RAFAKO S.A.

PBG GROUP

INTERIM CONDENSED FINANCIAL STATEMENTS

for the six months ended June 30th 2019

September 30th 2019

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Interim condensed 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	10.1	**421,003**	**314,301**	**204,307**	**162,732**
Revenue from sale of goods and services		420,226	313,178	203,972	162,201
Revenue from sale of materials		777	1,123	335	531
Cost of products and services sold	10.2	(495,690)	(273,345)	(296,260)	(149,207)
Cost of materials sold		(551)	(754)	(253)	(92)
Gross profit/(loss)		**(75,238)**	**40,202**	**(92,206)**	**13,433**
Other income	10.2	3,580	9,633	779	7,545
Distribution costs		(12,148)	(12,860)	(6,688)	(5,974)
Administrative expenses		(18,657)	(21,379)	(9,687)	(11,063)
Other expenses	10.2	(3,477)	(2,489)	(1,437)	(1,191)
Research costs		(5,278)	(3,924)	(2,973)	(2,731)
Operating profit/(loss)		**(111,218)**	**9,183**	**(112,212)**	**19**
Finance income	10.2	2,865	5,559	1,367	4,411
Finance costs	10.2	(3,920)	(2,307)	(2,264)	(1,247)
Profit/(loss) before tax		**(112,273)**	**12,435**	**(113,109)**	**3,183**
Income tax expense	10.3	(4,457)	(10,771)	(3,911)	(3,918)
Net profit/(loss) from continuing operations		**(116,730)**	**1,664**	**(117,020)**	**(735)**

(PLN '000)

Interim condensed 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		**(410)**	**(510)**	**(162)**	**(263)**
Items to be reclassified to profit/(loss) in subsequent reporting periods		–	–	–	–
Translation reserve		–	(124)	–	(59)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		–	**(124)**	–	**(59)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods					
Other comprehensive income due to actuarial gains/(losses)		(506)	(475)	(201)	(250)
Tax on other comprehensive income	10.3	96	89	39	46
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(410)**	**(386)**	**(162)**	**(204)**
Total comprehensive income for period		**(117,140)**	**1,154**	**(117,182)**	**(998)**
Weighted average number of shares		127,431,998	127,431,998	127,431,998	127,431,998
Basic earnings/(loss) per share, PLN		(0.92)	0.01	(0.92)	(0.01)
Diluted earnings/(loss) per share, PLN		(0.92)	0.01	(0.92)	(0.01)

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 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	11.3	125,638	132,814	137,764
Goodwill		1,774	1,774	1,774
Intangible assets		7,014	7,594	8,219
Right-of-use assets	11.5	9,688	–	–
Other long-term receivables	11.6	3,967	5,224	8,160
Shares	11.7	36,643	36,520	36,486
Other non-current financial assets	11.8	25,177	36,242	35,950
Deferred tax assets	10.3	31,943	36,304	27,763
Long-term prepayments and accrued income		5,510	5,603	2,421
		247,354	**262,075**	**258,537**
Current (short-term) assets				
Inventories	11.9	28,882	29,391	27,640
Short-term trade and other receivables	11.12	303,983	392,644	241,614
Contract assets	9	342,018	205,149	199,341
Other current financial assets	11.10	23,673	7,608	8,054
Loans advanced		–	–	416
Cash and cash equivalents	11.11	29,270	5,404	69,283
Short-term prepayments and accrued income	11.13	17,389	15,301	16,146
		745,215	**655,497**	**562,494**
Non-current assets held for sale		87	163	90
TOTAL ASSETS		**992,656**	**917,735**	**821,121**

(PLN '000)

Interim condensed 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	11.16	254,864	254,864	254,864
Share premium	11.19	165,119	165,119	165,119
Reserve funds		15,902	11,600	11,600
Exchange differences on translating foreign operations		–	–	(462)
Retained earnings/accumulated losses, including:		(158,281)	(37,157)	(36,716)
Profit/(loss) brought forward		(41,551)	(41,459)	(38,381)
Net profit/(loss) for period		(116,730)	4,302	1,665
		277,604	**394,426**	**394,405**
Non-current liabilities				
Finance lease liabilities		3,811	1,223	1,508
Employee benefit obligations and provisions	11.22	23,807	23,495	20,742
Other non-current liabilities	11.21	9,627	9,647	12,132
Other long-term provisions	11.24	15,850	14,515	19,038
		53,095	**48,880**	**53,420**
Current liabilities				
Bank and other borrowings	15	113,218	100,831	114,756
Finance lease liabilities		2,562	1,148	1,434
Short-term trade and other payables	11.25	263,210	206,429	212,760
Employee benefit obligations and provisions	11.26	20,951	19,091	24,939
Amount due to customers for contract work	9	231,842	132,656	4,872
Other short-term provisions	11.27	29,709	13,088	13,778
Short-term accruals and deferrals		142	139	142
Grants		323	1,047	615
		661,957	**474,429**	**373,296**
Total liabilities		**715,052**	**523,309**	**426,716**
TOTAL EQUITY AND LIABILITIES		**992,656**	**917,735**	**821,121**

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 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		**(112,273)**	**6,931**	**12,435**
Adjustments for:		**129,041**	**(159,968)**	**(113,289)**
Depreciation and amortisation		6,443	10,904	5,314
Foreign exchange gains/(losses)		–	4	(8)
Interest and dividends, net		2,381	4,177	1,845
(Gain)/loss from investing activities		(2,031)	(3,280)	(2,385)
Increase/(decrease) in liabilities under FX contracts		–	479	479
(Increase)/decrease in receivables	11.1	86,667	(109,348)	41,522
(Increase)/decrease in inventories		509	(3,071)	(1,320)
Increase/(decrease) in liabilities and provisions, excluding borrowings	11.1	58,397	(60,442)	(67,488)
Change in provisions, accruals and deferrals	11.1	14,363	(25,376)	(17,823)
Change in contract assets and liabilities	11.1	(37,683)	25,611	(73,429)
Income tax (paid)/received		–	323	–
Other		(5)	51	4
Net cash from operating activities		**16,768**	**(153,037)**	**(100,854)**
Cash flows from investing activities				
Sale of property, plant and equipment and intangible assets		415	451	312
Purchase of property, plant and equipment and intangible assets	11.1	(321)	(1,209)	(1,074)
Purchase of financial assets		(157)	(1,249)	(1,209)
Sale of financial assets		–	4,139	–
Dividends and interest		–	3	–
Other		–	402	(1)
Net cash from investing activities		**(63)**	**2,537**	**(1,972)**
Cash flows from financing activities				
Payment of finance lease liabilities		(2,292)	(2,321)	(1,423)
Proceeds from borrowings		12,880	2,267	16,590
Interest paid		(1,696)	(2,976)	(1,146)
Bank fees		(1,011)	(1,102)	(1,049)
Other		(720)	777	341
Net cash from financing activities		**7,161**	**(3,355)**	**13,313**
Net increase/(decrease) in cash and cash equivalents		23,866	(153,855)	(89,513)
Net foreign exchange gains (losses)		–	338	(125)
Cash at beginning of period	11.11	5,404	158,921	158,921
Cash at end of period	11.11	29,270	5,404	69,283

Racibórz, September 30th 2019

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

(PLN ‘000)

Interim condensed 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 equity*
As at Jan 1 2019	**254,864**	**165,119**	**11,600**	–	**(37,157)**	**394,426**
Adjustment to opening balance following implementation of IFRS 16	–	–	–	–	318	318
As at Jan 1 2019	**254,864**	**165,119**	**11,600**	–	**(36,839)**	**394,744**
Profit/(loss) from continuing operations	–	–	–	–	(116,730)	(116,730)
Other comprehensive income	–	–	–	–	(410)	(410)
Distribution of retained earnings	–	–	4,302	–	(4,302)	–
As at Jun 30 2019	**254,864**	**165,119**	**15,902**	–	**(158,281)**	**277,604**
As at Jan 1 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(71,222)**	**426,074**
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(32,824)	(32,824)
As at Jan 1 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(104,046)**	**393,250**
Profit/(loss) from continuing operations	–	–	–	–	1,665	1,665
Other comprehensive income	–	–	–	(125)	(385)	(510)
Distribution of retained earnings	–	(8,589)	(57,461)	–	66,050	–
As at Jun 30 2018	**254,864**	**165,119**	**11,600**	**(462)**	**(36,716)**	**394,405**

(PLN '000)

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

Racibórz, 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

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

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

The Company was established for an indefinite term.

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

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

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

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

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

2. Basis of preparation of the interim condensed financial statements

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

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

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

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

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

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

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

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

The Company's current order book requires the Company to commit working capital, including from internally generated funds. The committed funds will be released gradually as contracts are completed and consecutive milestones are reached, in accordance with contractual provisions, schedules and budgets. The 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 Company's order book was PLN 2,375m (end of June 2018: PLN 1,969m). In pursuit of its strategy, from the beginning of 2019 to the issue date of these financial statements, the Company won new contracts worth PLN 967m, including PLN 680m in the power sector, PLN 169m in the oil and gas sector (the new strategic business area) and PLN 118m in the construction sector. Major contracts 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 Company'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 Company makes every effort to ensure that the value of contracts in the order book enables it to secure revenue necessary to cover its operating expenses and generate profit in the long term, also after the completion of the contract to construct the 910 MW power generation unit in Jaworzno. In line with the adopted growth directions, the Company is actively involved in tender procedures and expects to win new major contracts.

3. Significant accounting policies

These interim condensed financial statements have been prepared in accordance with the accounting policies presented in the Company's most recent financial statements for the year ended December 31st 2018, except for changes resulting from the application of IFRS 16 *Leases*, effective as of January 1st 2019. For information on the changes, see Note 3.1. The comparability of data for the period from January 1st to 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 in lessee accounting, requiring lessees to recognise a right-of-use asset and a corresponding lease liability for each lease contract in the statement of financial position. Subsequently, the right-of-use asset is depreciated and the lease liability is measured at amortised cost. In certain situations specified by the standard, a lease liability is remeasured, with the effect of such remeasurement recognised, as a rule, as an adjustment to the right-of-use asset.

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

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

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

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

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

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

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

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

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

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

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

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

The comparative data in the statement of comprehensive income for the 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	**(277,269)**	–
Research costs	3,924	(3,924)
Adjusted	**(273,345)**	**(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 Company's financial statements.

4. Material judgements and estimates

4.1. Professional judgement

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

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

Classification of leases where the Company is the lessee

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

Embedded derivatives

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

Consortium agreements

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

4.2. Uncertainty of estimates

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

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

(PLN '000)

5. Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	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 was a change in estimates related to the Company's major projects, as discussed in detail in Note9.

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

7. Changes in Company structure

No changes occurred in the Company structure in the six months ended June 30th 2019.

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

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

9. Contract assets and liabilities

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

	Jun 30 2019	*Dec 31 2018*
Gross contract assets	345,314	206,997
Impairment of contract assets (-)	(3,296)	(1,848)
Contract assets	342,018	205,149
Contract liabilities, including advance payments	231,842	132,656

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

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

(PLN '000)

	Jun 30 2019	*Dec 31 2018*
Revenue initially agreed in contract	3,732,809	2,987,821
Change in contract revenue	12,152	69,565
Aggregate contract revenue	**3,744,961**	**3,057,386**
Contract costs incurred as at reporting date	1,620,487	1,114,203
Costs expected to be incurred by contract completion date	1,994,108	1,696,048
Estimated aggregate contract costs	**3,614,595**	**2,810,251**
Estimated aggregate profit/(loss) on contracts, including:	**130,366**	**247,135**
profit	283,491	302,086
loss (-)	(153,125)	(54,951)

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

	Jun 30 2019	*Dec 31 2018*
Advance payments received as at reporting date	157,782	76,064
Advance payments that can be set off against amounts due from customers for construction contract work	31,148	11,382
Contract costs incurred as at reporting date	1,642,383	1,118,280
Cumulative profit as at reporting date (+)	167,491	162,385
Cumulative loss as at reporting date (+)	(153,124)	(54,951)
Cumulative contract revenue as at reporting date	1,656,750	1,225,713
Amounts invoiced as at reporting date (progress billings)	1,385,041	1,074,902
Settlement of contracts (balance) as at the reporting date, including:	**271,709**	**150,811**
Contract assets less advance payments that can be offset	345,314	206,997
Contract liabilities	104,754	67,566

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

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

Contract assets:

	Jun 30 2019	*Dec 31 2018*
Contract assets at beginning of period	205,149	137,583
Revenue charged in the reporting period to contract assets	139,969	122,630
Total revenue restatements charged to contract assets	–	–
Changes in impairment losses on contract assets	(1,448)	(507)
Reclassification to trade receivables (-)	(1,652)	(54,557)
Contract assets at end of period	**342,018**	**205,149**

(PLN '000)

Contract liabilities:

	Jun 30 2019	*Dec 31 2018*
Contract liabilities at beginning of period	132,656	39,479
Performance obligations recognised in the reporting period as contract liabilities	107,793	127,201
Total revenue restatements charged to contract liabilities	–	–
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(8,607)	(34,024)
Contract liabilities at end of period	**231,842**	**132,656**

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

9.1. Key contracts executed by the Company

9.1.1. Jaworzno Project

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

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

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

Accounting for the Jaworzno Project:

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

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

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

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

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

Change in estimates for the Jaworzno Project

In the six months ended June 30th 2019, the Company updated the estimated costs of the contract of April 17th 2014 with Nowe Jaworzno Grupa Tauron sp. z o.o. of Jaworzno for the construction of 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 work attributable to RAFAKO S.A. for the first half of 2019 was PLN -4.3m, reflecting a change in total estimated revenue and expenses, while the effect of the contract implementation on the Company's result for the first half of 2019 was PLN -2.9m.

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 99,302,336.64. Taking into account the risk assumed in the contractor's bid, the difference between the actual cost and the forecast was PLN 65,974,380.23. In the Company's and the SPV's opinion, the above circumstances give grounds for increasing the contractor's remuneration due to an extraordinary change in relations. Having completed the above work, on March 19th 2019 the Company and the SPV submitted to the employer a request for increasing the contract price by PLN 65,974,380.23.

Negotiations are currently under way between Tauron S.A. and Rafako S.A. concerning the scope of the Project. They 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.

9.1.2. Opole Project

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

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

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

On October 10th 2018, RAFAKO S.A., Polimex-Mostostal S.A., Mostostal Warszawa S.A., and GE Power signed with PGE Górnictwo i Energetyka Konwencjonalna S.A. an annex to the contract of February 15th 2012 for the construction of power generating units 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.

9.1.3. Vilnius Project

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

The Company has estimated the related claims at PLN 60.7m. The Company is 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.

(PLN '000)

9.1.4. Kozienice Project

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

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

At the same time, the Company estimated its claims against the employer for the reasons indicated above at PLN 67.8m. Given a lack of agreement with the employer that would take account of RAFAKO S.A.'s claims, at the end of August and beginning of September 2019, the composition of pre-court mediation teams was agreed. 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.

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

10.1 Revenue and operating segments

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

10.1.1. Revenue from sale of goods and services

	Six months ended Jun 30 2019	*12 months ended Dec 31 2018*	*Six months ended June 30 2018*
Net revenue from sale of products	41,441	44,085	271,216
including: from related entities	350	3,796	342
Net revenue from sale of services	377,230	591,578	39,412
including: from related entities	1,886	5,655	1,416
Revenue from sale of other goods	1,833	4,382	2,550
Other income	–	317	–
Exchange differences on trade receivables	(278)	155	–
Net revenue from sale of goods and services, total	**420,226**	**640,517**	**313,178**
including: from related entities	2,236	9,451	1,758

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

In the six months ended June 30th 2019, the Company generated revenue of PLN 421,003 thousand, up PLN 106,702 thousand year on year, with the growth reflecting mainly increased engagement in ongoing projects, including in the contract to build a biofuel-fired co-generation unit for UAB VILNIAUS KOGENERACINĖ JĖGAINĖ of Lithuania, as well as the commencement of large contracts in the new oil and gas segment.

(PLN '000)

10.1.2. 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 materials	777	2,796	1,123
including: from related entities	–	–	–
Net revenue from sale of merchandise and materials, total	**777**	**2,796**	**1,123**
including: from related entities	–	–	–

10.1.3. 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	206,201	376,594	203,354
including: from related entities	2,237	5,954	1,758
Revenue from sales to foreign customers	214,802	266,719	110,947
including: from related entities	–	3,497	–
Net sales revenue, total	**421,003**	**643,313**	**314,301**
including: from related entities	2,237	9,451	1,758

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

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

Trading partner	*% of total sales*	*Six months ended Jun 30 2019*
UAB VILNIAUS KOGENERACINĖ JĖGAINĖ	27.3%	114,860
Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	14.8%	62,492
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	13.7%	57,542
Other	44.2%	186,109
Total	**100%**	**421,003**

(PLN '000)

10.1.4. Operating segments

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

For the six months ended June 30th 2019 or as at June 30th 2019	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Revenue			
Sales to external customers	63,177	357,826	421,003
Inter-segment sales	–	–	–
Total segment revenue	63,177	357,826	421,003
Cost of products and materials sold	(58,208)	(438,033)	(496,241)
Total			
Gross profit/(loss)	4,969	(80,207)	(75,238)
Other income/(expenses)	(1,685)	(34,295)	(35,980)
Operating profit/(loss)	3,284	(114,502)	(111,218)
Finance income/(costs)	3	(1,058)	(1,055)
Profit/(loss) before tax	3,287	(115,560)	(112,273)
Income tax expense	–	(4,457)	(4,457)
Segment's net profit/(loss)	**3,287**	**(120,017)**	**(116,730)**
Results			
Depreciation and amortisation	(102)	(6,341)	(6,443)
Share of profit of associates and joint ventures	–	–	–
Assets and liabilities as at June 30th 2019			
Segment assets	97,282	895,374	992,656
Segment liabilities	25,406	689,646	715,052
Other information			
Investments in associates and joint ventures	–	–	–
Capital expenditure	–	–	–

(PLN '000)

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

Product group name	*Six months ended Jun 30 2019*	*Six months ended Jun 30 2018*
Power generation units and steam generators	159,543	58,609
Revenue under the Jaworzno 910 MW Project	4,576	35,712
Air pollution control systems	88,407	151,131
Power equipment, machinery and components, and related services	98,975	61,931
Services and products for oil and gas sector	63,177	3,603
Other revenue	6,325	3,315
Total	**421,003**	**314,301**

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

In the six months ended June 30th 2019, cost of sales was PLN 496,241 thousand. As a combined effect of the Company's revenue and cost of sales, gross loss reached PLN 75,238 thousand.

In the current reporting period, distribution costs of PLN 12,148 thousand recognised in the statement of profit or loss comprise costs of bid preparation and costs of PR and marketing activities.

The largest component of other income was PLN 2,663 thousand income from a surety provided to the subsidiary E003B7 Sp. z o.o. (June 30th 2018: PLN 2,687 thousand). Furthermore, in the first six months of 2019, the Company reversed impairment losses on assets in the amount of PLN 119 thousand, including reversal of impairment losses on property, plant and equipment of PLN 63 thousand.

Other expenses chiefly included impairment losses on contract receivables of PLN 1,449 thousand and donations of PLN 818 thousand (June 30th 2018: PLN 202 thousand).

In the first six months of 2019, the Company's finance income came mainly from a discount on long-term accounts receivable and payable of PLN 2,477 thousand (June 30th 2018: PLN 2,364 thousand), and interest on financial instruments of PLN 386 thousand (June 30th 2018: PLN 238 thousand).

Finance costs in the period chiefly included interest on financial instruments of PLN 1,958 thousand (June 30th 2018: PLN 1,306 thousand), interest on employee benefit obligations of PLN 360 thousand (June 30th 2018: PLN 365 thousand) and net foreign exchange losses of PLN 1,012 thousand.

10.3 Income tax

Income tax expense

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

	Six months ended Jun 30 2019	*Six months ended Jun 30 2018*
Statement of profit or loss		
Current tax	–	–
Current income tax expense	–	–
Adjustments to current income tax from previous years	–	–
Deferred tax	(4,457)	(10,771)
Related to recognition and reversal of temporary differences	(4,457)	(10,771)
Adjustments to deferred tax from previous years	–	–
Income tax expense in the statement of profit or loss	**(4,457)**	**(10,771)**

	Six months ended Jun 30 2019	*Six months ended Jun 30 2018*

Deferred tax on other comprehensive income	96	89
Related to recognition and reversal of temporary differences	96	89
Income tax expense recognised in other comprehensive income	**96**	**89**

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 for the six months ended*	
	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	(14,931)	(14,165)	(766)	324
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,740	2,113	(373)	(442)
- difference between tax base and carrying amount of loans and receivables	4,277	4,117	160	190
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(50,999)	(28,506)	(22,493)	(14,053)
- difference between tax base and carrying amount of inventories	1,945	1,954	(9)	(23)
- provisions	14,994	11,248	3,746	(4,266)
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	28	27	1	18
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	69,395	39,418	29,977	9,038
- tax loss	–	16,178	(16,178)	(1,239)
- adjustment to costs of unpaid invoices	3,652	3,856	(204)	(464)
- other	1,843	66	1,777	235
Deferred tax expense/benefit disclosed in the statement of profit or loss			(4,457)	(10,771)
Deferred tax expense/benefit disclosed in other comprehensive income			96	89
			(4,361)	(10,682)
Net deferred tax asset/(liability) including:	**31,943**	**36,304**		
Deferred tax assets	31,943	36,304		
Deferred tax liability	–	–		

In the six months ended June 30th 2019, the Company 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 Company recorded a tax loss of PLN 2,977 thousand. The Company assessed its ability to realise a deferred tax asset on account of a tax loss based on tax forecasts. In line with the prudent valuation principle, the Company's Management Board decided not to recognise a deferred tax asset on the tax loss recorded in the 12 months ended December 31st 2018.

11.1. Significant items of the statement of cash flows

The PLN 86,667 thousand decrease in receivables disclosed in the statement of cash flows for the six months ended June 30th 2019 resulted mainly from:

- PLN 72,330 thousand decrease in trade receivables,
- PLN 1,140 thousand decrease in receivables from the state budget (including VAT),
- PLN (6,997) thousand increase in advance payments made,
- PLN 13,519 thousand decrease in security deposits receivable,
- PLN (3,001) thousand increase in receivables under sureties,
- PLN 9,676 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 11.12.

The PLN 58,397 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

- PLN 72,617 thousand decrease in trade payables,
- PLN (10,268) thousand increase in taxes and other duties payable,
- PLN 2,172 thousand decrease in employee benefit obligations and provisions (net of actuarial gains/(losses)),
- PLN (6,124) thousand increase in other liabilities.

The PLN (37,683) thousand change in gross amounts due to and from customers for contract work, disclosed in the statement of cash flows, was mainly caused by:

- PLN (136,869) thousand increase in amounts due from customers for contract work,
- PLN 99,186 thousand decrease in gross amount due to customers for contract work.

The PLN 14,363 thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN 277 thousand increase in the provision for warranty repairs,
- PLN 17,821 thousand increase in the provision for expected contract losses,
- PLN (3,593) thousand change in accruals and deferrals,
- PLN (142) thousand change in other provisions.

The cash flows of PLN 321 thousand relating to the acquisition of property, plant and equipment and intangible assets resulted from the purchase of property, plant and equipment for PLN 214 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 Company by PKO BP S.A.

(PLN '000)

11.2. Goodwill and intangible assets

Jun 30 2019	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2019	**1,774**	**7,565**	**29**	**9,368**
Acquisitions	–	–	108	108
Transfers from intangible assets under development	–	137	(137)	–
Amortisation for the year	–	(688)	–	(688)
As at Jun 30 2019	**1,774**	**7,014**	–	**8,788**

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

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

Jun 30 2018	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2018	**1,774**	**8,041**	**698**	**10,513**
Acquisitions	–	–	212	212
Transfers from intangible assets under development	–	860	(860)	–
Amortisation for the year	–	(732)	–	(732)
As at Jun 30 2018	**1,774**	**8,169**	**50**	**9,993**

(PLN '000)

11.3. Property, plant and equipment

For the six months ended Jun 30 2019	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2019	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**132,814**
Adjustment to opening balance following implementation of IFRS 16	–	–	(476)	(4,156)	–	(4,632)
Net carrying amount as at Jan 1 2019	**9,184**	**76,752**	**41,227**	**1,019**	**–**	**128,182**
Acquisitions	–	–	–	–	241	241
Liquidation/sale	–	–	(115)	(21)	–	(136)
Transfers from property, plant and equipment under construction	–	96	145	–	(241)	
Depreciation for period	–	(1,345)	(2,433)	(192)	–	(3,970)
Impairment of property, plant and equipment in period	–	–	63	1	–	64
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	69	1,188	–	1,257
Net carrying amount as at Jun 30 2019	**9,184**	**75,503**	**38,956**	**1,995**	**–**	**125,638**

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

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

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

(PLN '000)

for the six months ended June 30th 2018	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2018	**9,232**	**79,329**	**46,303**	**5,495**	**5**	**140,364**
Acquisitions	–	–	–	–	502	502
Lease contracts	–	–	179	1,388	–	1,576
Liquidation/sale	(48)	(5)	(31)	(8)	–	(92)
Transfers from property, plant and equipment under construction	–	–	408	–	(408)	–
Exchange differences on translating foreign operations	–	–	(11)	–	–	(11)
Depreciation for period	–	(1,315)	(2,586)	(681)	–	(4,582)
Impairment losses for period	–	–	3	(5)	–	(2)
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	18	–	–	18
Net carrying amount as at Jun 30 2018	**9,184**	**78,009**	**44,283**	**6,189**	**99**	**137,764**

(PLN '000)

11.4. 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*	1,248	2,281
Proceeds from sale of property, plant and equipment	163	150

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

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

11.5. Right-of-use assets

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

	Land	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Total*
As at Jan 1 2019					
Gross carrying amount	–	–	738	6,621	7,359
Adjustment to opening balance following implementation of IFRS 16	249	1,322	5,526	49	7,146
Accumulated depreciation and impairment	–	–	(261)	(2,466)	(2,727)
Net carrying amount	**249**	**1,322**	**6,003**	**4,204**	**11,778**
As at Jun 30 2019					
Gross carrying amount	249	1,435	6,270	4,541	12,495
Accumulated depreciation and impairment	(57)	(392)	(1,191)	(1,167)	(2,807)
Net carrying amount	**192**	**1,043**	**5,079**	**3,374**	**9,688**

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

(PLN '000)

As at 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	2,842	2,562	1,373	1,148
from 1 to 5 years	3,872	3,811	1,376	1,223
Total minimum lease payments	**6,714**	**6,373**	**2,749**	**2,371**
Less finance costs	(341)	–	(378)	–
Present value of minimum lease payments, including:	**6,373**	**6,373**	**2,371**	**2,371**
short-term	2,562	2,562	1,148	1,148
long-term	3,811	3,811	1,223	1,223

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

	Jun 30 2019
Short-term leases	1,201
Leases of low-value assets	–
Total	**1,201**

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

11.6. Other long-term receivables

	Jun 30 2019	*Dec 31 2018*
Financial receivables		
Security deposits/retentions	2,907	233
Other long-term receivables	1,060	4,991
Total long-term receivables, net	**3,967**	**5,224**

11.7. Shares in subsidiaries and other entities

	Jun 30 2019	*Dec 31 2018*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	35,142	35,132
Shares in other listed companies	125	160
Shares in other non-listed companies	1,376	1,228
	36,643	**36,520**

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

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

11.8. Other non-current financial assets

	Jun 30 2019	*Dec 31 2018*
Receivables under sureties provided to related entities	25,177	22,176
Long-term bonds	–	14,066
	25,177	**36,242**

11.8.1. Bonds

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

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

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

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

Redemption Date	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.

(PLN '000)

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

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

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

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

11.9. Inventories

	Jun 30 2019	*Dec 31 2018*
Materials (at net realisable value)	28,882	29,391
At cost	38,938	39,678
At net realisable value	28,882	29,391
Total inventories, at the lower of cost and net realisable value	**28,882**	**29,391**

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

11.10. Other current financial assets

	Jun 30 2019	*Dec 31 2018*
Other current financial assets, including:	23,673	7,608
Advance payment to acquire the right to a loan	10,400	10,400
Impairment loss on advance payment to acquire the right to a loan	(10,400)	(10,400)
Short-term bonds	23,673	7,608
	23,673	**7,608**

* For a detailed description of bonds, see Note 11.8.1

(PLN '000)

11.11. Cash and cash equivalents

	Jun 30 2019	*Dec 31 2018*	*Jun 30 2018*
Cash at bank and in hand	29,244	5,386	69,234
Short-term deposits for up to 3 months, including:	26	18	49
- deposits pledged as security for contingent liabilities	–	–	–
	29,270	**5,404**	**69,283**

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

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

11.12. Short-term trade and other receivables

	Jun 30 2019	*Dec 31 2018*
Financial receivables		
Trade receivables	117,243	198,667
Impairment losses on trade receivables (-)	(5,706)	(18,731)
Net trade receivables	**111,537**	**179,936**
Receivables on sale of property, plant and equipment and intangible assets	–	252
Security deposits	72,262	88,455
Receivables under court proceedings*	16,465	25,869
Other financial receivables	10,483	10,483
Impairment losses on financial receivables (-)	(24,134)	(24,189)
Total financial receivables, net	**186,613**	**280,806**
Non-financial receivables		
Receivables under prepayments and advance payments	106,370	99,373
Receivables from the state budget	8,761	9,901
Other non-financial receivables	5,276	5,664
Impairment losses on non-financial receivables (-)	(3,037)	(3,100)
Total non-financial receivables, net	**117,370**	**111,838**
Total short-term receivables, net	**303,983**	**392,644**

* The Company recognised an impairment loss on the receivables in an amount corresponding to the risk of their non-recoverability. For a detailed description of disputed receivables, see Note 0 to these interim condensed financial statements.

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

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

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

(PLN '000)

Short-term trade receivables of PLN 111,537 thousand recognised in the statement of financial position as at June 30th 2019 relate to trading contracts with domestic and foreign trading partners.

Security deposits of PLN 72,262 thousand disclosed in the 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.

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 106,370 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.

11.13. Short-term prepayments and accrued income

	Jun 30 2019	*Dec 31 2018*
Prepayments and accrued income		
Costs of bank and insurance guarantees	4,672	3,572
Costs of obtaining contracts with customers	1,260	2,938
Other costs	11,457	8,791
Prepayments and accrued income	**17,389**	**15,301**

(PLN '000)

11.14. Impairment of assets

	*Shares**	*Other financial assets*	*Other non-financial assets*	*Inventories***	*Prepayments and accrued income relating to accounting for construction contracts*	*Receivables****
Jan 1 2019	**(4,973)**	**(10,400)**	**(5,676)**	**(10,287)**	**(1,848)**	**(46,020)**
Recognised	(37)	–	–	–	(1,448)	(1,868)
Used	–	–	–	231	–	13,290
Reversed	–	–	–	–	–	1,722
Jun 30 2019	**(5,010)**	**(10,400)**	**(5,676)**	**(10,056)**	**(3,296)**	**(32,876)**
Jan 1 2018	**(4,973)**	**(10,500)**	**(5,676)**	**(11,105)**	**–**	**(33,155)**
Adjustment of opening balance	–	–	–	–	(1,341)	(12,181)
Jan 1 2018	**(4,973)**	**(10,500)**	**(5,676)**	**(11,105)**	**(1,341)**	**(45,336)**
Recognised	(56)	–	–	(464)	(562)	(693)
Used	–	–	–	450	–	–
Reversed	–	–	–	136	–	104
Jun 30 2018	**(5,029)**	**(10,500)**	**(5,676)**	**(10,983)**	**(1,903)**	**(45,925)**

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

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

(PLN ‘000)

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

		Trade receivables						
	Contract assets	Current	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	345,314	78,226	5,265	250	2,742	366	1,378	433,541
Impairment loss	(3,296)	(668)	(45)	(80)	(1,520)	(249)	(1,321)	(7,179)
Location: outside Poland	–							
Impairment loss rate	–	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	**(3,296)**	**(888)**	**(63)**	**(80)**	**(2,801)**	**(485)**	**(1,389)**	**(9,002)**

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

As at 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 99,210 thousand (December 31st 2018: a PLN 24,189 thousand impairment loss on other receivables in a gross amount of PLN 125,059 thousand).

(PLN '000)

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

11.15.1. Property, plant and equipment pledged as security

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

	Jun 30 2019	*Dec 31 2018*
Mortgaged property, plant and equipment, including:	84,228	85,754
land	9,162	9,162
buildings and structures	75,066	76,592
Property, plant and equipment encumbered with registered pledge, including:	41,483	42,640
plant and equipment	39,317	41,400
vehicles	2,166	1,200
	125,711*	**128,394***

* The disclosed amounts include PLN 101 thousand of property, plant and equipment classified as held for sale (December 31st 2018: PLN 163 thousand).

11.15.2. Intangible items pledged as security

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

11.15.3. Shares pledged as security

As at June 30th 2019, PLN 36,643 thousand (December 31st 2018: PLN 36,520 thousand) worth of the Company'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.).

11.15.4. Inventories pledged as security

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

11.15.5. Trade receivables pledged as security

As at 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).

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

11.17. Par value per share

The par value of the shares is PLN 2 per share. The shares were taken up for cash.

11.18. Shareholders' rights

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

11.19. Share premium

In the 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.

11.20. Earnings /(loss) per share

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

(PLN '000)

Presented below is data on the net profit/(loss) and shares 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	(116,730)	1,665
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(116,730)	1,665
Net profit/(loss) attributable to holders of ordinary shares used to calculate earnings/(loss) per share	**(116,730)**	**1,665**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	127,431,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	127,431,998	127,431,998
Earnings/(loss) per share		
– basic/diluted earnings/(loss) from profit/(loss) for period	(0.92)	0.01

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

11.21. Other non-current liabilities

	Jun 30 2019	*Dec 31 2018*
Financial liabilities		
Other non-current liabilities	9,627	9,647
	9,627	**9,647**

11.22. Long-term employee benefit obligations and provisions

	Jun 30 2019	*Dec 31 2018*
Unpaid bonus accrual	5	13
Provision for retirement gratuity	6,986	6,838
Provision for length-of-service awards	12,510	12,197
Provision for other employee benefits	4,306	4,447
	23,807	**23,495**

(PLN '000)

11.23. Post-employment and other benefits

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

	Jun 30 2019	*Dec 31 2018*
As at Jan 1	26,097	23,185
Interest expense	360	741
Current service costs	275	540
Actuarial (gains)/losses	506	4,275
Benefits paid	(728)	(2,644)
Closing balance	**26,510**	**26,097**
Long-term provisions	23,802	23,482
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

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

11.24. Other long-term provisions

	Jun 30 2019	*Dec 31 2018*
Provision for warranty repairs	15,850	14,515
	15,850	**14,515**

11.25. Short-term trade and other payables

	Jun 30 2019	*Dec 31 2018*
Financial liabilities		
Trade payables	249,337	176,700
Amounts payable for tangible and intangible assets	245	217
Retentions (security deposits)	260	259
Other financial liabilities	–	199
Total financial liabilities	**249,842**	**177,375**

(PLN '000)

	Jun 30 2019	*Dec 31 2018*
Non-financial liabilities		
Taxes and other duties payable	6,557	16,825
Other non-financial liabilities	6,811	12,229
Total non-financial liabilities	**13,368**	**29,054**
	263,210	**206,429**

11.26. Short-term employee benefit obligations and provisions

	Jun 30 2019	*Dec 31 2018*
Social security	6,409	6,488
Salaries and wages payable	6,624	6,179
Amounts payable under voluntary redundancy programme	–	145
Accrued holiday entitlements	4,464	2,929
Unpaid bonus accrual	745	733
Provision for retirement gratuity	598	540
Provision for length-of-service awards	1,766	1,754
Provision for other employee benefits	345	323
	20,951	**19,091**

11.27. Other short-term provisions

	Jun 30 2019	*Dec 31 2018*
Provision for warranty repairs	7,378	8,436
Provision for expected contract losses	21,898	4,077
Other provisions	433	575
	29,709	**13,088**

12. Objectives and policies of financial risk management

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

13. Financial instruments

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

The value of financial assets presented in the statement of financial position as at 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).

(PLN '000)

Classes and categories of financial assets	*Carrying amount Jun 30 2019*	*Carrying amount 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	**1,376**	**1,228**
Long-term shareholdings	1,376	1,228
Assets at amortised cost	**239,430**	**329,880**
Bonds	23,673	21,674
Trade receivables	112,597	184,927
Receivables on sale of property, plant and equipment and intangible assets	–	252
Other financial receivables*	77,983	100,851
Other financial assets	25,177	22,176
Cash and cash equivalents	**29,270**	**5,404**
	270,201	**336,672**

** 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).

Classes and categories of financial liabilities	*Carrying amount Jun 30 2019*	*Carrying amount Dec 31 2018*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**372,687**	**287,853**
Borrowings	113,218	100,831
Trade payables (including capital commitments)	259,209	186,564
Other financial liabilities	260	458
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**6,373**	**2,371**
Liabilities under leases and rental contracts with purchase option	6,373	2,371
	379,060	**290,224**

(PLN '000)

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	**1,376**	–	–
Long-term shareholdings	1,376	–	–

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

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

14. Derivative instruments

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

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

(PLN '000)

15. Borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						Jun 30 2019	*Dec 31 2018*
Short-term borrowings:							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.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 EUR	1M WIBOR or 1M EURIBOR + margin	Jun 30 2020****	44,276	40,750
						113,218	**100,831**

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

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

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

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

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

(PLN '000)

16. Capital management

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

	Jun 30 2019	*Dec 31 2018*
Debt to equity		
Equity	277,604	394,426
Borrowed funds (bank and non-bank borrowings)	113,218	100,831
Total equity and liabilities	992,656	917,735
Capitalisation ratio (equity / total assets)	**0.28**	**0.43**
Total financing sources		
Equity	277,604	394,426
Borrowed funds (bank and non-bank borrowings)	113,218	100,831
Finance leases	6,373	2,371
Capital-to-total financing sources ratio	**2.32**	**3.82**
EBITDA		
Operating profit/(loss)	(111,218)	3,703
Depreciation and amortisation	6,443	10,904
EBITDA	**(104,775)**	**14,607**
Debt		
Borrowings and other debt instruments	113,218	100,831
Finance leases	6,373	2,371
Debt to EBITDA	**(1.14)**	**7.07**

(PLN '000)

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

	*Provision for expected losses on contracts**	*Provision for length-of-service awards, retirement gratuity payments and Company Social Benefits Fund*	*Provision for unused holiday entitlement*	*Provision for warranty repairs*	*Provision for for liquidated damages*	*Employee benefit obligations*	*Provision for credit losses on sureties*	*Provision for voluntary redundancy programme*	*Restructuring provision*	*Provision for other costs*	*Other provisions*
Jan 1 2019	**4,077**	**26,096**	**2,928**	**22,951**	**–**	**747**	**1,549**	**145**	**–**	**1,531**	**139**
Provision recognised	22,514	1,159	1,536	5,640	–	26	–	–	–	–	142
Reversed	(4,693)	(18)	–	(1,576)	–	(2)	(70)	(4)	–	(48)	–
Utilised	–	(728)	–	(3,787)	–	(21)	–	(141)	–	–	(139)
Jun 30 2019	**21,898**	**26,509**	**4,464**	**23,228**	**–**	**750**	**1,479**	**–**	**–**	**1,483**	**142**
Jan 1 2018	**15,843**	**23,185**	**3,875**	**17,489**	**8,069**	**1,118**	**–**	**1,596**	**8,368**	**3,936**	**75**
Adjustment to opening balance	(1,754)	–	–	12,295	1,691	–	1,618	–	–	–	–
Jan 1 2018	**14,089**	**23,185**	**3,875**	**29,784**	**9,760**	**1,118**	**1,618**	**1,596**	**8,368**	**3,936**	**75**
Recognised	1,239	1,237	314	8,772	295	3,813	–	–	–	249	142
Reversed	(13,653)	(170)	–	–	–	(413)	–	(103)	(5,747)	(96)	–
Utilised	–	(757)	–	(14,786)	(3,404)	(19)	–	(688)	(1,443)	(34)	(75)
Jun 30 2018	**1,675**	**23,495**	**4,189**	**23,770**	**6,651**	**4,499**	**1,618**	**805**	**1,178**	**4,055**	**142**

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

(PLN '000)

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

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

18. Dividends paid or declared

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

19. Capital commitments

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

As at June 30th 2019, the Company had not signed agreements envisaging any capital expenditure to be made in 2019 and not disclosed in the accounting books at the end of the reporting period.

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

	Jun 30 2019	*Dec 31 2018*
Receivables under bank guarantees received mainly as security for performance of contracts, including:	225,037	226,019
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	62,731	64,159
- from related entities	53,950	55,657
Letters of credit	–	–
	287,768	**290,178**

	Jun 30 2019	*Dec 31 2018*
Liabilities under bank guarantees issued mainly as security for contract performance, including:	527,782	416,053
- to related entities		–
Liabilities under sureties, including:	1,182,207	1,238,500
- to related entities	1,182,207	1,238,500
Promissory notes issued as security, including:	21,478	21,978
- to related entities	–	–
	1,731,467	**1,676,531**

In the first six months of 2019, RAFAKO S.A. recorded a PLN 54,936 thousand increase in contingent liabilities, which resulted from an increase in guarantees granted. In the period, a number of guarantees were issued by banks and insurance companies to trading partners upon the Company'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.

(PLN '000)

As at June 30th 2019, the Company had access to available guarantee facilities totalling PLN 541,246.9 thousand, including bank guarantee limits of PLN 287,336.1 thousand and insurance guarantee limits of PLN 253,910.8 thousand.

In the first six months of 2019, the Company's contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 2,410 thousand, including a decrease of PLN 982 thousand in receivables under bank and insurance guarantees and a decrease of PLN 1,428 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.

21. Litigation and disputes

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

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

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

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

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

22. Management Board and Supervisory Board

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

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

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

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

The Supervisory Board also decided to announce a competition for the position of President of the Company's Management Board.

As at the date of these interim condensed financial statements, the composition of the 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 financial statements, there were no changes in the composition of the Company's Supervisory Board.

(PLN '000)

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

Helena Fic	– Chair of the Supervisory Board (delegated to temporarily serve as President of the Management Board)
Małgorzata Wiśniewska	– Deputy Chair 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

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

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

In the reporting and comparative periods, the Company did not enter into any transactions with members of its Management or Supervisory Boards, other than the transactions described in Note 24.24

24. Related-party transactions

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

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

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

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:	2,259	1,784
Entities related through personal links:	24	–
TOTAL	**2,283**	**1,784**

	Receivables	
	Jun 30 2019	*Dec 31 2018*
Sales to:		
Entities related through equity links:	93,283*	87,398*
Entities related through personal links:	8	510
TOTAL	**93,291**	**87,908**

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

(PLN '000)

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:	53,836	25,856
Entities related through personal links:	577	566
TOTAL	**54,413**	**26,422**

	Liabilities	
	Jun 30 2019	*Dec 31 2018*
Purchases from:		
Entities related through equity links:	23,037	3,624
Entities related through personal links:	262	75
TOTAL	**23,299**	**3,699**

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

The Company has not published any forecasts for 2019.

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

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

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

	Company name	*As at 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 22

28. 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.

29. 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	992,656	923,280	233,456	214,716
Non-current liabilities	53,095	48,072	12,487	11,180
Current liabilities	661,957	480,464	155,681	111,736
Equity	277,604	394,744	65,288	91,801
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	421,003	314,301	98,044	74,136
Operating profit/(loss)	(111,218)	9,183	(25,901)	2,166
Profit/(loss) before tax	(112,273)	12,435	(26,146)	2,933
Net profit/(loss)	(116,730)	1,664	(27,184)	392
Earnings per share (PLN)	(0.92)	0.01	(0.21)	0.00
Average PLN/EUR exchange rate in the period			4.2940	4.2395

	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 cash flows				
Net cash from operating activities	16,768	(100,854)	3,905	(23,789)
Net cash from investing activities	(63)	(1,972)	(15)	(465)
Net cash from financing activities	7,161	13,313	1,668	3,140
Net increase/(decrease) in cash and cash equivalents	23,866	(89,513)	5,558	(21,114)
Average PLN/EUR exchange rate in the period			4.2940	4.2395

30. Events after the reporting period

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 financial statements, the Company presented changes in the status of its dispute with Wärtsilä Finland Oy relative to that presented in the Company's most recent financial statements for the year ended December 31st 2018.

The negotiations held with that 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.

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 Company 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 Company'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.

31. Authorisation for issue

These interim condensed financial statements of the Company 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	....