Benefits paid	(1,784)	(2,644)
Closing balance	**25,522**	**26,097**
Long-term provisions	22,674	23,482
Short-term provisions	2,850	2,617

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

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

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

11.24. Other long-term provisions

	Sep 30 2019	*Dec 31 2018*
Provision for warranty repairs	16,737	14,515
	16,737	**14,515**

11.25. Short-term trade and other payables

	Sep 30 2019	*Dec 31 2018*
Financial liabilities		
Trade payables	259,761	176,700
Amounts payable for tangible and intangible assets	127	217
Retentions (security deposits)	260	259
Other financial liabilities	–	199
Total financial liabilities	**260,148**	**177,375**

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	Sep 30 2019	Dec 31 2018
Non-financial liabilities		
Taxes and other duties payable	2,644	16,825
Other non-financial liabilities	6,215	12,229
Total non-financial liabilities	**8,859**	**29,054**
	269,007	**206,429**

11.26. Short-term employee benefit obligations and provisions

	Sep 30 2019	Dec 31 2018
Social security	6,393	6,488
Salaries and wages payable	6,662	6,179
Amounts payable under voluntary redundancy programme	–	145
Accrued holiday entitlements	3,213	2,929
Unpaid bonus accrual	529	733
Provision for retirement gratuity	735	540
Provision for length-of-service awards	1,752	1,754
Provision for other employee benefits	362	323
	19,646	**19,091**

11.27. Other short-term provisions

	Sep 30 2019	Dec 31 2018
Provision for warranty repairs	7,985	8,436
Provision for expected contract losses	14,309	4,077
Other provisions	360	575
	22,654	**13,088**

12. Objectives and policies of financial risk management

The objectives and policies of financial risk management have not changed relative to those published in the financial statements for 2018.

13. Financial instruments

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

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

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

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Classes and categories of financial assets	*Carrying amount Sep 30 2019*	*Carrying amount Dec 31 2018*
Assets at fair value through profit or loss	**113**	**160**
Long-term shareholdings	113	160
Assets at fair value through other comprehensive income	**1,376**	**1,228**
Long-term shareholdings	1,376	1,228
Assets at amortised cost	**258,348**	**329,880**
Bonds	24,810	21,674
Trade receivables	122,286	184,927
Receivables on sale of property, plant and equipment and intangible assets	–	252
Other financial receivables*	84,601	100,851
Other financial assets	26,651	22,176
Cash and cash equivalents	**27,346**	**5,404**
	287,183	**336,672**

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

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

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

Classes and categories of financial liabilities	*Carrying amount Sep 30 2019*	*Carrying amount Dec 31 2018*
Financial liabilities at amortised cost	**392,367**	**287,853**
Borrowings	119,768	100,831
Trade payables (including capital commitments)	272,339	186,564
Other financial liabilities	260	458
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**6,156**	**2,371**
Liabilities under leases and rental contracts with purchase option	6,156	2,371
	398,523	**290,224**

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

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

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

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

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

14. Derivative instruments

As at September 30th 2019, the Company did not carry any open currency forward contracts. As at September 30th 2019, the Company did not carry any other derivative instruments.

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

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15. Borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings Sep 30 2019*	*Dec 31 2018*
Short-term borrowings:							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO's cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising the entire business of the Company, a revolving overdraft facility of up to PLN 70m***		PLN	1M WIBOR + margin	30.06.2020****	69,146	60,081
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.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 44m***	PLN/ EUR	1M WIBOR or 1M EURIBOR + margin	Jun 30 2020****	42,325	40,750
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility to cover liabilities related to payments made under bank guarantees	PLN	1M WIBOR + margin	Jun 30 2020****	8,297	–
						119,768	**100,831**

*The facility is secured by receivables under contracts executed by the Company.
**As at the date of these financial statements, the Company had established mortgages on its properties (other than flats and residential buildings) for a total amount of up to PLN 300m, serving as additional security for the PKO BP credit facility.
***As at the date of issue of these financial statements, in accordance with the annex of June 28th 2019 to the multi-purpose credit facility agreement, the facility limit was set at PLN 200m, including an overdraft facility of up to PLN 70m until January 31st 2020 and up to PLN 50m until from February 1st 2020, as well as a working capital facility of up to PLN 44m;
****As at the date of issue of these financial statements, in accordance with the annex of June 28th 2019 to the multi-purpose credit facility agreement, the term of the facility and its repayment date were extended until June 30th 2020.

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

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16. Capital management

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

	Sep 30 2019	*Dec 31 2018*
Debt to equity		
Equity	275,875	394,426
Borrowed funds (bank and non-bank borrowings)	119,768	100,831
Total equity and liabilities	986,644	917,735
Capitalisation ratio (equity / total assets)	**0.28**	**0.43**
Total financing sources		
Equity	275,875	394,426
Borrowed funds (bank and non-bank borrowings)	119,768	100,831
Finance leases	6,156	2,371
Capital-to-total financing sources ratio	**2.19**	**3.82**
EBITDA		
Operating profit/(loss)	(114,817)	3,703
Depreciation and amortisation	9,530	10,904
EBITDA	**(105,287)**	**14,607**
Debt		
Borrowings and other debt instruments	119,768	100,831
Finance leases	6,156	2,371
Debt to EBITDA	**(1.20)**	**7.07**

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

	*Provision for expected losses on contracts**	*Provision for length-of-service awards, retirement gratuity payments and Company Social Benefits Fund*	*Provision for unused holiday entitlement*	*Provision for warranty repairs*	*Provision for for liquidated damages*	*Employee benefit obligations*	*Provision for credit losses on sureties*	*Provision for voluntary redundancy programme*	*Restructuring provision*	*Provision for other costs*	*Other provisions*
Jan 1 2019	**4,077**	**26,096**	**2,928**	**22,951**	–	**747**	**1,549**	**145**	–	**1,531**	**139**
Provision recognised	22,931	1,210	285	9,174	–	33	1,418	–	–	–	177
Reversed	–	–	–	(1,955)	–	(116)	(71)	(4)	–	(48)	–
Utilised	(12,699)	(1,784)	–	(5,449)	–	(130)	–	(141)	–	–	(172)
Sep 30 2019	**14,309**	**25,522**	**3,213**	**24,721**	–	**534**	**2,896**	–	–	**1,483**	**144**
Jan 1 2018	**15,843**	**23,185**	**3,875**	**17,489**	**8,069**	**1,118**	–	**1,596**	**8,368**	**3,936**	**75**
Adjustment to opening balance	(1,754)	–	–	12,295	1,691	–	1,618	–	–	–	–
Jan 1 2018	**14,089**	**23,185**	**3,875**	**29,784**	**9,760**	**1,118**	**1,618**	**1,596**	**8,368**	**3,936**	**75**
Provision recognised	1,313	2,516	–	11,264	–	3,842	–	–	–	542	177
Reversed	(9,556)	(191)	–	(4,807)	(6,361)	(413)	–	(110)	(5,747)	(2,749)	–
Utilised	(4,408)	(1,852)	(685)	(12,724)	(3,399)	(97)	–	(1,008)	(2,588)	(119)	(148)
Sep 30 2018	**1,438**	**23,658**	**3,190**	**23,517**	–	**4,450**	**1,618**	**478**	**33**	**1,610**	**104**

*Amounts resulting from accounting for the service contracts described in Note 9.

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

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

18. Dividends paid or declared

In the nine months ended September 30th 2019, the Company did not pay any dividend, nor did the Management Board declare any dividend payment.

19. Capital commitments

As at September 30th 2019, the Company did not recognise any commitments related to purchase of property, plant and equipment.

As at September 30th 2019, the Company had no signed agreements envisaging any capital expenditure to be made in 2019 and not disclosed in the accounting books at the end of the reporting period.

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

	Sep 30 2019	*Dec 31 2018*
Receivables under bank guarantees received mainly as security for performance of contracts, including:	215,069	226,019
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	67,583	64,159
- from related entities	56,086	55,657
Letters of credit	5,637	–
	288,289	**290,178**

	Sep 30 2019	*Dec 31 2018*
Liabilities under bank guarantees issued mainly as security for contract performance, including:	537,124	416,053
- to related entities	–	–
Liabilities under sureties, including:	1,182,207	1,238,500
- to related entities	1,182,207	1,238,500
Promissory notes issued as security, including:	21,347	21,978
- to related entities	–	–
	1,740,678	**1,676,531**

In the first nine months of 2019, RAFAKO S.A. recorded a PLN 64,147 thousand increase in contingent liabilities, which resulted from an increase in guarantees granted. In the first nine months of 2019, a number of guarantees were issued by banks and insurance companies to trading partners upon the Company's instructions, including performance bonds of PLN 159,437 thousand, advance payment guarantees of PLN 63,237 thousand and bid bonds of PLN 22,573 thousand. In this category of liabilities, the largest item was a performance bond of PLN 35,547 thousand, issued in June 2019. As at the end of September 2019, liabilities under sureties in issue were PLN 1,182,207 thousand. In this category of liabilities, the largest item was the sureties covering E003B7 Sp. z o.o.'s liabilities, issued by RAFAKO S.A. on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to develop new coal-fired generation capacities at TAURON Wytwarzanie S.A. – construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II.

The largest item of guarantees expired in the first nine months of 2019 was a EUR 2,310 thousand performance bond.

As at September 30th 2019, the Company had access to available guarantee facilities totalling PLN 605,183.9 thousand, including bank guarantee limits of PLN 222,871.7 thousand and insurance guarantee limits of PLN 382,312.2 thousand.

In the first nine months of 2019, the Company's contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 1,889 thousand, including a decrease of PLN 10,950 thousand in receivables under bank and insurance guarantees, partly offset by an increase of PLN 3,424 thousand in receivables under promissory notes and PLN 5,637 thousand in receivables under letters of credit. The largest item of guarantees received in the first nine months of 2019 was a EUR 775 thousand performance bond. The largest guarantee which expired in the first nine months of 2019 was a EUR 3,684 thousand advance payment guarantee.

21. Litigation and disputes

As at the date of these interim condensed financial statements, the Company was involved in litigation both as a defendant and a plaintiff.

For a detailed description of key court cases, see the Company's financial statements for the year ended December 31st 2018, available at:

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

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

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

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

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

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

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

22. Management Board and Supervisory Board

In the nine months ended September 30th 2019 and as at the date of these interim condensed financial statements, there were changes in the composition of the Company's Management Board.

On August 19th 2019, the mandate of Mr Jerzy Wiśniewski, President of the Management Board of RAFAKO S.A., expired due to his passing.

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

- Mr Jarosław Dusiło was removed from the position of Vice President of the Company's Management Board,
- Mr Jerzy Ciechanowski was appointed to the Company's Management Board as its Vice President,

- Ms Helena Fic, Chair of the Supervisory Board, was delegated to serve as President of the Management Board for a period of three months.

The Supervisory Board also decided to announce a competitive process to select a new President of the Company's Management Board.

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

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

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

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

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

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

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

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

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

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

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

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

In the reporting and comparative periods, the Company did not enter into any transactions with members of its Management or Supervisory Boards, other than the transactions described in Note 24.

24. Related-party transactions

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

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

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

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

	Operating income	
	Jan 1– Sep 30 2019	*Jan 1– Sep 30 2018*
Sales to:		
Entities related through equity links:	3,062	4,931
Entities related through personal links:	37	111
TOTAL	**3,099**	**5,042**

	Receivables	
	Sep 30 2019	*Dec 31 2018*
Sales to:		
Entities related through equity links:	93,788*	87,398*
Entities related through personal links:	5	510
TOTAL	**93,793**	**87,908**

** Including bonds from PBG S.A. described in Note 11.8and receivables under advance payments.*

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

	Purchases (costs, assets)	
	Jan 1– Sep 30 2019	*Jan 1– Sep 30 2018*
Purchases from:		
Entities related through equity links:	73,494	42,684
Entities related through personal links:	1,085	1,372
TOTAL	**74,579**	**44,056**

	Liabilities	
	Sep 30 2019	*Dec 31 2018*
Purchases from:		
Entities related through equity links:	12,556	3,624
Entities related through personal links:	286	75
TOTAL	**12,842**	**3,699**

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

The Company has not published any forecasts for 2019.

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

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

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'Comprehensive upgrade of the Flue Gas Desulfurisation Systems on units 8–12 at PGE GiEK S.A.'s Bełchatów Power Plant Branch'. The time to complete the contract is 28 months from its date.

On September 17th 2019, RAFAKO S.A. and its subsidiary Sp. z o.o entered into negotiations with Nowe Jaworzno Grupa TAURON Sp. z o.o of Jaworzno to amend the contract of April 17th 2014 for the construction of a supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems. The main purpose of the negotiations is to make certain changes to the Unit's Guaranteed Technical Parameters, to improve the parameters of emissions of certain harmful substances, as well as to the parameters of the permitted fuel for combustion in the Unit. The Company would like to note that, if given, the Employer's consent to extending the scope of work could affect the overall Unit construction schedule and the price of the contract. During performance of the contract, the Company has identified opportunities to ensure that, upon completion of certain optimisation work, tests and analyses, the unit would comply with the requirements relating to permitted emission levels of selected harmful substances, as set out in the Best Available Techniques Conclusions ("BAT Conclusions"), as well as opportunities to extend the range of fuels for combustion in the Unit that would enable the Employer to burn fuels with parameters different from those specified in the Contract while meeting the environmental protection standards defined in the BAT Conclusions. The purpose of making the above changes to the Unit's technical specifications is to reduce emissions of certain harmful substances to the environment, which would be beneficial to the Employer and its stakeholders. In addition, broadening the range of permitted fuels would provide the Employer with new opportunities to purchase fuel on the market, thus reducing the risks related to possible shortages in the supply of coal, which is the fuel specified in the Contract. This would open new commercial opportunities to contract fuel supplies for the Employer. The Company would like to further note that some of the optimisation measures designed to enable the Unit to meet the new/amended Group B Guaranteed Technical Parameters during Warranty Measurements, can only be implemented after the Unit has been placed in commercial operation and when it is running, and they would require significant engagement of the contractor's and its subcontractors' personnel.

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

Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO S.A. are presented in Note 28 to the interim condensed consolidated financial statements for the nine months ended September 30th 2019.

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

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

* On September 2nd 2019, the Supervisory Board removed Mr Jarosław Dusiło from the position of Vice President of the Management Board, as described in Note 22

29. Factors with a material bearing on the Company's performance in Q4 2019

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

- Currency movements − substantial changes in the PLN/EUR exchange rate may have a material effect on the profitability of EUR-denominated contracts;
- Risk of failure to obtain financial guarantees required to acquire and perform contracts.

30. Financial highlights translated into EUR

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

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

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

	Sep 30 2019	*Dec 31 2018*	*Sep 30 2019*	*Dec 31 2018*
	PLN '000		*EUR '000*	
Statement of financial position				
Assets	986,644	917,735	225,591	213,427
Non-current liabilities	55,348	48,880	12,655	11,367
Current liabilities	655,421	474,429	149,858	110,332
Equity	275,875	394,426	63,077	91,727
PLN/EUR exchange rate at end of period			4.3736	4.3000

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

	Jan 1– Sep 30 2019	*Jan 1– Sep 30 2018*	*Jan 1– Sep 30 2019*	*Jan 1– Sep 30 2018*
	PLN '000		*EUR '000*	
Statement of comprehensive income				
Revenue	653,741	444,691	151,955	104,656
Operating profit/(loss)	(114,817)	9,362	(26,688)	2,203
Profit/(loss) before tax	(114,761)	11,429	(26,675)	2,690
Net profit/(loss)	(118,655)	1,998	(27,580)	470
Earnings per share (PLN)	(0.93)	0.02	(0.22)	0.00
Average PLN/EUR exchange rate in the period			4.3022	4.2491

	Jan 1– Sep 30 2019	Jan 1– Sep 30 2018	Jan 1– Sep 30 2019	Jan 1– Sep 30 2018
	PLN '000		EUR '000	
Statement of cash flows				
Net cash from operating activities	10,591	(152,918)	2,462	(35,989)
Net cash from investing activities	(199)	2,108	(46)	496
Net cash from financing activities	11,550	6,727	2,685	1,583
Net increase/(decrease) in cash and cash equivalents	21,942	(144,083)	5,100	(33,909)
Average PLN/EUR exchange rate in the period			4.3022	4.2491

31. Events after the reporting period

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

(the "Company")On October 17th 2019, the Company, acting through its subsidiary E003B7 Sp. z o.o., and Nowe Jaworzno Grupa TAURON Sp. z o.o. closed the negotiations of key amendments to the contract of April 17th 2014 for the construction of a supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems. at Jaworzno III Power Plant - Power Plant II - steam generator, turbine generator set, main building, electrical part and AKPiA of the block. In the course of the negotiations, the parties agreed that certain additional tasks will be performed under the Contract. These include delivery of an additional layer of catalyst and an additive dispensing system for the flue gas desulfurization unit to reduce mercury emissions as well as extension of the fuel mix to enable combustion of a wider range of coal types. After the generating unit is placed in service, the consortium will carry out optimisation tasks to check whether the unit meets the changed technical parameters. The implementation of these changes will have a positive effect on the technical and environmental parameters of the unit and will help to optimise its costs during operation. The expanded scope of work will reduce emissions of noxious substances from the unit, and the extended fuel mix will allow the TAURON Group to achieve greater flexibility in coal procurement.

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

On November 25th 2019, the composition of the Company's Management Board and Supervisory Board changed, as described in more 22 to these interim condensed financial statements.

32. Authorisation for issue

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

Signatures:

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