RAFAKO GROUP

PBG GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended June 30th 2019

September 30th 2019

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Appendix:

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

(PLN ’000)

Interim condensed consolidated statement of comprehensive income

for the six months ended June 30th 2019

	Note	*Six months ended Jun 30 2019*	*Six months ended Jun 30 2018*	*3 months ended Jun 30 2019*	*3 months ended Jun 30 2018*
Continuing operations					
Revenue	11.1	**519,169**	**624,131**	**206,467**	**326,201**
Revenue from sale of goods and services		518,742	623,348	206,210	326,010
Revenue from sale of materials		427	783	257	191
Cost of products and services sold	11.2	(655,902)	(557,043)	(365,163)	(300,487)
Cost of materials sold		(551)	(755)	(253)	(93)
Gross profit/(loss)		**(137,284)**	**66,333**	**(158,949)**	**25,621**
Other income	11.2	1,986	8,145	(180)	6,676
Distribution costs	11.2	(12,351)	(12,851)	(6,817)	(5,901)
Administrative expenses	11.2	(26,428)	(26,557)	(14,129)	(12,987)
Other expenses	11.2	(4,382)	(5,529)	(2,027)	(2,246)
Research and development costs		(5,278)	(3,924)	(2,973)	(2,731)
Operating profit/(loss)		**(183,737)**	**25,617**	**(185,075)**	**8,432**
Finance income	11.2	5,159	5,625	3,013	4,527
Finance costs	11.2	(4,989)	(2,514)	(3,225)	(978)
Profit/(loss) before tax		**(183,567)**	**28,728**	**(185,287)**	**11,981**
Income tax expense	11.3	8,812	(14,243)	9,783	(5,735)
Net profit/(loss) from continuing operations		**(174,755)**	**14,485**	**(175,504)**	**6,246**

(PLN '000)

Interim condensed consolidated statement of comprehensive income
for the six months ended June 30th 2019

	Note	Six months ended Jun 30 2019	Six months ended Jun 30 2018	3 months ended Jun 30 2019	3 months ended Jun 30 2018
Other comprehensive income for period		**(450)**	**(496)**	**(211)**	**(252)**
Items to be reclassified to profit/(loss) in subsequent reporting periods					
Exchange differences on translating foreign operations		(39)	(125)	(45)	(63)
Exchange differences on translating foreign operations attributable to non-controlling interests		(1)	13	(3)	13
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(40)**	**(112)**	**(48)**	**(50)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income from actuarial gains/(losses)		(506)	(474)	(201)	(249)
Tax on other comprehensive income	11.3	96	90	38	47
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(410)**	**(384)**	**(163)**	**(202)**
Total comprehensive income for period		**(175,205)**	**13,989**	**(175,715)**	**5,994**
Net profit/(loss) attributable to:		**(174,755)**	**14,485**	**(175,504)**	**6,246**
Owners of the parent	11.24	(174,585)	14,643	(175,896)	6,197
Non-controlling interests		(170)	(158)	392	49
Comprehensive income attributable to:		**(175,205)**	**13,989**	**(175,715)**	**5,994**
Owners of the parent		(175,035)	14,134	(176,104)	5,932
Non-controlling interests		(170)	(145)	389	62
Weighted average number of shares		127,431,998	127,431,998	127,431,998	127,431,998
Basic/diluted earnings/(loss) per share, PLN	11.24	(1.37)	0.11	(1.38)	0.05

Racibórz, September 30th 2019

Helena Fic	Agnieszka Wasilewska-Semail	Jerzy Ciechanowski	Jolanta Markowicz
Acting President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN ’000)

Interim condensed consolidated statement of financial position

as at June 30th 2019

	Note	Jun 30 2019	Dec 31 2018	Jun 30 2018
ASSETS				
Non-current assets				
Property, plant and equipment	11.6	149,688	161,250	166,892
Goodwill		9,166	9,166	9,166
Intangible assets		7,392	8,007	8,429
Right-of-use assets	11.8	18,290	–	–
Other long-term receivables	11.9	39,121	40,396	42,536
Shares	11.10	1,511	1,388	1,395
Non-current financial assets	11.11	–	14,066	16,772
Deferred tax assets	11.3	51,612	42,006	32,434
Long-term prepayments and accrued income		5,609	5,743	2,621
		282,389	**282,022**	**280,245**
Current (short-term) assets				
Inventories	11.12	37,022	34,153	29,354
Short-term trade and other receivables	11.15	441,018	532,543	346,330
Contract assets	10	438,967	381,352	432,779
Income tax asset		295	184	185
Other current financial assets	11.13	23,673	7,608	8,054
Short-term loans advanced		10,762	11,351	11,604
Cash and cash equivalents	11.14	69,127	88,692	106,548
Short-term prepayments and accrued income		19,474	19,441	22,217
		1,040,338	**1,075,324**	**957,071**
Non-current assets held for sale		128	175	115
TOTAL ASSETS		**1,322,855**	**1,357,521**	**1,237,431**

Racibórz, September 30th 2019

Helena Fic	Agnieszka Wasilewska-Semail	Jerzy Ciechanowski	Jolanta Markowicz
Acting President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN '000)

Interim condensed consolidated statement of financial position

as at June 30th 2019

	Note	*Jun 30 2019*	*Dec 31 2018*	*Jun 30 2018*
EQUITY AND LIABILITIES				
Equity				
Share capital	11.20	254,864	254,864	254,864
Share premium	11.23	165,119	165,119	165,119
Reserve funds		215,219	191,580	191,580
Translation reserve		(112)	(73)	(560)
Retained earnings/accumulated losses, including:		(220,990)	(22,675)	(38,538)
Profit/(loss) brought forward		(46,405)	(56,260)	(53,181)
Net profit/(loss) for period		(174,585)	33,585	14,643
		414,100	**588,815**	**572,465**
Equity attributable to non-controlling interests		**8,350**	**8,520**	**8,483**
		422,450	**597,335**	**580,948**
Non-current liabilities				
Bank and other borrowings		43	61	–
Finance lease liabilities	11.8	10,578	2,546	2,301
Employee benefit obligations and provisions	11.26, 11.27	23,916	23,604	20,831
Other non-current liabilities	11.25	11,570	12,940	25,074
Other long-term provisions	11.28	32,352	30,228	33,415
Deferred tax liability		–	152	217
		78,459	**69,531**	**81,838**
Current liabilities				
Short-term portion of interest-bearing borrowings	15	114,664	103,507	115,252
Finance lease liabilities		4,513	2,306	2,513
Short-term trade and other payables	11.29	356,590	342,508	387,311
Income tax liability		39	1,365	2,196
Employee benefit obligations and provisions	11.30, 11.27	29,888	30,209	33,441
Amount due to customers for contract work	10	259,646	173,499	197
Other short-term provisions	11.31	31,615	15,151	14,774
Short-term accruals and deferrals		24,668	21,063	18,346
Grants		323	1,047	615
		821,946	**690,655**	**574,645**
Total liabilities		**900,405**	**760,186**	**656,483**
TOTAL EQUITY AND LIABILITIES		**1,322,855**	**1,357,521**	**1,237,431**

Racibórz, September 30th 2019

Helena Fic	Agnieszka Wasilewska-Semail	Jerzy Ciechanowski	Jolanta Markowicz
Acting President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN '000)

Interim condensed consolidated statement of cash flows
for the six months ended June 30th 2019

	Note	*Six months ended Jun 30 2019*	*12 months ended Dec 31 2018*	*Six months ended Jun 30 2018*
Cash flows from operating activities				
Profit/(loss) before tax		**(183,567)**	**43,176**	**28,728**
Adjustments for:		**158,249**	**(134,356)**	**(112,564)**
Depreciation and amortisation		8,967	14,825	7,228
Foreign exchange gains/(losses)		(3)	36	25
Interest and dividends, net		2,388	3,822	1,667
(Gain)/loss from investing activities		(1,865)	(4,088)	(2,633)
Increase/(decrease) in liabilities/assets from valuation of derivative instruments		–	479	479
(Increase)/decrease in receivables	11.4	92,497	(47,335)	136,435
(Increase)/decrease in inventories		(2,868)	(5,330)	(531)
Increase/(decrease) in employee benefit obligations, excluding borrowings	11.4	12,158	(79,341)	(42,985)
Change in provisions, accruals and deferrals	11.4	20,693	(9,061)	(16,458)
Change in contract assets and liabilities	11.4	28,531	607	(191,291)
Income tax (paid)/received		(2,289)	(9,332)	(4,438)
Other		40	362	(62)
Net cash from operating activities		**(25,318)**	**(91,180)**	**(83,836)**
Cash flows from investing activities				
Sale of property, plant and equipment and intangible assets		1,705	1,771	782
Purchase of property, plant and equipment and intangible assets	11.4	(448)	(1,812)	(1,105)
Proceeds from debt instruments held		–	4,139	–
Sale of financial assets		–	–	–
Purchase of financial assets		(158)	(1,209)	(1,209)
Repayment of loans advanced		–	10,000	10,000
Loans advanced		–	(11,500)	(11,500)
Interest on loans advanced		120	–	137
Dividends and interest received		–	3	8
Other		–	504	(1)
Net cash from investing activities		**1,219**	**1,896**	**(2,888)**

(PLN '000)

Interim condensed consolidated statement of cash flows

for the six months ended June 30th 2019

	Note	*Six months ended Jun 30 2019*	*12 months ended Dec 31 2018*	*Six months ended Jun 30 2018*
Cash flows from financing activities				
Payment of finance lease liabilities		(3,662)	(3,534)	(2,012)
Proceeds from borrowings	11.4	12,880	5,819	17,636
Repayment of borrowings		(1,312)	(1,384)	(550)
Payment of interest on borrowings		–	–	(26)
Interest paid		(1,700)	(3,145)	(1,187)
Bank fees		(1,011)	(1,131)	(1,048)
Other		(719)	766	338
Net cash from financing activities		**4,476**	**(2,609)**	**13,151**
Net increase/(decrease) in cash and cash equivalents		(19,623)	(91,893)	(73,573)
Net foreign exchange gains (losses)		58	294	(170)
Cash at beginning of period	11.14	88,692	180,291	180,291
Cash at end of period	11.14	69,127	88,692	106,548

Racibórz, September 30th 2019

Helena Fic	Agnieszka Wasilewska-Semail	Jerzy Ciechanowski	Jolanta Markowicz
Acting President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN '000)

Interim condensed consolidated statement of changes in equity

for the six months ended June 30th 2019

	Share capital	*Share premium*	*Reserve funds*	*Translation reserve*	*Retained earnings/ accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at Jan 1 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,675)**	**588,815**	**8,520**	**597,335**
Adjustment to opening balance following implementation of IFRS 16	–	–	–	–	318	318	–	318
As at Jan 1 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,357)**	**589,133**	**8,520**	**597,653**
Profit/(loss) from continuing operations	–	–	–	–	(174,585)	(174,585)	(170)	(174,755)
Other comprehensive income	–	–	–	(39)	(410)	(449)	–	(449)
Distribution of retained earnings	–	–	23,639	–	(23,639)	–	–	–
As at Jun 30 2019	**254,864**	**165,119**	**215,219**	**(112)**	**(220,990)**	**414,100**	**8,350**	**422,450**
As at Jan 1 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(8,756)**	**601,625**	**8,628**	**610,253**
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(43,294)	(43,294)	–	(43,294)
As at Jan 1 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(52,050)**	**558,331**	**8,628**	**566,959**
Profit/(loss) from continuing operations	–	–	–	–	14,643	14,643	(158)	14,485
Other comprehensive income	–	–	–	(127)	(382)	(509)	13	(496)
Distribution of retained earnings	–	(8,589)	9,338	–	(749)	–	–	–
As at Jun 30 2018	**254,864**	**165,119**	**191,580**	**(560)**	**(38,538)**	**572,465**	**8,483**	**580,948**

(PLN '000)

for the six months ended June 30th 2019

	Share capital	*Share premium*	*Reserve funds*	*Translation reserve*	*Retained earnings/ accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at Jan 1 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(8,756)**	**601,625**	**8,628**	**610,253**
Adjustment to opening balance following changes in accounting policies for provisions for warranty repairs	–	–	–	–	(9,959)	(9,959)	–	(9,959)
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(33,335)	(33,335)	–	(33,335)
As at Jan 1 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(52,050)**	**558,331**	**8,628**	**566,959**
Profit/(loss) from continuing operations	–	–	–	–	33,585	33,585	(117)	33,468
Other comprehensive income	–	–	–	360	(3,461)	(3,101)	9	(3,092)
Distribution of retained earnings	–	(8,589)	9,338	–	(749)	–	–	–
As at Dec 31 2018	**254,864**	**165,119**	**191,580**	**(73)**	**(22,675)**	**588,815**	**8,520**	**597,335**

Racibórz, September 30th 2019

Helena Fic　　Agnieszka Wasilewska-Semail　　Jerzy Ciechanowski　　Jolanta Markowicz

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

NOTES

1. General information

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

RAFAKO S.A. (the “Company” or “parent”) is a listed joint-stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland.{1}{1} The Company was established under a notary deed of January 12th 1993. On August 24th 2001, it was entered in the Business Register maintained by the District Court in Gliwice, 10th Commercial Division of the National Court Register, under No. KRS 34143.

The parent’s Industry Identification Number (REGON) is 270217865. The parent’s shares are listed on the Warsaw Stock Exchange.

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

The Group companies have been established for an indefinite term.

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

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

These interim condensed consolidated financial statements for the six months ended June 30th 2019 were authorised for issue by the parent’s Management Board on September 30th 2019.

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

2. Basis of preparation

These interim condensed consolidated financial statements of the Group for the six months ended March 30th 2019 have been prepared in accordance with EU-endorsed International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”).

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

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

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

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

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

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

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

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

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

The Group will be able to use the released funds as additional working capital required for new projects.

As at the end of June 2019, the value of the Group’s order book was PLN 3,032m (end of June 2018: PLN 1,969m). In pursuit of its strategy, from the beginning of 2019 to the issue date for these financial statements, the Group won new contracts worth PLN 979m, including PLN 685m in the power sector, PLN 174m in the oil and gas sector (the new strategic business area) and PLN 120m in the construction sector. Major contracts acquired in 2019 are the contract to construct a coke gas power generation unit at JSW KOKS S.A. KKZ Branch – Radlin Coking Plant, with a VAT-exclusive value of PLN 289m (PLN 355.5m inclusive of VAT); the contract for a comprehensive upgrade of flue gas desulfurisation systems on units 8−12 at PGE GiEK S.A. Bełchatów Power Plant Branch, with a VAT-exclusive value of PLN 244.9m (PLN 301.3m inclusive of VAT); the contract to construct the Kędzierzyn Gas Compressor Station, concluded in a consortium with PBG S.A., with a VAT-exclusive value of PLN 168.7m (PLN 207.5m inclusive of VAT), with the Group’s share of 95%; and the contract to construct the St. John Paul II Memory and Identity Museum in Toruń, with a VAT-exclusive value of PLN 117.7m (PLN 144.7m inclusive of VAT).

The Group makes every effort to ensure that the value of contracts in the order book enables it to secure revenue necessary to cover its operating expenses and generate profit in the long term, also after the completion of the contract to construct the 910 MW power generation unit in Jaworzno.

In line with the adopted growth directions, the Group is actively involved in tender procedures and expects to win new major contracts.

3. Significant accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies presented in the Group’s most recent consolidated financial statements for the year ended December 31st 2018, except for changes resulting from the application of IFRS 16 *Leases*, effective as of January 1st 2019. For information on the changes, see Note 0. The comparability of data for the period from January 1st to June 30th 2019 has been distorted due to the retrospective application of IFRS 16 as of January 1st 2019 without restating the comparative data, in accordance with the standard’s practical expedients permitted under the transitional provisions.

3.1. New IFRS 16 *Leases*

The new standard supersedes IAS 17 and several interpretations. Apart from a new definition of a lease, it introduces material changes to lessee accounting, requiring lessees to recognise a right-of-use asset and a corresponding lease liability for each lease contract in the statement of financial position.

Subsequently, the right-of-use asset is depreciated and the lease liability is measured at amortised cost. In certain situations specified by the standard, a lease liability is remeasured, with the effect of such remeasurement recognised, as a rule, as an adjustment to the right-of-use asset.

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

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

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

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

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

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

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

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

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

Following the application of IFRS 16, the Group recognised, as at the date of its initial application, a right-of-use asset of PLN 14,258 thousand.

Right-of-use assets were presented in the statement of financial position under 'Right-of-use assets', while lease liabilities under 'Lease liabilities', broken down into current and non-current.

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

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

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

(PLN '000)

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

	Cost of products and services sold	*Research costs*
Before adjustment	**(560,967)**	–
Adjustment to presentation of cost of merchandise and materials sold		–
Research costs	3,924	(3,924)
Adjusted	**(557,043)**	**(3,924)**

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

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

4. Material judgements and estimates

4.1. Professional judgement

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

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

Classification of leases where the Group is the lessee

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

Embedded derivatives

(PLN '000)

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

Consortium agreements

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

4.2. Uncertainty of estimates

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

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

5. Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	Jun 30 2019	*Dec 31 2018*	*Jun 30 2018*
USD	3.7336	3.7597	3.7440
EUR	4.2520	4.3000	4.3616
GBP	4.7331	4.7895	4.9270
CHF	3.8322	3.8166	3.7702
SEK	0.4030	0.4201	0.4190
TRY	0.6481	0.7108	0.8206

6. Change in estimates

In the six months ended June 30th 2019 and as at that day, there were changes in estimates related to the Group's major projects, as discussed in detail in Note10.

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

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

7. Scope of consolidated financial statements

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

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

As at June 30th 2019, the RAFAKO Group comprised the parent and nine subsidiaries operating in the power construction, services and trade sectors.

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

(PLN '000)

of RAFAKO S.A.

PGL-DOM Sp. z o.o. 100%

RAFAKO ENGINEERING Sp. z o.o. 51.05%
- 60% RENG-NANO Sp. z o.o. 30.63%

ENERGOTECHNIKA Engineering Sp. z o.o. 100%

RAFAKO ENGINEERING SOLUTION d o.o. 77%

RAFAKO Hungary Kft. 100%

E001RK Sp. z o.o. 100%

E003B7 Sp. z o.o. 100%

RAFAKO MANUFACTURING Sp. z o.o. 100%

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

Name and principal place of business	*Principal business activity (according to the Polish Classification of Business Activities)*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
RAFAKO S.A. Racibórz	Production of steam generators, excluding hot water central heating boilers	District Court of Gliwice KRS 34143	-
PGL – DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court of Gliwice KRS 58201	full
RAFAKO ENGINEERING Sp. z o.o. of Racibórz	Engineering activities and related technical consultancy	District Court of Gliwice KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice	Engineering activities and related technical consultancy	District Court of Gliwice KRS 417946	full
RAFAKO ENGINEERING SOLUTION d.o.o. of Belgrade, Serbia	Process design, including construction, industry, and environmental protection consultancy and supervision	Commercial Register Agency of the Republic of Serbia 20320524	full
RAFAKO Hungary Kft. of Budapest, Hungary	Equipment assembly in the power and chemical industries	Registry Court of the Capital City of Budapest	full
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	District Court of Gliwice KRS 479758	full
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design , engineering and technology	District Court of Gliwice KRS 486911	full
RENG-NANO Sp. z o.o.* Racibórz	Manufacture of metal structures and components, repair and maintenance of finished metal goods	District Court of Gliwice KRS 663393	full
RAFAKO MANUFACTURING Sp. z o.o. Racibórz	Production of steam generators, excluding hot water central heating boilers	District Court of Gliwice KRS 739782	full

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

As at June 30th 2019 and December 31st 2018, the Group's share in total voting rights in the subsidiaries was equal to the parent's holdings in the share capital of those entities.

8. Changes in the Group structure

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

(PLN ’000)

On August 9th 2019, RAFAKO EBUS Sp. z o.o. was entered in the business register (RAFAKO S.A. is its sole shareholder; the share capital amounts to PLN 5,000).

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

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

10. Contract assets and liabilities

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

	Jun 30 2019	*Dec 31 2018*
Gross contract assets	442,602	383,200
Impairment of contract assets (-)	(3,635)	(1,848)
Contract assets	438,967	381,352
Contract liabilities, including prepayments	259,646	173,499

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

The table below presents the effects of accounting for contracts, including revenue and costs of running contracts recognised in accordance with IFSR 15 as at June 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.

	Jun 30 2019	*Dec 31 2018*
Revenue initially agreed in contract	7,811,163	7,084,490
Change in contract revenue	47,363	90,726
Aggregate contract revenue	**7,858,526**	**7,175,216**
Contract costs incurred as at reporting date	4,963,818	4,280,233
Costs expected to be incurred by contract completion date	2,502,787	2,284,677
Estimated aggregate contract costs	**7,466,605**	**6,564,910**
Estimated aggregate profit/(loss) on contracts, including:	**391,921**	**610,306**
profit	546,561	665,896
loss (-)	(154,640)	(55,590)

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

	Jun 30 2019	*Dec 31 2018*
Prepayments received as at reporting date	213,164	137,246
Prepayments that can be set off against amounts due from customers for contract work	43,871	25,264
Contract costs incurred as at reporting date	4,985,719	4,284,312
Cumulative profit as at reporting date (+)	383,443	440,034
Cumulative loss as at reporting date (+)	(154,640)	(55,591)
Cumulative contract revenue as at reporting date	5,214,522	4,668,755
Amounts invoiced as at reporting date (progress billings)	4,818,400	4,321,807
Settlement of contracts (balance) as at the reporting date, including:	**396,123**	**346,948**
Contract assets less prepayments that can be set off	442,602	383,200
Contract liabilities	90,350	61,517

(PLN '000)

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

Contract assets:

	Jun 30 2019	*Dec 31 2018*
Contract assets at beginning of period	381,352	251,283
Changes resulting from business combinations	–	–
Revenue charged in the reporting period to contract assets	145,575	134,127
Total revenue restatements charged to contract assets	–	(515)
Changes in impairment losses on contract assets	(1,787)	(508)
Reclassification to trade receivables (-)	(86,173)	(3,035)
Contract assets at end of period	**438,967**	**381,352**

Contract liabilities:

	Jun 30 2019	*Dec 31 2018*
Contract liabilities at beginning of period	173,499	42,823
Changes resulting from business combinations	–	–
Performance obligations recognised in the reporting period as contract liabilities	110,142	109,818
Total revenue restatements charged to contract liabilities	–	108,242
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(23,995)	(87,384)
Contract liabilities at end of period	**259,646**	**173,499**

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

10.1 Key contracts executed by the Group

10.1.1 Jaworzno Project

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of 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 5) 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 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:

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

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

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

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

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

Change in estimates for the Jaworzno Project

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

A change in the overall result on the contract for the first half of 2019 was PLN -83.7m, reflecting a change in total estimated revenue and expenses, while the effect of the contract implementation on the Group’s consolidated result for the first half of 2019 was PLN -65.9m.

The contractor’s analysis of changes in prices applicable to subcontracts (excluding the contract with Siemens companies) shows that the difference between the actual cost and the forecast was PLN 99.3m. Taking into account the risk assumed in the contractor’s bid, the difference between the actual cost and the forecast was PLN 65.9m. In the parent’s and the SPV’s opinion, the above circumstances give grounds for increasing the contractor’s remuneration due to an extraordinary change in relations. Having completed the above work, on March 19th 2019 the parent and the SPV submitted to the employer a request for increasing the contract price by PLN 65.9m.
Negotiations are currently under way between Tauron S.A. and Rafako S.A. concerning the scope of the Project. They relate to a possible change in the fuel parameters and compliance with additional environmental requirements. This will probably involve a change of the contract completion date by mutual agreement between the parties following their negotiations.

10.1.2 Opole Project

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

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

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

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

Rules of accounting for the Opole Project:

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

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

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

10.1.3. Vilnius Project

In the first half of 2019, the parent updated the estimated costs of the contract of September 29th 2016 with JSC VILNIAUS KOGENERACINĖ JĖGAINĖ for the construction of a biofuel-fired co-generation unit comprising fluidised bed boilers, biofuel storage and feeder systems, and a flue gas treatment system. The price of the contract and annexes thereto is EUR 148,325,000 (exclusive of VAT).

The additional cost of the contract, as estimated by RAFAKO S.A., amounts to PLN 61m, due mainly to extraordinary price increases during the Vilnius Project performance, work which, in the parent’s opinion, went beyond the project’s scope and longer than assumed execution of the project (through no fault of RAFAKO), due in particular to delays in the employer’s performance under the contract resulting in delayed orders for deliveries and services, whose prices increased dramatically owing to the expiry of relevant bids. The parent also estimated additional costs related to changes in the contract’s scope introduced by the employer, resulting in the need to perform some additional work.

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

The effect of the revision of the estimated result on the Vilnius contract on RAFAKO S.A.’s performance in the six months of 2019 was PLN -35.5m.

10.1.4. Kozienice Project

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

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

At the same time, the parent estimated its claims against the employer for the reasons indicated above at PLN 67.8m. Given a lack of agreement with the employer that would take account of RAFAKO S.A.’s claims, at the end of August and beginning of September 2019, the composition of pre-court mediation teams was agreed. The date of their first meeting was set for September 30th 2019. 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 revision of the estimated cost of the Kozienice Power Plant contract on RAFAKO S.A.’s performance in the six months of 2019 was PLN -52.9m.

(PLN '000)

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

11.1.Revenue and operating segments

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

11.1.1. Revenue from sale of goods and services

	Six months ended Jun 30 2019	*12 months ended Dec 31 2018*	*Six months ended Jun 30 2018*
Net revenue from sale of products	41,505	44,086	564,905
Net revenue from sale of services	475,683	1,216,255	55,893
including: from related entities	1,270	4,847	1,102
Net revenue from sale of other goods	1,833	5,588	2,550
Other income	–	317	–
Exchange differences on trade receivables	(279)	154	–
Net revenue from sale of goods and services, total	**518,742**	**1,266,400**	**623,348**
including: from related entities	1,270	4,847	1,102

In the six months ended June 30th 2019, the Group reported revenue of PLN 519,169 thousand, down by PLN 104,962 thousand on the corresponding period of 2018.

The decrease in revenue in 2019 was due mainly to lower revenue from the Jaworzno 910 MW Project, which went down by 42.2%, from PLN 329,400 thousand in H1 2018 to PLN 82,246 thousand in H1 2019.

11.1.2. Revenue from sale of materials

	Six months ended Jun 30 2019	*12 months ended Dec 31 2018*	*Six months ended Jun 30 2018*
Revenue from sale of merchandise and materials	427	2,418	783
including: from related entities	–	–	–
Net revenue from sale of merchandise and materials, total	**427**	**2,418**	**783**
including: from related entities	–	–	–

11.1.3. Revenue by geography

	Six months ended Jun 30 2019	*12 months ended Dec 31 2018*	*Six months ended Jun 30 2018*
Revenue from sales to domestic customers	300,329	987,689	504,659
including: from related entities	1,270	4,847	1,102
Revenue from sales to foreign customers	218,840	281,129	119,472
including: from related entities	–	–	–
Net sales revenue, total	**519,169**	**1,268,818**	**624,131**
including: from related entities	1,270	4,847	1,102

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

(PLN ’000)

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

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

Trading partner	*% of total sales*	*Six months ended Jun 30 2019*
UAB VILNIAUS KOGENERACINE JEGAINE	22.1%	114,860
Nowe Jaworzno Grupa TAURON Sp. z o.o.	15.6%	81,237
Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	12%	62,492
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	11.2%	57,926
Other	39.1%	202,654
Total	**100%**	**519,169**

11.1.4. Operating segments

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

The Group identifies the following operating segments:

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

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

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

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

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

(PLN ’000)

For the six months ended June 30th 2019 or as at Jun 30 2019	*Power and environmental protection facilities*	*Products for oil and gas sector*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue						
Sales to external customers	436,886	74,782	11,883	523,551	(4,382)	519,169
Inter-segment sales	519	–	20,505	21,024	(21,024)	–
Total segment revenue	437,405	74,782	32,388	544,575	(25,406)	519,169
Cost of products and materials sold	(584,702)	(70,605)	(26,717)	(682,024)	25,571	(656,453)
Total						
Gross profit/(loss)	(147,297)	4,177	5,671	(137,449)	165	(137,284)
Other income/(expenses)	(37,445)	(1,685)	(4,758)	(43,888)	(2,565)	(46,453)
Operating profit/(loss)	(184,742)	2,492	913	(181,337)	(2,400)	(183,737)
Finance income/(costs)	(549)	3	(681)	(1,227)	1,397	170
Profit/(loss) before tax	(185,291)	2,495	232	(182,564)	(1,003)	(183,567)
Income tax expense	8,770	–	(149)	8,621	191	8,812
Segment's net profit/(loss)	(176,521)	2,495	83	(173,943)	(812)	(174,755)
Results						
Depreciation and amortisation	7,360	102	1,457	8,919	48	8,967
Share of profit of associates and joint ventures	–	–	–	–	–	–
Assets and liabilities as at Jun 30 2019						
Segment assets	1,243,015	97,282	100,930	1,441,227	(118,372)	1,322,855
Segment liabilities	911,542	25,408	43,614	980,564	(80,159)	900,405
Other information						
Investments in associates and joint ventures	–	–	–	–	–	–
Capital expenditure	107	–	166	273	–	273

(PLN '000)

For the six months ended Jun 30 2018 or as at Jun 30 2018	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	608,983	19,823	628,806	(4,675)	624,131
Inter-segment sales	779	18,442	19,221	(19,221)	–
Total segment revenue	609,762	38,265	648,027	(23,896)	624,131
Cost of products and materials sold	(547,560)	(34,124)	(581,684)	23,886	(557,798)
Total					
Gross profit/(loss)	62,202	4,141	66,343	(10)	66,333
Other income/(expenses)	(34,438)	(3,725)	(38,163)	(2,553)	(40,716)
Operating profit/(loss)	27,764	416	28,180	(2,563)	25,617
Finance income/(costs)	3,594	162	3,756	(645)	3,111
Profit/(loss) before tax	31,358	578	31,936	(3,208)	28,728
Income tax expense	(14,418)	(435)	(14,853)	610	(14,243)
Segment's net profit/(loss)	16,940	143	17,083	(2,598)	14,485
Results					
Depreciation and amortisation	6,337	964	7,301	(73)	7,228
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at Jun 30 2018					
Segment assets	1,245,786	85,048	1,330,834	(93,403)	1,237,431
Segment liabilities	684,109	26,601	710,710	(54,227)	656,483
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	2,296	785	3,081	–	3,081

(PLN ’000)

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

Product group name	*Six months ended Jun 30 2019*	*12 months ended Dec 31 2018*	*Six months ended Jun 30 2018*
Power generation units and steam generators	159,452	163,261	58,609
Revenue under the Jaworzno 910 MW Project	82,246	649,235	329,400
Air pollution control systems	87,737	270,191	151,182
Power equipment, machinery and components, and related services	111,300	139,146	67,977
Services and products for oil and gas sector	70,466	44,234	11,654
Other revenue	7,968	2,751	5,309
Total	**519,169**	**1,268,818**	**624,131**

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

Cost of sales in the reporting period amounted to PLN 656,453 thousand. As a combined effect of the Group’s revenue and cost of sales, gross loss reached PLN 137,284 thousand.

In the current reporting period, distribution costs of PLN 12,351 recognised in the statement of profit or loss comprise costs of bid preparation and costs of PR and marketing activities.

Other income mainly included the reversal of impairment losses on assets totalling PLN 581 thousand. In the first six months of the year, other income also included PLN 341 thousand in compensation and PLN 175 thousand in liquidated damages received, as well as PLN 116 thousand of gain on disposal of non-current non-financial assets.

Other expenses chiefly included impairment losses on contract receivables of PLN 1,449 thousand and trade receivables of PLN 442 thousand, as well as donations of PLN 827 thousand.

In the first six months of 2019, the Group’s finance income came mainly from a discount on long-term accounts payable and receivable of PLN 4,153 thousand, and interest on financial instruments of PLN 973 thousand (June 30th 2018: PLN 753 thousand).

Finance costs in the period chiefly included interest on financial instruments of PLN 2,265 thousand (June 30th 2018: PLN 1,623 thousand), net foreign exchange losses of PLN 1,067 thousand, as well as commissions on bank borrowings of PLN 511 thousand (June 30th 2018: PLN 679 thousand).

(PLN '000)

11.3.Income tax

Income tax expense

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

Continuing operations	*Six months ended Jun 30 2019*	*Six months ended Jun 30 2018*
Consolidated statement of profit or loss		
Current tax	(816)	(3,894)
Current income tax expense	(816)	(3,894)
Adjustments to current income tax from previous years	–	–
Deferred tax	9,628	(593)
Related to recognition and reversal of temporary differences	9,662	(10,350)
Adjustments to deferred tax from previous years	(34)	9,757
Income tax expense in the consolidated statement of profit or loss	**8,812**	**(14,243)**

Continuing operations	*Six months ended Jun 30 2019*	*Six months ended Jun 30 2018*
Deferred tax on other comprehensive income	96	90
Related to recognition and reversal of temporary differences	96	90
Adjustments to current income tax from previous years	–	–
Income tax expense recognised in other comprehensive income	**96**	**90**

Deferred income tax calculated as at June 30th 2019

Deferred income tax calculated as at June 30th 2019 relates to the following:

	Statement of financial position		*Statement of comprehensive income*	
	Jun 30 2019	*Dec 31 2018*	*Jun 30 2019*	*Jun 30 2018*
- investment reliefs	(1)	(2)	1	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(15,315)	(14,660)	(655)	311
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,740	2,113	(373)	(439)
- difference between tax base and carrying amount of loans and receivables	5,101	4,781	320	871
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(78,688)	(69,638)	(9,050)	(21,023)
- difference between tax base and carrying amount of inventories	1,945	1,954	(9)	(23)
- provisions	18,525	15,161	3,364	(44,934)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	106,715	76,200	30,515	54,649
- tax asset related to tax loss	445	16,625	(16,180)	(1,263)
- adjustment to costs of unpaid invoices	3,652	3,856	(204)	(567)
- other	7,493	5,464	2,029	2,158
Deferred tax expense/benefit disclosed in the statement of profit or loss			9,662	(10,350)
Deferred tax expense/benefit disclosed in other			96	90

(PLN ’000)

comprehensive income				
			9,758	**(10,260)**
Net deferred tax asset/(liability), including:	**51,612**	**41,854**		
Deferred tax assets	51,612	42,006		
Deferred tax liability	–	152		

As at June 30th 2019, the Group recognised a deferred tax asset on a tax loss of PLN 2,342 thousand, which will be offset against profits in future reporting periods.

In the six months ended June 30th 2019, the parent wrote off a tax loss asset of PLN 16,178 thousand. The total amount of tax loss for 2015–2018 and 2019 which was not recognised in deferred tax is PLN 380,275 thousand.

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

11.4. Significant items disclosed in the statement of cash flows

The PLN 92,497 thousand decrease in receivables disclosed in the statement of cash flows for the six months ended June 30th 2019 resulted mainly from:

- PLN 73,702 thousand decrease in trade receivables
- PLN 809 thousand decrease in receivables from the state budget (including VAT),
- PLN (4,157) thousand increase in prepayments made,
- PLN 12,635 thousand decrease in security deposits receivable,
- PLN 9,508 thousand decrease in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the six months ended June 30th 2019, see Note 0.

The PLN 12,158 thousand decrease in liabilities disclosed in the statement of cash flows was mainly caused by:

- PLN 23,456 thousand increase in trade payables,
- PLN (7,158) thousand decrease in taxes and other duties payable,
- change in actuarial gains/(losses) of PLN (506) thousand,
- PLN (3,634) thousand decrease in other liabilities.

The PLN 28,531 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 (57,615) thousand increase in gross amount due from customers for contract work and the related accruals and deferrals,
- PLN 86,146 thousand increase in gross amounts due to customers for contract work,

The PLN 20,693 thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN (905) thousand decrease in the provision for warranty repairs,
- PLN 19,716 thousand increase in the provision for expected contract losses,
- PLN 2,105 thousand change in accruals and deferrals,
- PLN (223) thousand change in other provisions.

The cash flows of PLN 448 thousand relating to the acquisition of property, plant and equipment and intangible assets resulted from the purchase of property, plant and equipment for PLN 341 thousand and of intangible assets for PLN 107 thousand.

Cash flows from financing activities were mainly affected by a PLN 12,880 thousand increase in debt outstanding under the overdraft facility and working capital facility advanced to the parent by PKO BP S.A.

(PLN '000)

11.5.Goodwill and intangible assets

Jun 30 2019	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2019	**9,166**	**7,870**	**109**	**28**	**17,173**
Acquisitions	–	37	–	108	145
Transfers from intangible assets under development	–	136	–	(136)	–
Amortisation for the year	–	(731)	(29)	–	(760)
As at Jun 30 2019	**9,166**	**7,312**	**80**	**–**	**16,558**

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

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

Jun 30 2018	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2018	**9,166**	**8,040**	**168**	**697**	**18,071**
Acquisitions	–	94	–	212	306
Transfers from intangible assets under development	–	861	–	(861)	–
Amortisation for the year	–	(753)	(29)	–	(782)
As at Jun 30 2018	**9,166**	**8,242**	**139**	**48**	**17,595**

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

(PLN ’000)

11.6.Property, plant and equipment

For the six months ended June 30th 2019	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 2019	**23,703**	**84,743**	**44,595**	**7,220**	**793**	**196**	**161,250**
Adjustment to opening balance following implementation of IFRS 16	–	–	(1,340)	(5,134)	(324)	–	(6,798)
Net carrying amount as at January 1st 2019	**23,703**	**84,743**	**43,255**	**2,086**	**469**	**196**	**154,452**
Transfers from property, plant and equipment under construction	–	96	145	–	35	(35)	241
Acquisitions	–	–	43	29	34	24	130
Liquidation/sale	(60)	(673)	(132)	(23)	(66)	–	(954)
Exchange differences on translating foreign operations	–	–	–	–	(1)	–	(1)
Depreciation for period	–	(1,504)	(3,231)	(607)	(114)	–	(5,456)
Impairment loss for period	–	–	63	1	–	–	64
Other, including reclassification of property, plant and equipment to/from assets held for sale	(1)	(40)	68	1,185	–	–	1,212
Net carrying amount as at June 30 2019*	**23,642**	**82,622**	**40,211**	**2,671**	**357**	**185**	**149,688**

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

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

(PLN ’000)

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

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

(PLN ’000)

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

	Six months ended Jun 30 2019	*Six months ended Jun 30 2018*
Purchase of property, plant and equipment and intangible assets*	273	3,081
Proceeds from sale of property, plant and equipment and intangible assets	1,705	782

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

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

11.8.Right-of-use assets

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

	Land	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*Total*
As at Jan 1 2019						
Gross carrying amount	–	–	738	6,621	–	7,359
Adjustment following implementation of IFRS 16	249	8,434	6,389	1,369	324	16,765
Accumulated depreciation and impairment	–	–	(261)	(2,807)	–	(3,068)
Net carrying amount	**249**	**8,434**	**6,866**	**5,183**	**324**	**21,056**
As at Jun 30 2019						
Gross carrying amount	249	8,547	7,177	6,776	618	23,367
Accumulated depreciation and impairment	(57)	(864)	(1,339)	(2,415)	(402)	(5,077)
Net carrying amount	**192**	**7,683**	**5,838**	**4,361**	**216**	**18,290**

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

(PLN ’000)

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

	Jun 30 2019		*Dec 31 2018*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	5,147	4,513	2,723	2,306
from 1 to 5 years	11,680	10,578	2,738	2,546
Total minimum lease payments	**16,827**	**15,091**	**5,461**	**4,852**
Less finance costs	(1,736)	–	(609)	–
Present value of minimum lease payments, including:	**15,091**	**15,091**	**4,852**	**4,852**
short-term	4,513	4,513	2,306	2,306
long-term	10,578	10,578	2,546	2,546

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

	Jun 30 2019
Short-term leases	4,506
Leases of low-value assets	–
Total	**4,506**

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

(PLN ’000)

11.9.Other long-term receivables

	Jun 30 2019	Dec 31 2018
Financial receivables		
Security deposits/retentions	3,096	332
Other financial receivables	35,335	39,737
Receivables on sale of property, plant and equipment and intangible assets	348	–
Impairment losses on financial receivables (-)	(114)	(123)
Total long-term receivables, net	**38,665**	**39,946**
Non-financial receivables		
Other non-financial receivables	456	450
Total non-financial receivables, net	**456**	**450**
Total long-term receivables, net	**39,121**	**40,396**

11.10. Shares in other entities

	Jun 30 2019	Dec 31 2018
Shares in other listed companies	125	160
Shares in other non-listed companies	1,386	1,228
	1,511	**1,388**

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

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

11.11. Non-current financial assets

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

11.11.1. Bonds

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

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

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

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

Redemption Date	Oct 15 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	(288)	(366)	(3,495)	(4,149)
Value of bonds as disclosed in the financial statements	4,708	3,415	15,550	23,673

*pursuant to a resolution of the Bondholders Meeting for holders of Series G Bonds issued by PBG S.A. dated September 16th 2019, the redemption date for Series G, G1 and G3 bonds was changed from June 30th 2019 to October 15th 2019.

2. In accordance with the terms of issue, the bonds issued by PGB S.A. have been secured bonds within the meaning of the Bonds Act of January 15th 2015. The bonds are secured primarily with a registered pledge over 42,466,000 RAFAKO shares in a book-entry form (currently representing 33.3% of RAFAKO's share capital), mortgages over the PBG Group's properties, registered pledges over other selected assets of the PBG Group, including over shares in selected companies of the PBG Group (including PBG oil and gas Sp. z o.o), sureties and declarations of voluntary submission to enforcement up to PLN 1,065,000,000.00.

3. PBG S.A. agreed to arrange for the Bonds to be converted into book-entry form and listed on the WSE ATS Market or Bondspot ATS Market within three months of their issue (from the date of each Bond Issue). By decisions of the Warsaw Stock Exchange Management Board of March 9th 2017 and April 19th 2017, the first listing of Series B, C, D, E, F, G, H and I bearer Bonds of PGB S.A. in the Catalyst alternative trading system took place on March 10th 2017 and the first listing of Series C1, D1, G1, H1 and I1 bonds – on April 20th 2017.

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

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

The total net value of the Bonds as at June 30th 2019 was PLN 23,673 thousand.

(PLN ’000)

11.12. Inventories

	Jun 30 2019	*Dec 31 2018*
Materials (at net realisable value):	**31,138**	**30,985**
At cost	41,194	41,272
At net realisable value	31,138	30,985
Merchandise:	**2,778**	–
At cost	2,778	–
At net realisable value	2,778	–
Finished goods	**3,106**	**3,168**
At cost	3,106	3,168
At net realisable value	3,106	3,168
Total inventories, at the lower of cost and net realisable value	**37,022**	**34,153**

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

11.13. Other current financial assets

	Jun 30 2019	*Dec 31 2018*
Short-term bonds*	23,673	7,608
	23,673	**7,608**

* For a detailed description of bonds, see Note 11.11.1

11.14. Cash and cash equivalents

	Jun 30 2019	*Dec 31 2018*	*Jun 30 2018*
Cash at bank and in hand	69,101	88,090	106,499
Short-term deposits for up to 3 months, including:	26	602	49
	69,127	**88,692**	**106,548**

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

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

As at June 30th 2019, cash included restricted cash of PLN 37.2m (December 31st 2018: PLN 79.5m), which comprised cash held by E003B7 Sp. z o.o. earmarked for the Jaworzno contract, which from the RAFAKO Group's perspective is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno Project.

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

(PLN '000)

11.15. Short-term trade and other receivables

	Jun 30 2019	Dec 31 2018
Financial receivables		
Trade receivables	230,999	313,117
Impairment losses on trade receivables (-)	(11,306)	(24,090)
Net trade receivables	**219,693**	**289,027**
Receivables on sale of property, plant and equipment and intangible assets	–	303
Security deposits	73,237	88,636
Receivables under court proceedings*	16,465	25,869
Other financial receivables	10,847	10,837
Impairment losses on financial receivables (-)	(24,134)	(24,189)
Total financial receivables, net	**296,108**	**390,483**
Non-financial receivables		
Income tax asset	–	–
Receivables under prepayments and advance payments	129,775	125,618
Receivables from the state budget	11,913	12,722
Other non-financial receivables	6,259	6,820
Impairment losses on non-financial receivables (-)	(3,037)	(3,100)
Total non-financial receivables, net	**144,910**	**142,060**
Total short-term receivables, net	**441,018**	**532,543**

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

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

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

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

Short-term trade receivables of PLN 219,693 thousand recognised in the interim condensed consolidated statement of financial position as at June 30th 2019 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 73,237 thousand disclosed in the consolidated statement of financial position as at June 30th 2019 relate mainly to the following projects:

- Construction of a coal-fired steam unit – PLN 17,328 thousand;
- SCR system – PLN 8,750 thousand;
- Construction of a coke gas-fired power generation unit – PLN 7,109 thousand;
- Manufacture of high-pressure parts of a boiler for an incineration plant – PLN 5,710 thousand.

(PLN ’000)

The change in security deposits in the six months ended June 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 amounted to PLN 129,775 thousand as at June 30th 2019 and included:

- Advance payment of PLN 44,101 thousand under 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 13,457 thousand under a contract for gas pipeline construction;
- Advance payment of PLN 10,353 thousand under a contract to construct an LNG storage tank.

11.16. Short-term prepayments and accrued income

	Jun 30 2019	*Dec 31 2018*
Prepayments and accrued income		
Costs of bank and insurance guarantees	5,987	8,452
Costs of obtaining contracts with customers	1,259	2,938
Other costs	12,228	8,051
Prepayments and accrued income	**19,474**	**19,441**

(PLN ’000)

11.17. Loans advanced

Loans	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Receivables under advanced loans*	
						Jun 30 2019	*Dec 31 2018*
Short-term loans							
PBG S.A. (formerly PBG oil and gas Sp. z o.o.)*	Blank promissory note with a promissory note declaration	PLN 10m cash loan to finance day-to-day operations	PLN	1M WIBOR + margin	Dec 31 2019	9,686	10,302
PBG S.A. (formerly PBG oil and gas Sp. z o.o.)*	Blank promissory note	PLN 10m cash loan to finance day-to-day operations	PLN	1M WIBOR + margin	Dec 31 2019	1,076	1,049
						10,762	**11,351**

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

(PLN ’000)

11.18. Impairment losses on consolidated assets

	Property, plant and equipment	*Shares**	*Other financial assets*****	*Other non-financial assets*****	*Inventories***	*Contract assets*	*Receivables****
Jan 1 2019	(233)	(4,975)	(10,400)	(5,676)	(10,287)	(1,848)	(51,502)
Recognised	–	(35)	–	–	–	(1,787)	(2,148)
Reversed	–	–	–	–	–	–	1,774
Used	63	–	–	–	231	–	13,285
Jun 30 2019	(170)	(5,010)	(10,400)	(5,676)	(10,056)	(3,635)	(38,591)
Jan 1 2018	(68)	(4,978)	(10,500)	(5,676)	(11,105)	–	(36,749)
Adjustment to opening balance		–	–	–	–	(1,888)	(12,630)
Jan 1 2018	(68)	(4,978)	(10,500)	(5,676)	(11,105)	(1,888)	(49,379)
Recognised	(8)	(56)	–	–	(465)	(562)	(2,766)
Reversed	5	–	–	–	136	–	946
Used	–	–	–	–	450	–	114
Jun 30 2018	**(71)**	**(5,034)**	**(10,500)**	**(5,676)**	**(10,984)**	**(2,450)**	**(51,085)**

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

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

(PLN ’000)

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

	Contract assets	Current	Trade receivables 0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
Jun 30 2019								
Location: Poland								
Impairment loss rate	0.85%	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	442,602	177,904	5,930	1,671	5,553	1,124	5,996	640,780
Impairment loss	(3,635)	(905)	(46)	(83)	(1,529)	(593)	(6,327)	(13,118)
Location: outside Poland								
Impairment loss rate	0.85%	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	–	25,624	2,164	–	2,311	348	2,374	32,821
Impairment loss	–	(220)	(18)	–	(1,281)	(236)	(68)	(1,823)
Total impairment losses	**(3,635)**	**(1,125)**	**(64)**	**(83)**	**(2,810)**	**(829)**	**(6,395)**	**(14,941)**

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

As at June 30th 2019, an impairment loss of PLN 24,134 thousand was recognised on other short-term financial receivables in a gross amount of PLN 100,549 thousand (December 31st 2018: a PLN 24,189 thousand impairment loss on other receivables in a gross amount of PLN 125,645 thousand).

(PLN '000)

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

11.19.1. Property, plant and equipment pledged as security

As at June 30th 2019, property, plant and equipment pledged as security for the Group's liabilities amounted to PLN 129,966 thousand. The parent's property, plant and equipment of PLN 125,711 thousand are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising under the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights). In addition, a subsidiary's buildings and structures worth PLN 3,660 thousand, as well as IT equipment and office containers worth PLN 595 thousand are pledged as security for liabilities under the credit facility agreements.

	Jun 30 2019	*Dec 31 2018*
Mortgaged property, plant and equipment, including:	87,888	89,469
land	9,162	9,162
buildings and structures	78,726	80,307
Property, plant and equipment encumbered with registered pledge, including:	42,078	43,940
plant and equipment	39,912	42,740
vehicles	2,166	1,200
	129,966	**133,409***

* The disclosed amounts include property, plant and equipment of PLN 101 thousand classified as held for sale (December 31st 2018: PLN 175 thousand).

11.19.2. Intangible items pledged as security

As at June 30th 2019, intangible assets worth PLN 8,788 thousand were pledged as security for the parent's liabilities (December 31st 2018: PLN 9,339 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising under the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.19.3. Shares pledged as security

As at June 30th 2019, PLN 36,643 thousand (December 31st 2018: PLN 36,520 thousand) worth of the parent's equity interests in subsidiaries and other entities were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. under the surety agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over the shares held in E003B7 Sp. z o.o.).

11.19.4. Inventories pledged as security

As at June 30th 2019, inventories worth PLN 28,882 thousand were pledged as security for the parent's liabilities (December 31st 2018: PLN 29,391 thousand). The assets are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.’s, PKO BP S.A.’s, mBank S.A.’s and PZU S.A.’s claims towards RAFAKO S.A. under the surety agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.19.5. Trade receivables pledged as security

As at June 30th 2019, trade receivables of PLN 23,806 thousand were pledged as security for guarantees and borrowings received by the Group (December 31st 2018: PLN 20,170 thousand).

11.20. Share capital

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

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

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

11.21. Par value per share

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

11.22. Shareholders’ rights

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

11.23. Share premium

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

11.24. Earnings /(loss) per share

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

(PLN '000)

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

	Six months ended June 30th 2019	*Six months ended June 30th 2018*
Net profit/(loss) from continuing operations	(174,755)	14,485
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	**(174,755)**	**14,643**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	127,431,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	127,431,998	127,431,998
Earnings/(loss) per share, PLN		
– basic/diluted earnings from profit/(loss) attributable to holders of ordinary shares for period	(1.37)	0.11

In the six months ended June 30th 2019, the parent did not issue new shares.

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

11.25. Other non-current liabilities

	Jun 30 2019	*Dec 31 2018*
Financial liabilities		
Amounts payable for tangible and intangible assets	–	–
Retentions (security deposits)	20	19
Other liabilities	11,550	12,921
Total financial liabilities	**11,570**	**12,940**

11.26. Long-term employee benefit obligations

	Jun 30 2019	*Dec 31 2018*
Unpaid bonus accrual	5	13
Provision for retirement gratuity	7,094	6,946
Provision for length-of-service awards	12,511	12,198
Provision for other employee benefits	4,306	4,447
	23,916	**23,604**

11.27. Post-employment and other benefits

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

(PLN ’000)

	Jun 30 2019	*Dec 31 2018*
As at Jan 1	26,207	23,304
Interest expense	359	741
Current service costs	276	531
Actuarial (gains)/losses	506	4,275
Benefits paid	(728)	(2,644)
Recognition/reversal of provision for employee benefit obligations		
Closing balance	**26,620**	**26,207**
Long-term provisions	23,911	23,590
Short-term provisions	2,709	2,617

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

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

11.28. Other long-term provisions

	Jun 30 2019	*Dec 31 2018*
Provision for warranty repairs	32,352	30,228
	32,352	**30,228**

11.29. Short-term trade and other payables

	Jun 30 2019	*Dec 31 2018*
Financial liabilities		
Trade payables	331,332	306,511
Amounts payable for tangible and intangible assets	473	704
Retentions (security deposits)	280	271
Other financial liabilities	–	199
Total financial liabilities	**332,085**	**307,685**

(PLN '000)

	Jun 30 2019	*Dec 31 2018*
Non-financial liabilities		
Taxes and other duties payable	14,067	21,225
Advance payments and prepaid deliveries	–	–
Advance payments received from customers	–	–
Other liabilities	1,095	–
Other non-financial liabilities	9,343	13,598
Total non-financial liabilities	**24,505**	**34,823**
	356,590	**342,508**

11.30. Short-term employee benefit obligations and provisions

	Jun 30 2019	*Dec 31 2018*
Social security	9,322	9,036
Salaries and wages payable	9,233	8,491
Amounts payable under voluntary redundancy programme	–	145
Accrued holiday entitlements	5,505	4,202
Unpaid bonus accrual	3,112	5,712
Provision for retirement gratuity	600	541
Provision for length-of-service awards	1,766	1,754
Provision for other employee benefits	350	328
	29,888	**30,209**

11.31. Other short-term provisions

	Jun 30 2019	*Dec 31 2018*
Provision for warranty repairs	8,373	10,326
Provision for expected contract losses	21,898	3,678
Provision for liquidated damages	–	–
Other provisions	924	1,147
	31,615	**15,151**

12. Objectives and policies of financial risk management

The objectives and policies of financial risk management have not changed relative to those published in the most recent consolidated full-year financial statements for 2018.

(PLN '000)

13. Financial instruments

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

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

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

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

	Carrying amount	
Classes and categories of financial assets	*Jun 30 2019*	*Dec 31 2018*
Assets at fair value through profit or loss	**125**	**160**
Long-term shareholdings	125	160
Assets at fair value through other comprehensive income	**1,386**	**1,228**
Long-term shareholdings	1,386	1,228
Assets at amortised cost	**369,208**	**463,456**
Bonds	23,673	21,675
Trade receivables	254,939	328,642
Receivables on sale of property, plant and equipment and intangible assets	348	303
Other financial receivables*	79,486	101,485
Loans advanced	10,762	11,351
Cash and cash equivalents	**69,127**	**88,692**
	439,846	**553,536**

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

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

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

(PLN '000)

Classes and categories of financial liabilities	*Carrying amount* *Jun 30 2019*	*Dec 31 2018*
Financial liabilities at amortised cost	**458,361**	**424,193**
Borrowings	114,707	103,568
Trade payables (including capital commitments)	343,355	320,131
Other financial liabilities	299	494
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**15,091**	**4,852**
Liabilities under leases and rental contracts with purchase option	15,091	4,852
	473,452	**429,045**

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

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

Jun 30 2019	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	**125**	–	–
Long-term shareholdings	125	–	–
Assets at fair value through other comprehensive income	**1,386**	–	–
Long-term shareholdings	1,386	–	–

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 June 30th 2019, the Group did not carry any open currency forward contracts.

As at June 30th 2019, the Group did not carry any other types of open derivative instruments.

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

(PLN ’000)

15. Borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Jun 30 2019*	*Dec 31 2018*
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.’s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	current account overdraft facility of up to PLN 70m***	PLN	1M WIBOR + margin	Jun 30 2020****	68,942	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	1M WIBOR or 1M EURIBOR + margin	Jun 30 2020****	44,276	40,749
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, mortgages, assignment of claims under insurance policy	PLN 1m overdraft facility	PLN	1M WIBOR + margin	Sep 5 2019	972	892
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, statements on submission to enforcement, mortgages, assignment of claims under insurance policy	PLN 2m working capital facility agreement	PLN	1M WIBOR + margin	Aug 30 2019	438	1,750
Siemens Finance Sp. z o.o.	blank promissory note	Loan agreement	PLN	1M WIBOR + margin	Jul 15 2021	36	35
						114,664	**103,507**

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

**As at the date of these interim condensed consolidated financial statements, the parent had established mortgages on its properties (other than flats and residential buildings) for a total amount of up to PLN 300m, serving as additional security for the PKO BP credit facility;

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

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

(PLN '000)

16. Capital management

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

	Jun 30 2019	*Dec 31 2018*
Debt to equity		
Equity	422,450	597,335
Borrowed funds (bank and non-bank borrowings)	114,707	103,568
Total equity and liabilities	1,322,855	1,357,521
Capitalisation ratio (equity / total assets)	**0.32**	**0.44**
Total financing sources		
Equity	422,450	597,335
Borrowed funds (bank and non-bank borrowings)	114,707	103,568
Finance leases	15,091	4,852
Capital-to-total financing sources ratio	**3.25**	**5.51**
EBITDA		
Operating profit/(loss)	(183,737)	40,531
Depreciation and amortisation	8,967	14,825
EBITDA	**(174,770)**	**55,356**
Debt		
Borrowings and other debt instruments	114,707	103,568
Finance leases	15,091	4,852
Debt to EBITDA	**(0.74)**	**1.96**

(PLN ’000)

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

	Provision for expected contract losses	*Provision for length-of-service awards, retirement gratuity payments and Company Social Benefits Fund*	*Provision for holiday entitlements*	*Provision for warranty repairs*	*Provision for liquidated damages*	*Employee benefit obligations*	*Provision for credit losses on sureties*	*Provision for voluntary redundancy programme*	*Restructuring provision*	*Provision for other costs*	*Other provisions*
Jan 1 2019	**3,677**	**26,207**	**4,202**	**40,553**	–	**5,725**	**1,549**	**145**	–	**571**	**233**
Provision recognised	22,590	1,158	2,072	5,906	–	2,394	–	–	–		227
Reversed	–	(17)	–	(1,576)	–	(131)	(71)	(4)	–	(80)	–
Utilised	(4,369)	(728)	(769)	(3,795)	–	(4,871)	–	(141)	–		(233)
Jun 30 2019	**21,898**	**26,620**	**5,505**	**41,088**	–	**3,117**	**1,478**	–	–	**491**	**227**
Jan 1 2018	**15,863**	**23,305**	**5,402**	**17,688**	**8,069**	**7,670**	–	**1,596**	**8,368**	**3,936**	**196**
Adjustment to opening balance	(1,754)	–	–	25,112	1,691	–	1,618	–	–	–	–
Jan 1 2018	**14,109**	**23,305**	**5,402**	**42,800**	**9,760**	**7,670**	**1,618**	**1,596**	**8,368**	**3,936**	**196**
Recognised	1,302	1,236	1,458	10,174	295	6,192	–	–	–	249	316
Reversed	(13,696)	(170)	–	–	–	(6,909)	–	(103)	(5,747)	(96)	–
Utilised	–	(757)	(1,465)	(14,791)	(3,404)	(19)	–	(688)	(1,443)	(34)	(196)
Jun 30 2018	**1,715**	**23,614**	**5,395**	**38,183**	**6,651**	**6,934**	**1,618**	**805**	**1,178**	**4,055**	**316**

(PLN '000)

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

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

19. Dividends paid or declared

In the six months ended June 30th 2019, Group companies did not pay any dividends. In accordance with the applicable laws, dividends may only be distributed from the profit of individual Group companies, and not based on the Group's consolidated net result.

20. Capital commitments

As at June 30th 2019, the RAFAKO Group companies did not recognise any commitments related to purchase of property, plant and equipment . Group companies had not signed agreements envisaging any capital expenditure to be made in 2019 which was not disclosed in the accounting books at the end of the reporting period.

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

	Jun 30 2019	*Dec 31 2018*
Receivables under financial guarantees received mainly as security for performance of contracts, including:	697,729	721,149
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	55,185	57,198
- from related entities	53,263	55,605
Letters of credit	–	–
	752,914	**778,913**

	Jun 30 2019	*Dec 31 2018*
Commitments under financial guarantees issued mainly as security for performance of contracts, including:	531,748	419,849
- to related entities	–	–
Liabilities under sureties, including:	1,182,207	1,237,935
- to related entities	–	–
Promissory notes issued as security, including:	34,913	38,136
- to related entities	–	–
Letters of credit	–	–
	1,748,868	**1,695,920**

In the first six months of 2019, the RAFAKO Group recorded a PLN 52,948 thousand increase in contingent liabilities, which mainly resulted from an increase in guarantees granted. In the first six months of 2019, a number of guarantees were issued by banks and insurance companies to trading partners upon the Group's instructions, including performance bonds of PLN 125,515 thousand, advance payment guarantees of PLN 46,299 thousand and bid bonds of PLN 18,243 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 June 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 six months of 2019 was a PLN 6,654 thousand performance bond.

As at June 30th 2019, the Group had access to available guarantee facilities totalling PLN 545,946.9 thousand, including bank guarantee limits of PLN 287,336.1 thousand and insurance guarantee limits of PLN 258,610.8 thousand.

In the first six months of 2019, the Group's contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 25,999 thousand, including a decrease of PLN 23,420 thousand in receivables under bank and insurance guarantees and a decrease of PLN 2,013 thousand in receivables under promissory notes. The largest item of guarantees received in the first six months of 2019 was a PLN 2,979 thousand performance bond. The largest guarantee which expired in the first six months of 2019 was a EUR 3,684 thousand advance payment guarantee.

22. Litigation and disputes

As at the date of these interim condensed consolidated financial statements, the Group companies were involved in litigation both as a defendant and a plaintiff.

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

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

The cases described in Notes 37.1 and 37.2 to the full-year financial statements are considered closed.

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

No significant changes occurred with respect to the other cases.

23. Parent's Management Board and Supervisory Board

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

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

On September 2nd 2019, the Supervisory Board made the following changes to the Management Board of RAFAKO S.A.:

- 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 RAFAKO S.A. Management Board.

(PLN '000)

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

Helena Fic – delegated from the Supervisory Board to temporarily serve as President of the Management Board
Agnieszka Wasilewska-Semail – Vice President of the Management Board
Jerzy Ciechanowski – Vice President of the Management Board

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

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

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

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

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

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

25. Related-party transactions

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

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

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

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

	Operating income	
	Jan 1– Jun 30 2019	*Jan 1– Jun 30 2018*
Sales to:		
Entities related through equity links:	1,271	1,115
Entities related through personal links:	62	23

(PLN '000)

TOTAL	**1,333**	**1,138**

	Receivables	
	Jun 30 2019	*Dec 31 2018*
Sales to:		
Entities related through equity links:	68,123	62,447
Entities related through personal links:	68	511
TOTAL	**68,191**	**62,958**

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

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

	Purchases (costs, assets)	
	Jan 1– Jun 30 2019	*Jan 1– Jun 30 2018*
Purchases from:		
Entities related through equity links:	43,195	13,789
Entities related through personal links:	6,521	1,490
TOTAL	**49,716**	**15,279**

	Liabilities	
	Jun 30 2019	*Dec 31 2018*
Purchases from:		
Entities related through equity links:	17,445	415
Entities related through personal links:	8,873	3,738
TOTAL	**26,318**	**4,153**

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

The Group has not published any forecasts for 2019.

(PLN '000)

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

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

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

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

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

	Company name	*As at May 27 2019*	*Increase*	*Decrease*	*As at Sep 30 2019*
Member of the Management Board					
Agnieszka Wasilewska-Semail – Vice President of the Management Board	RAFAKO S.A.	60,245	–	–	60,245
Jarosław Dusiło* Vice President of the Management Board	RAFAKO S.A.	44,000	–	–	–
Member of the Supervisory Board		–	–	–	–

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

29. Factors with a material bearing on the Group's performance in Q3 2019

- Possible changes in cost estimates for ongoing contracts (including as a result of contracts being executed for the delivery of products and services), which may have a positive or negative effect on the results after June 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, June 30th 2019: 4.2520 PLN/EUR, December 31st 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: January 1st – June 31st 2019: 4.2940; PLN/EUR, January 1st – December 31st 2018: 4.2617 PLN/EUR,

The highest and lowest exchange rates for each period were as follows: January 1st – June 31st 2019: 4.3402/4.2520 PLN/EUR, January 1st – December 31st 2018: 4.3978/4.1423 PLN/EUR.

	Jun 30 2019	*Dec 31 2018*	*Jun 30 2019*	*Dec 31 2018*
	PLN '000		*EUR '000*	
Statement of financial position				
Assets	1,322,855	1,357,521	311,114	315,703
Non-current liabilities	78,459	69,531	18,452	16,170
Current liabilities	821,946	690,655	193,308	160,617
Equity	422,450	597,335	99,353	138,915
PLN/EUR exchange rate at end of period			4.2520	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– Jun 30 2019	*Jan 1– Jun 30 2018*	*Jan 1– Jun 30 2019*	*Jan 1– Jun 30 2018*
	PLN '000		*EUR '000*	
Statement of comprehensive income				
Revenue	519,169	624,131	120,906	147,218
Operating profit/(loss)	(183,737)	25,617	(42,789)	6,042
Profit/(loss) before tax	(183,567)	28,728	(42,750)	6,776
Net profit/(loss) attributable to the parent	(174,585)	14,644	(40,658)	3,454
Earnings per share (PLN)	(1.37)	0.12	(0.32)	0.03
Average PLN/EUR exchange rate in the period			4.2940	4.2395
Statement of cash flows				
Net cash from operating activities	(25,318)	(83,836)	(5,896)	(19,775)
Net cash from investing activities	1,219	(2,888)	284	(681)
Net cash from financing activities	4,476	13,151	1,042	3,102
Net increase/(decrease) in cash and cash equivalents	(19,623)	(73,573)	(4,570)	(17,354)
Average PLN/EUR exchange rate in the period			4.2940	4.2395

(PLN '000)

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

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

	Base pay	*Awards*	*Other*
RAFAKO S.A. – the parent			
Management Board	1,010	–	49
Supervisory Board	468	–	309
PGL-DOM Sp. z o.o. – a subsidiary			
Management Board	54	43	–
Supervisory Board	101	–	–
RAFAKO ENGINEERING Sp. z o.o. – a subsidiary			
Management Board	265	150	–
Supervisory Board	94	271	–
RAFAKO ENGINEERING Sp. z o.o. – an indirect subsidiary			
Management Board	292	–	8
Supervisory Board	35	–	–
E001RK Sp. z o.o. – a subsidiary			
Management Board	84	–	–
Supervisory Board	–	–	–
E003B7 Sp. z o.o. – a subsidiary			
Management Board	818	891	–
Supervisory Board	564	720	–
RENG-NANO Sp. z o.o. – a subsidiary			
Management Board	108	–	–
Supervisory Board	–	–	–

(PLN '000)

32. Order book

As at June 30th 2019, the value of the Group's order book was in excess of PLN 3.0bn. The largest item is the PLN 0.7bn Jaworzno Project, with PLN 0.1bn outstanding under the contract and attributable to the parent and PLN 0.6bn outstanding under the contract and attributable to SPV Jaworzno. The order book does not include the Opole contract (RAFAKO's entire share in the project worth PLN 3.2bn was subcontracted outside the RAFAKO Group, of which PLN 0.2bn is still outstanding).

	ORDER BOOK (PLNm)		Due for execution in		
	as at Jun 30 2018	as at Jun 30 2019	JULY–DECEMBER 2019	2020	after 2020
RAFAKO	1,968	2,375	1,203	921	251
SPV Jaworzno	1,116	627	614	13	0
Other	61	30	27	3	0
TOTAL	**3,145**	**3,032**	**1,844**	**937**	**251**

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

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

33. Events after the reporting period

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

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

As at the date of these interim consolidated financial statements, the Group presented changes in the status of its dispute with Wärtsilä Finland Oy relative to that presented in the Group's most recent consolidated financial statements for the year ended December 31st 2018.

The negotiations held with that customer over the first six 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 customer and the arrangements regarding the effect of project changes on the contract price and schedule. By a letter of September 16th 2019, the customer 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. As RAFAKO S.A. received only a scanned copy of the letter, attached to an email message, formally it may not be deemed to have been effectively delivered. RAFAKO S.A. refutes all the customer's allegations. As the Company did not have a complete set of technical documentation, it was unable to commence the scope of work specified by the customer. In addition, the customer failed to comply with the contractual terms and conditions for the performance of the scope of work it had changed.

(PLN '000)

On September 16th 2019, PKO BP received a call for payment of EUR 377,800.00 on the bank guarantee (bank guarantee agreement No. 99175020004773) and of EUR 2,310,000.00 (bank guarantee agreement No. 99175020005004). Wärtsilä Finland Oy's call on the bank guarantees was not preceded by filing any financial claim against RAFAKO S.A. The parent is of the opinion that the call is unfounded and there is no legal basis to make such payments.

On September 25th 2019, PKO BP S.A. made payments under the two guarantees it had issued in favour of Wärtsilä, for a total amount of EUR 2,678,000 for failure to duly perform the contract. 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 limit.

The transaction should have no adverse effect on the parent's current financial condition, as RAFAKO S.A. has access to MPCF limits which will be drawn to finance the performance bonds issued by PKO BP in favour of Wärtsilä, the MPCF agreement expiring on June 30th 2020.

Receipt of the customer's notice to terminate the contract and its call on the bank guarantees means that RAFAKO S.A. – after first completing a review of the work performed and learning the particulars of PKO BP's position on the payments made under the guarantees – will seek to assert its claims through arbitration.

34. Authorisation for issue

These interim condensed consolidated financial statements of the Group were authorised for issue on September 30th 2019 by resolution of the RAFAKO S.A. Management Board of September 30th 2019.

Signatures:

Helena Fic	Acting President of the Management Board	....
Agnieszka Wasilewska-Semail	Vice President of the Management Board	....
Jerzy Ciechanowski	Vice President of the Management Board	....
Jolanta Markowicz	Chief Accountant	....