RAFAKO S.A.

PBG GROUP

INTERIM CONDENSED FINANCIAL STATEMENTS

for the three months ended March 31st 2020

July 28th 2020

Table of contents

(PLN thousand)

Interim condensed statement of comprehensive income
for the three months ended March 31st 2020

	Note	*3 months ended March 31st 2020*	*3 months ended March 31st 2019*
Continuing operations			
Revenue	11.1	**236,901**	**216,696**
Revenue from sale of goods and services		236,194	216,254
Revenue from sale of materials		707	442
Cost of products and services sold	11.2	(221,067)	(199,430)
Cost of materials sold		(410)	(298)
Gross profit/(loss)		**15,424**	**16,968**
Other income	11.2	7,574	2,801
Selling expenses		(4,145)	(5,460)
Administrative expenses		(9,420)	(8,970)
Other expenses	11.2	(2,843)	(2,040)
Research costs		(1,191)	(2,305)
Operating profit/(loss)		**5,399**	**994**
Finance income	11.2	2,895	1,498
Finance costs	11.2	(2,102)	(1,656)
Profit/(loss) before tax		**6,192**	**836**
Income tax	11.3	(121)	(546)
Net profit/(loss) from continuing operations		**6,071**	**290**

(PLN thousand)

Interim condensed statement of comprehensive income

for the three months ended March 31st 2020

	Note	*3 months ended March 31st 2020*	*3 months ended March 31st 2019*
Other comprehensive income for period		**(518)**	**(248)**
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Exchange differences on translating foreign operations		–	–
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		–	–
Items that will not be reclassified to profit or loss in subsequent reporting periods			
Other comprehensive income from actuarial gains/(losses)		(639)	(305)
Tax on other comprehensive income	11.3	121	57
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(518)**	**(248)**
Comprehensive income for reporting period		**5,553**	**42**
Weighted average number of shares		127,431,998	127,431,998
Basic earnings/(loss) per share, PLN		0.05	0.00
Diluted earnings/(loss) per share, PLN		0.05	0.00

Racibórz, July 28th 2020

Agnieszka Wasilewska-Semail	Jacek Drozd	Radosław Domagalski-Łabędzki	Michał Sikorski	Jolanta Markowicz
Acting President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Member of the Supervisory Board delegated to serve on the Management Board	Chief Accountant

(PLN thousand)

Interim condensed statement of financial position

as at March 31st 2020

	Note	*March 31st 2020*	*December 31st 2019*	*March 31st 2019*
ASSETS				
Non-current assets				
Property, plant and equipment	11.6	120,385	122,381	117,930
Goodwill		1,774	1,774	1,774
Intangible assets		6,293	6,519	7,325
Right-of-use assets	11.8	8,642	8,524	19,914
Other long-term receivables	11.9	81,957	42,716	5,992
Shares	11.10	31,272	31,310	36,656
Other non-current financial assets	11.11	29,817	28,148	38,494
Deferred tax assets	11.3	37,226	37,226	35,816
Long-term accrued expenses and deferred income		4,080	4,795	4,014
		321,446	**283,393**	**267,915**
Current assets				
Inventories	11.12	30,773	27,205	29,272
Short-term trade and other receivables	11.15	378,628	363,827	301,914
Contract assets	10	179,270	213,552	308,646
Other current financial assets	11.13	–	–	7,997
Cash and cash equivalents	11.14	4,910	23,917	36,806
Short-term accrued expenses and deferred income	11.16	21,854	20,591	16,193
		615,435	**649,092**	**700,828**
Non-current assets held for sale		382	103	101
TOTAL ASSETS		**937,263**	**932,588**	**968,844**

(PLN thousand)

Interim condensed statement of financial position

as at March 31st 2020

	Note	*March 31st 2020*	*December 31st 2019*	*March 31st 2019*
EQUITY AND LIABILITIES				
Equity				
Share capital	11.19	254,864	254,864	254,864
Share premium	11.22	165,119	165,119	165,119
Statutory reserve funds		15,902	15,902	11,600
Retained earnings/accumulated losses, including:		(325,803)	(331,356)	(36,797)
Profit/(loss) brought forward		(331,874)	(46,712)	(37,087)
Net profit/(loss) for period		6,071	(284,644)	290
		110,082	**104,529**	**394,786**
Non-current liabilities				
Finance lease liabilities		1,558	1,704	1,977
Employee benefit obligations and provisions	11.25	29,986	29,334	23,675
Other non-current liabilities	11.24	16,762	18,556	9,651
Other long-term provisions	11.27	19,755	18,430	14,963
		68,061	**68,024**	**50,266**
Current liabilities				
Bank and other borrowings	15	76,977	112,021	106,763
Finance lease liabilities		4,552	4,037	5,184
Short-term trade and other payables	11.28	378,150	370,096	205,005
Employee benefit obligations and provisions	11.29	19,955	19,228	21,125
Contract liabilities	10	242,042	208,444	176,096
Other short-term provisions	11.30	36,809	45,840	9,084
Short-term accrued expenses and deferred income		210	139	210
Grants		425	230	325
		759,120	**760,035**	**523,792**
Total liabilities		**827,181**	**828,059**	**574,058**
TOTAL EQUITY AND LIABILITIES		**937,263**	**932,588**	**968,844**

Racibórz, July 28th 2020

Agnieszka Wasilewska-Semail	Jacek Drozd	Radosław Domagalski-Łabędzki	Michał Sikorski	Jolanta Markowicz
Acting President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Member of the Supervisory Board delegated to serve on the Management Board	Chief Accountant

(PLN thousand)

Interim condensed statement of cash flows

for the three months ended March 31st 2020

	Note	*3 months ended March 31st 2020*	*12 months ended December 31st 2019*	*3 months ended March 31st 2019*
Cash flows from operating activities				
Profit/(loss) before tax		**6,192**	**(284,260)**	**836**
Adjustments for:		**11,960**	**301,695**	**27,674**
Depreciation and amortisation		2,970	12,659	3,228
Foreign exchange gains/(losses)		–	–	–
Interest and dividends, net		1,152	4,813	1,198
(Gain)/loss from investing activities		378	26,988	(1,149)
(Increase)/decrease in receivables	11.4	(55,710)	(14,900)	88,177
(Increase)/decrease in inventories		(3,568)	2,186	119
Increase/(decrease) in liabilities and provisions, excluding borrowings	11.4	7,045	171,729	549
Change in provisions, accruals and deferrals	11.4	(8,184)	30,583	(4,389)
Change in contract assets and liabilities	11.4	67,880	67,385	(60,057)
Income tax (paid)/received		–	–	–
Other		(3)	252	(2)
Net cash from operating activities		**18,152**	**17,435**	**28,510**
Cash flows from investing activities				
Sale of property, plant and equipment and intangible assets		266	477	360
Purchase of property, plant and equipment and intangible assets	11.4	(693)	(701)	(243)
Purchase of financial assets		–	(153)	(148)
Other		–	–	–
Net cash from investing activities		**(427)**	**(377)**	**(31)**
Cash flows from financing activities				
Payment of finance lease liabilities		(769)	(4,386)	(1,174)
Proceeds from borrowings		–	11,197	5,638
Repayment of borrowings	11.4	(35,250)	–	–
Interest paid		(784)	(3,533)	(815)
Bank fees		(128)	(1,015)	(6)
Other		199	(808)	(720)
Net cash from financing activities		**(36,732)**	**1,455**	**2,923**
Net increase/(decrease) in cash and cash equivalents		(19,007)	18,513	31,402
Net foreign exchange gains/(losses)		–	–	–
Cash at beginning of period	11.14	23,917	5,404	5,404
Cash at end of period	11.14	4,910	23,917	36,806

Racibórz, July 28th 2020

Agnieszka Wasilewska-Semail	Jacek Drozd	Radosław Domagalski-Łabędzki	Michał Sikorski	Jolanta Markowicz
Acting President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Member of the Supervisory Board delegated to serve on the Management Board	Chief Accountant

(PLN thousand)

Interim condensed statement of changes in equity

for the three months ended March 31st 2020

	Share capital	*Share premium*	*Statutory reserve funds*	*Retained earnings/ accumulated losses*	*Total equity*
As at January 1st 2020	**254,864**	**165,119**	**15,902**	**(331,356)**	**104,529**
Profit/(loss) from continuing operations	–	–	–	6,071	6,071
Other comprehensive income	–	–	–	(518)	(518)
As at March 31st 2020	**254,864**	**165,119**	**15,902**	**(325,803)**	**110,082**
As at January 1st 2019	**254,864**	**165,119**	**11,600**	**(37,157)**	**394,426**
Adjustment to opening balance following implementation of new IFRS	–	–	–	318	318
As at January 1st 2019	**254,864**	**165,119**	**11,600**	**(36,839)**	**394,744**
Profit/(loss) from continuing operations	–	–	–	290	290
Other comprehensive income	–	–	–	(248)	(248)
As at March 31st 2019	**254,864**	**165,119**	**11,600**	**(36,797)**	**394,786**

(PLN thousand)

Interim condensed statement of changes in equity

for the three months ended March 31st 2020

	Share capital	*Share premium*	*Statutory reserve funds*	*Retained earnings/ accumulated losses*	*Total equity*
As at January 1st 2019	**254,864**	**165,119**	**11,600**	**(37,157)**	**394,426**
Adjustment to opening balance following implementation of new IFRS	–	–	–	318	318
As at January 1st 2019	**254,864**	**165,119**	**11,600**	**(36,839)**	**394,744**
Profit/(loss) from continuing operations	–	–	–	(284,644)	(284,644)
Other comprehensive income	–	–	–	(5,571)	(5,571)
Distribution of retained earnings	–	–	4,302	(4,302)	–
As at December 31st 2019	**254,864**	**165,119**	**15,902**	**(331,356)**	**104,529**

Racibórz, July 28th 2020

Agnieszka Wasilewska-Semail	Jacek Drozd	Radosław Domagalski-Łabędzki	Michał Sikorski	Jolanta Markowicz
Acting President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Member of the Supervisory Board delegated to serve on 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 located 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 three months ended March 31st 2020 were authorised for issue by the Management Board of the Company on July 28th 2020.

The Company has also prepared interim condensed consolidated financial statements for the three months ended March 31st 2020, which were authorised for issue by the Company's Management Board on July 28th 2020.

2. Basis of preparation of the interim condensed financial statements

These interim condensed financial statements of the Company for the three months ended March 31st 2020 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 March 31st 2019 and the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for 2019, despite the absence of such requirements in IAS 34.

The interim condensed financial statements do not contain all the information which is typically disclosed in full-year financial statements prepared in accordance with IFRS. These interim condensed financial statements should be read in conjunction with the 2019 financial statements of the Company.

The reporting currency of the 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.

As at the date of these financial statements, the Management Board, taking into account the financial results achieved and the forecast for 2020, identified a material risk of failure to continue as a going concern due to the uncertainties related to:

1. completion of the contract to construct a 910 MW supercritical power generation unit at the Jaworzno III Power Plant - Power Plant II, and the ability to maintain liquidity and positive profitability of the project,
2. securing financing until the end of 2020 in the form of bank borrowings and guarantees,
3. obtaining financing from the eBus project or an alternative project in the event of failure of the eBus project,
4. outcome of negotiations with other key customers to increase the value of contracts in progress.

For the Company to continue as a going concern, it is crucial to complete the contract for the construction of a 910 MW supercritical power generation unit at the Jaworzno III Power Plant – Power Plant II, to maintain financial liquidity by securing financing sources, to continue ongoing projects as planned, and to secure an adequate order book. For details, see Note 7 to the financial statements for 2019.

As at the date of issue of these condensed financial statements, negotiations with the Employer concerning claims related to the accident continue, and the Contractor and the Employer requested the Insurer (CAR/EAR policy) to reimburse of costs incurred in connection with the failure.

Given the progress of negotiations with the Employer, E003B7 Sp. z o.o. recognised both the estimated costs of the failure and extension of the contract performance periods, the revenue resulting from Annex 8 to the Contract, as well as the estimated additional revenue expected to be received by the Company for claims against the Employer and the Insurer. The estimated effect of the event on the total contract result is minus PLN 4m, as described in Note 10.1.1 to these interim condensed financial statements.

Taking into account all circumstances associated with these events, the Management Board is of the view that both the estimated costs to repair the failure and the costs of contract extension that need to be incurred to complete the contract will be covered from compensation payments and from payments of reasonable claims granted against the Employer. Given these material uncertainties, as at the date of signing of these financial statements the Management Board was unable to determine the outcome of the contract, including whether a loss will be incurred.

A key factor that may affect the ability to continue as a going concern and win new contracts is access to external financing. In June 2020, the Company and PKO BP S.A. signed an annex to the multi-purpose credit facility agreement (covering credit facilities and the guarantee limit), for a total amount of PLN 142m, to be available to the Company until November 10th 2020.

However, the current amount of the credit and guarantee facilities available to RAFAKO S.A. is insufficient to deliver the plan to expand its order book. Therefore, RAFAKO S.A. takes all reasonable steps to increase its guarantee potential to the level enabling the parent's Management Board to implement its growth strategy and to structure credit facilities so that they better meet the Company's needs. The Management Board of the Company expects to sign another extension of the facility agreement by November 10th 2020, which will be of key importance for the Company's financial liquidity.

As at the date of issue of these interim condensed financial statements for the three months of 2020, the Company is finalising the negotiation process concerning the terms and conditions of sale of the eBus project to Agencja Rozwoju Przemysłu which, by the Company's consent of June 30th 2020, has the exclusive right to negotiate the transaction until July 31st 2020, as specified in the letter of intent signed by the parties on January 20th 2020. The project's business plan and valuation have been completed. On the basis of these documents, the parties entered into the final stage of negotiations of the transaction. On June 29th 2020, the Company received an initial offer specifying the scope and terms of the transaction. The transaction will have a positive effect on the liquidity position of RAFAKO S.A.

As at the end of March 2020, the value of the Company's order book was PLN 1,869m (PLN 2,057m as at the end of March 2019). In pursuit of its strategy, from the beginning of 2020 to the issue date for these interim condensed financial statements, the Company won new contracts worth PLN 120m, including PLN 109m in the power segment and PLN 11m in the oil and gas segment. The most important contracts acquired in 2020 include a contract for the design, delivery, supervision of the assembly of pressure components and start-up of a modernised BB-2000 steam generator for the TENT B1 Obrenovac Power Plant in Serbia, with the contract price of ca. EUR 34.4m (VAT exclusive), of which the Company's share is approximately EUR 14.6m (VAT exclusive). 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.

Considering all the circumstances described above, which the Management Board of the Company identifies as material risks to the Company's ability to continue as a going concern within 12 months from the reporting date, the Management Board of the Company takes all the steps described above to ensure that these risks do not materialise and presents the interim condensed financial statements for the three months ended March 31st 2020 prepared on the assumption that the Group will continue as a going concern.

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 full-year financial statements for the year ended December 31st 2019, except for changes resulting from the application of the following standards.

- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments introduce a new definition of 'material' (with regard to omission or misstatement in financial statements). The existing definition in IAS 1 and IAS 8 differed from that contained in the Conceptual Framework for Financial Reporting, which could cause difficulties in making judgements by entities preparing financial statements. The amendments will align the definition used in the Conceptual Framework and all effective IASs and IFRSs.

The new standard did not affect the Company's financial statements as the materiality judgements so far were consistent with those that would have been made using the new definition.

The amendments are effective for annual periods beginning on or after January 1st 2020.

- Amendments to IFRS 3 *Business Combinations*

The amendments regard the definition of a business and cover mainly the following issues:

- they clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- they narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce cost;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date falls in or after the beginning of the first annual reporting period beginning on or after January 1st 2020 and for asset acquisitions that occurred in or after the beginning of that period. Therefore, the amendment will not affect the data disclosed in the Company's existing financial statements. At this point in time, the Company is also unable to predict future acquisitions.

- Amendments in references to the conceptual framework for IFRS

The Board has prepared a new version of the conceptual framework for financial reporting. For consistency reasons, the references have therefore been adapted accordingly to the conceptual framework set out in the various standards.

The amendments are effective for annual periods beginning on or after January 1st 2020 and have not affected the Company's financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB amended hedge accounting in connection with the planned reform of reference interest rates (WIBOR, LIBOR, etc.). These rates are often a hedged item, for example in the case of IRS hedges. The planned replacement of existing rates by new reference rates raised doubts as to whether the planned transaction is still highly probable, whether future hedged cash flows are still expected or whether there is an economic link between the hedged item and the hedging item. The amendment to the standards specified that it should be assumed in the estimates that there will be no change in reference rates.

The amendments are effective for annual periods beginning on or after January 1st 2020. As the Company does not apply hedge accounting, the uncertainty related to interest rate derivatives affects the Company's financial statements.

4. Standards and interpretations which are effective as published by the IASB, but which have not been approved by the European Union

4.1. Early application of standards or interpretations

In these interim condensed financial statements, the Company has not opted for early application of any standard or interpretation.

4.2. Published standards and interpretations which were not yet effective for periods beginning on January 1st 2020 and their impact on the Company's financial statements

As at the date of these interim condensed financial statements, new or amended standards and interpretations effective for annual periods subsequent to 2020 were published. The list also includes amendments, standards and interpretations published but not yet endorsed by the European Union.

- New IFRS 17 *Insurance Contracts*

A new standard governing recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The standard replaces the existing IFRS 4.

The Company estimates that the new standard will not affect its financial statements because it does not conduct any insurance business.

The standard is effective for annual periods beginning on or after January 1st 2021.

- Amendment to IAS 1 *Presentation of Financial Statements*

The IAS Board clarified the rules for classifying liabilities to non-current or current liabilities primarily in two aspects:

- it has been clarified that classification depends on the rights of the entity as at the reporting date,
- management's intention to accelerate or delay payment of a liability is not taken into account.

The amendments are effective for annual periods beginning on or after January 1st 2022. As the Company already applies principles consistent with the amended standard, the changes will not affect its financial statements.

The Company intends to implement the above regulations at the time required by the individual standards or interpretations.

5. Significant judgements and assumptions

5.1. 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 disclosed income, expenses, assets, liabilities, as well as related notes and disclosures concerning contingent liabilities. Uncertainties related to these judgements and assumptions may result in material changes to carrying amounts of assets and liabilities in the future, because actual amounts may differ from the 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.

(PLN thousand)

5.2. Uncertainty of estimates

Information on the estimates and assumptions material to the financial statements is presented in the full-year financial statements for 2019. In these interim condensed consolidated financial statements, the Company also presented the effect of the Management Board's assumptions on the estimates of impairment losses (see Note 11.17), revenue from contracts with customers (see 10) and provisions (see Note 17).

6. Measurement currency and reporting currency

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

Exchange rates used to determine carrying amounts:

	March 31st 2020	*December 31st 2019*	*March 31st 2019*
USD	4.1466	3.7977	3.8365
EUR	4.5523	4.2585	4.3013
GBP	5.1052	4.9971	4.9960
CHF	4.3001	3.9213	3.8513
SEK	0.4114	0.4073	0.4130
TRY	0.6314	0.6380	0.6802

7. Change in estimates

In the three months ended March 31st 2020 and as at March 31st 2020, there were changes of estimates in significant areas of the Company's business, as described in Note 11.8, Note 10 and Note 17.

8. Changes in the structure of the Company

In the three months ended March 31st 2020, there were no changes in the Company's structure.

9. Seasonality and cyclical nature of the Company's business

The business of the Company is not affected by seasonality or periodic fluctuations that could materially affect financial results of the Company.

10. Contract assets and liabilities

Contract assets and liabilities as at the reporting date are presented in the table below.

	March 31st 2020	*December 31st 2019*
Gross contract assets	180,315	214,763
Impairment of contract assets (-)	(1,045)	(1,211)
Contract assets	179,270	213,552
Contract liabilities, including prepayments	242,042	208,444

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 March 31st 2020 and as at December 31st 2019, as well as gross amounts due to customers for contract work and gross amounts due from customers for contract work.

(PLN thousand)

	March 31st 2020	*December 31st 2019*
Revenue initially agreed in contract	4,006,171	3,912,289
Change in contract revenue	12,185	(40,485)
Aggregate contract revenue	**4,018,356**	**3,871,804**
Contract costs incurred as at reporting date	2,181,823	2,052,801
Costs expected to be incurred by contract completion date	1,736,502	1,736,097
Estimated aggregate contract costs	**3,918,325**	**3,788,898**
Estimated aggregate profit/(loss) on contracts, including:	**100,031**	**82,906**
profit	302,322	292,742
loss (-)	(202,291)	(209,836)

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

	March 31st 2020	*December 31st 2019*
Advance payments received as at reporting date	107,057	127,665
Advance payments that can be set off against amounts due from customers for construction contract work	17,430	22,305
Contract costs incurred as at reporting date	2,212,821	2,091,798
Cumulative profit as at reporting date (+)	195,732	188,866
Cumulative loss as at reporting date (+)	(202,291)	(209,836)
Cumulative contract revenue as at reporting date	2,206,261	2,070,828
Amounts invoiced as at reporting date (progress billings)	2,160,932	1,936,844
Settlement of contracts (balance) as at the reporting date, including:	**45,329**	**133,984**
Contract assets less advance payments that can be offset	180,315	214,763
Contract liabilities	152,415	103,084

The Company analysed changes in contract assets and liabilities and their main causes in the three months ended March 31st 2020 and in the entire 2019.

The main causes of changes in contract assets and liabilities in the reporting period are presented in the tables below.

Contract assets:

	March 31st 2020	*December 31st 2019*
Contract assets at beginning of period	213,552	205,149
Revenue charged in the reporting period to contract assets	53,633	122,695
Total revenue restatements charged to contract assets	7,361	50,298
Changes in impairment losses on contract assets	166	637
Reclassification to trade receivables (-)	(95,442)	(165,227)
Contract assets at end of period	**179,270**	**213,552**

(PLN thousand)

Contract liabilities:

	March 31st 2020	*December 31st 2019*
Contract liabilities at beginning of period	208,444	132,656
Performance obligations recognised in the reporting period as contract liabilities	54,574	57,675
Change in advance payments	(15,733)	40,271
Total revenue restatements charged to contract liabilities	745	1,917
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(5,988)	(24,075)
Contract liabilities at end of period	**242,042**	**208,444**

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

10.1 Key contracts

10.1.1 Jaworzno Project

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The final division of work within the consortium was agreed on August 4th 2013 based on the amendments made to the consortium agreement, which related to RAFAKO S.A. taking over 99.99% of the project deliveries (with 0.01% remaining for Mostostal Warszawa) and changing the distribution of consideration due to the consortium members to reflect the members' actual shares in the project. The contract for the construction of the Jaworzno III power generation unit was concluded on April 17th 2014. The current contract price (after execution of Annex 8) is PLN 4,547m (VAT exclusive). It is the largest contract executed by RAFAKO S.A. to date. Currently, work is being performed on the last phase of the Jaworzno project, i.e. start-up and commissioning, 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.

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 project's SPV.

On December 19th 2019, Annex 7 to the contract was signed. The parties agreed that certain additional tasks will be performed under the Contract. These include delivery of an additional layer of catalyst and an additive dispensing system for the flue gas desulfurization unit to reduce mercury emissions as well as extension of the fuel mix to enable combustion of a wider range of coal types. After the generating unit is placed in service, the consortium will carry out optimisation tasks to check whether the unit meets the changed technical parameters. The implementation of these changes will have a positive effect on the technical and environmental parameters of the unit and will help to optimise its costs during operation. The expanded scope of work will reduce emissions of noxious substances from the unit, and the extended fuel mix will allow the TAURON Group to achieve greater flexibility in coal procurement. Under the annex, the net price specified in the Contract was increased by PLN 52,308,355.89, and the placement-in-service report is to be signed by January 31st 2020.

During the final testing of the Unit, a number of objective events occurred which affected the date of delivery of the Unit to the Employer. Following the Unit's being taken offline due to extreme weather conditions, it was found that an unforeseeable event had occurred, involving damage to a component of the boiler. On May 4th 2020, RAFAKO S.A., E003B7 Sp. z o.o. and the employer entered into an agreement to work together to identify the causes and remove the consequences of the Event to enable continuation of work to deliver the Unit to the Employer.
On June 10th, Annex 8 to the Master Contract was signed, setting out the rules for the performance of additional works by the Contractor and addressing other key issues, i.e. a PLN 9.9m (VAT exclusive) increase in the contract price, taking into account additional work, a change in the commissioning deadline for the Unit, an update of the Time and Payment Schedule reflecting changes in the delivery dates for individual milestones and transfer of ownership rights to the turbine island.
The new payment schedule improved the Company's liquidity, and enabled the Company to pay its subcontractors for the additional work under the contract. Currently, the expected hand-over date is November 15th 2020.

For further information on the performance of the Contract, see Note 2.

Accounting for the Jaworzno Project:

For the purposes 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; the remaining 11.3% is performed by RAFAKO S.A. itself (approximately PLN 510.7m); including the design of the boiler island and delivery of boiler pressure components and a particle removal unit, which was planned 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. RAFAKO S.A.'s and E003B7 Sp. z o.o.'s assets were pledged as security for these instruments.

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

Change in the overall result on a part of the contract performed by RAFAKO S.A. was a result of changes in the estimates of total income and expenses for the three months ended March 31st 2020, which was negative at PLN (1.6)m.

10.1.2 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 contract (PLN 11.6bn VAT-inclusive) with PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. − the "employer") for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No. 5 and power unit No. 6 at PGE Elektrownia Opole S.A., 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 responsible for 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 set for June 15th 2019 and September 30th 2019, respectively. The Company confirms that the commissioning deadlines for both units have been met.

Rules of accounting for the Opole Project:

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

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

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

10.1.3 Vilnius Project

The Company performs the contract of September 29th 2016 with JSC VILNIAUS KOGENERACINÇ JÇGAIN 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 149m (exclusive of VAT).

The Company estimated at EUR 17.5m the amount of its claims for extraordinary price increases during the Vilnius Project, works performed which, in the Company's opinion, were beyond the original scope of the project, and the delay in project completion not attributable to the parent. The Company is 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 performed by RAFAKO S.A., the Company expects the negotiations to achieve the desired end. For a detailed description of the dispute, see Note 22 to these interim condensed financial statements.

The effect of the Vilnius contract on RAFAKO S.A.'s results for the 3 months ended March 31st 2020 was positive at PLN 6.2m.

10.1.4 Kozienice Project

The contract of September 30th 2016 with ENEA Wytwarzanie Sp. z o.o. provides for the delivery and assembly of a catalytic flue gas NOx reduction system for AP-1650 steam generators 9 and 10 and for the upgrade of the electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. The contract price is PLN 289m (VAT exclusive).

On June 30th 2020, the Company executed Annex 6 to the contract and an arrangement regarding extension of the term of delivery of the DRIM II station under the contract, with the commissioning date agreed as March 30th 2021. RAFAKO S.A. and the employer waived their mutual claims arising from late performance of the contract and payment for additional works and exceptional changes in circumstances.

The effect of the contract on the Company's profit or loss for the three months ended March 31st 2020 and the change in the total profit/(loss) on the contract was positive at PLN 0.4m.

(PLN thousand)

11. Type and amounts of items significantly affecting assets, liabilities, equity, profit or loss and cash flows

11.1 Revenue and operating segments

In the three months ended March 31st 2020, 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.

11.1.1. Revenue from sale of goods and services

	3 months ended March 31st 2020	*12 months ended December 31st 2019*	*3 months ended March 31st 2019*
Net revenue from sale of products	19,314	74,061	24,553
including: from related entities	–	350	272
Net revenue from sale of services	203,754	869,174	190,709
including: from related entities	680	3,376	1,151
Revenue from sale of other goods	1,029	3,822	945
Other income	–	–	46
Exchange differences on trade receivables	12,097	(1,084)	1
Net revenue from sale of goods and services, total	**236,194**	**945,973**	**216,254**
including: from related entities	680	3,726	1,423

*For a detailed description of the provision for liquidated damages, affecting the Company's revenue, see Note 17.

In the three months ended March 31st 2020, the Company generated revenue of PLN 236,193 thousand, i.e. PLN 19,939 thousand more year on year, mainly due to increased involvement in the ongoing projects, including the contract for the construction of a biomass-fired co-generation unit for UAB VILNIAUS KOGENERACINE JEGAINE's Lithuanian, the contract for the construction of two steam generating units on the Lombok Island in Indonesia, as well as significant contracts in the new oil and gas segment.

11.1.2. Revenue from sale of materials

	3 months ended March 31st 2020	*12 months ended December 31st 2019*	*3 months ended March 31st 2019*
Revenue from sale of materials	707	1,088	442
including: from related entities	–	–	–
Net revenue from sale of merchandise and materials, total	**707**	**1,088**	**442**
including: from related entities	–	–	–

(PLN thousand)

11.1.3. Revenue by geography

	3 months ended March 31st 2020	*12 months ended December 31st 2019*	*3 months ended March 31st 2019*
Revenue from sales to domestic customers	100,417	493,858	106,164
including: from related entities	681	3,726	1,424
Revenue from sales to foreign customers	136,484	453,203	110,532
including: from related entities	–	–	–
Net sales revenue, total	**236,901**	**947,061**	**216,696**
including: from related entities	681	3,726	1,424

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*	*3 months ended March 31st 2020*
UAB VILNIAUS KOGENERACINE JEGAINE	22.5%	53,402
PT PLN (PERSERO)	22.4%	52,952
Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	13.3%	31,615
ENERGA Elektrownie Ostrołęka S.A.	8.1%	19,155
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	7.2%	17,097
Other	26.5%	62,680
Total	**100%**	**236,901**

11.1.4. Operating segments

As at March 31st 2020, the Company identified two operating segments, 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.

As at March 31st 2019, the Company operated in one market segment of 'Power and environmental protection facilities'.

For the three months ended March 31st 2020 or as at March 31st 2020	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Revenue			
Sales to external customers	33,870	203,031	236,901
Inter-segment sales	–	–	–
Total segment revenue	33,870	203,031	236,901
Cost of products and materials sold	(34,376)	(187,101)	(221,477)
Total			
Gross profit/(loss)	(506)	15,930	15,424

(PLN thousand)

For the three months ended March 31st 2020 or as at March 31st 2020	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Other income/(expenses)	(1,761)	(8,264)	(10,025)
Operating profit/(loss)	(2,267)	7,666	5,399
Finance income/(costs)	5	788	793
Profit/(loss) before tax	(2,262)	8,454	6,192
Income tax	–	(121)	(121)
Segment's net profit/(loss)	**(2,262)**	**8,333**	**6,071**
Results			
Depreciation and amortisation	(74)	(2,896)	(2,970)
Share of profit of associates and joint ventures	–	–	–
Assets and liabilities as at March 31st 2020			
Segment assets	93,700	843,563	937,263
Segment liabilities	70,681	756,500	827,181
Other information			
Investments in associates and joint ventures	–	–	–
Capital expenditure	230	932	1,162

The Company analyses revenue by category that reflects how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The table below presents the Company's revenue by category and its allocation to reportable operating segments:

Three months ended March 31st 2020	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Region			
Poland	33,617	66,799	100,416
European Union	253	77,036	77,289
Other countries		59,196	59,196
Total segment revenue	33,870	203,031	236,901
Term of the contract			
Short-term contracts	10,433	130,058	140,491
Long-term contracts	23,437	72,973	96,410
Total segment revenue	33,870	203,031	236,901

(PLN thousand)

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

Product group name	*3 months ended March 31st 2020*	*3 months ended March 31st 2019*
Power generation units and steam generators	108,215	76,877
Revenue under the Jaworzno 910 MW project	1,170	9,163
Air pollution control systems	46,158	54,750
Power equipment, machinery and components, and related services	38,809	47,470
Services and products for oil and gas sector	33,870	27,202
Construction	6,996	–
Other revenue	1,683	1,234
Total	**236,901**	**216,696**

11.2 Selling expenses, operating income and expenses and finance income and costs

In the three months ended March 31st 2020, cost of sales was PLN 221,477 thousand, with gross profit at PLN 15,424 thousand.

In the current reporting period, selling expenses of PLN 4,145 thousand disclosed in the statement of comprehensive income comprised costs of bid preparation and costs of PR and marketing activities.

The largest component of other income was PLN 4,430 thousand income from penalties received and PLN 1,302 thousand income from a surety provided to the subsidiary E003B7 Sp. z o.o. (March 31st 2019: PLN 1,374 thousand). In the first three months ended March 31st 2020, the Company received compensation for a total amount of PLN 1,508 thousand.

Other expenses chiefly included impairment losses on trade and other receivables of PLN 1,663 thousand (March 31st 2019: PLN 886 thousand), and costs of scrapping of materials of PLN 471 thousand.

In the three months ended March 31st 2020, the Company's finance income included mainly from foreign exchange gains of PLN 2,757 thousand, and interest earned on financial instruments of PLN 139 thousand (March 31st 2019: PLN 138 thousand).

Finance costs in the period chiefly included interest expense on financial instruments of PLN 1,226 thousand (March 31st 2019: PLN 1,224 thousand) and discount on long-term receivables of PLN 611 thousand.

11.3 Income tax

Income tax expense

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

	3 months ended March 31st 2020	*3 months ended March 31st 2019*
Statement of profit or loss		
Current tax	–	–
Current income tax expense	–	–
Adjustments to current income tax from previous years	–	–
Deferred tax	(121)	(546)
Related to recognition and reversal of temporary differences	768	(546)
Adjustments to deferred tax from previous years	–	–
Impairment loss on deferred tax assets	(889)	–
Income tax expense in the statement of profit or loss	**(121)**	**(546)**

	3 months ended March 31st 2020	*3 months ended March 31st 2019*
Deferred tax on other comprehensive income	121	57

(PLN thousand)

Related to recognition and reversal of temporary differences	121	57
Income tax expense disclosed in other comprehensive income	**121**	**57**

Deferred income tax calculated as at March 31st 2020

The deferred income tax calculated as at March 31st 2020 relates to the following items of the financial statements:

	Statement of financial position		*Statement of comprehensive income for 3 months ended*	
	March 31st 2020	*December 31st 2019*	*March 31st 2020*	*March 31st 2019*
– on investment reliefs	(1)	(1)	–	–
– difference between tax base and carrying amount of property, plant and equipment and intangible assets	(13,938)	(14,156)	218	(935)
– difference between tax base and carrying amount of assets measured at fair value through profit or loss	960	953	7	(207)
– difference between tax base and carrying amount of loans and receivables	5,215	4,831	384	(171)
– difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(8,414)	(25,228)	16,814	(20,406)
– difference between tax base and carrying amount of inventories	2,275	2,275	–	(44)
– provisions	16,774	18,978	(2,204)	(444)
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	18	27	(9)	8
– difference between tax base and carrying amount of liabilities, provisions, and accruals and deferrals relating to accounting for contracts	44,294	58,353	(14,059)	20,419
- tax loss	–	–	–	–
- adjustment to costs of unpaid invoices	3,519	3,536	(17)	–
– other	413	657	(245)	1,291
Deferred tax expense/benefit disclosed in the statement of profit or loss			768	(546)
Deferred tax expense/benefit disclosed in other comprehensive income			121	57
Impairment loss on deferred tax	(13,889)	(13,000)	(889)	–
			–	**(489)**
Net deferred tax asset/(liability) including:	**37,226**	**37,226**		
Deferred tax assets	37,226	37,226		
Deferred tax liability	–	–		

As at March 31st 2020, the Company analysed the recoverable amount of the deferred tax asset based on forecasts and budgets prepared for subsequent years and recognised a PLN 889 thousand impairment loss on deferred tax assets.

In the 12 months ended December 31st 2019, the Company wrote off a tax loss asset of PLN 16,178 thousand. The total amount of tax loss for 2015–2019 which was not recognised in deferred tax is PLN 307,440 thousand.

The Company analysed the recoverable amount of the deferred tax asset as at December 31st 2019 based on forecasts and budgets prepared for subsequent years and recognised a PLN 13m impairment loss on the assets.

11.4 Significant items disclosed in the statement of cash flows

The PLN 55,710 thousand increase in receivables disclosed in the statement of cash flows for the 3 months ended March 31st 2020 resulted mainly from:

- PLN (60,139) thousand increase in trade receivables,
- PLN (7,441) thousand increase in receivables from the state budget (including VAT),
- PLN 4,052 thousand decrease in advance payments made,
- PLN 10,723 thousand decrease in security deposits receivable,
- PLN (1,669) thousand increase in security deposits receivable,
- PLN (1,236) thousand increase in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the three months ended March 31st 2020, see Note 11.15.

The PLN 7,045 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

- PLN 22,125 thousand increase in trade payables,
- PLN (3,667) thousand decrease in taxes and other duties payable,
- PLN 1,379 thousand increase in employee benefit obligations and provisions (net of actuarial gains/(losses)),
- PLN (12,792) thousand decrease in other liabilities.

The PLN 67,880 thousand change in gross amounts due to and from customers for contract work disclosed in the statement of cash flows resulted primarily from:

- PLN 34,282 thousand increase in amounts due from customers for contract work,
- PLN 33,598 thousand increase in gross amounts due for contract work,

The PLN (8,184) thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN 365 thousand increase in the provision for warranty repairs,
- PLN (7,999) thousand decrease in the provision for expected contract losses,
- PLN (477) thousand change in accruals and deferrals,
- PLN (73) thousand change in other provisions.

The cash flows of PLN 693 thousand relating to purchase of property, plant and equipment and intangible assets included PLN 197 thousand incurred to purchase property, plant and equipment, and PLN 496 thousand incurred to purchase intangible assets.

Cash flows from financing activities were mainly affected by a PLN 35,250 thousand decrease in debt outstanding under the overdraft facility and working capital facility advanced by PKO BP S.A..

(PLN thousand)

11.5 Goodwill and intangible assets

March 31st 2020	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2020	**1,774**	**6,323**	**196**	**8,293**
Acquisitions	–	–	82	82
Transfers from intangible assets under development	–	–	–	–
Amortisation for the year	–	(308)	–	(308)
As at March 31st 2020	**1,774**	**6,015**	**277**	**8,067**

*Intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.18.2.

December 31st 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	–	–	304	304
Transfers from intangible assets under development	–	137	(137)	–
Amortisation for the year	–	(1,379)	–	(1,379)
As at December 31st 2019	**1,774**	**6,323**	**196**	**8,293**

March 31st 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	–	–	74	74
Transfers from intangible assets under development	–	95	(95)	–
Amortisation for the year	–	(343)	–	–
As at March 31st 2019	**1,774**	**7,317**	**277**	**9,099**

(PLN thousand)

11.6 Property, plant and equipment

For the three months ended March 31st 2020	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 2020	**9,184**	**74,160**	**36,682**	**2,355**	**–**	**122,381**
Adjustment to opening balance following implementation of IFRS 16	–	–	–	–	–	–
Net carrying amount as at January 1st 2020	**9,184**	**74,160**	**36,682**	**2,355**	**–**	**122,381**
Acquisitions	–	–	–	–	32	32
Liquidation/sale	–	–	–	(54)	–	(54)
Transfers from property, plant and equipment under construction	–	–	32	–	(32)	–
Depreciation for period	–	(674)	(1,053)	(23)	–	(1,750)
Impairment of property, plant and equipment in period	–	–	(9)	–	–	(9)
Other, including reclassification to/from other asset category	–	–	1	(216)	–	(215)
Net carrying amount as at March 31st 2020	**9,184**	**73,486**	**35,653**	**2,062**	**–**	**120,385**

* Property, plant and equipment pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.18.1.

For the 12 months ended December 31st 2019	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 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 January 1st 2019	**9,184**	**76,752**	**41,227**	**1,019**	**–**	**128,182**
Acquisitions	–	–	–	–	342	342
Lease agreements	–	–	–	–	–	–
Liquidation/sale	–	–	(129)	(95)	–	(224)
Transfers from property, plant and equipment under construction	–	98	244	–	(342)	–
Exchange differences on translating foreign operations	–	–	–	–	–	–
Depreciation for period	–	(2,690)	(4,747)	(290)	–	(7,727)
Impairment of property, plant and equipment in period	–	–	33	96	–	129

(PLN thousand)

Other, including reclassification to/from other asset category	–	–	54	1,625	–	1,679
Net carrying amount as at December 31st 2019	**9,184**	**74,160**	**36,682**	**2,355**	**–**	**122,381**

(PLN thousand)

For the three months ended March 31st 2020	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 2019	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**132,814**
Adjustment to opening balance following implementation of IFRS 16	(9,108)	–	(476)	(4,155)	–	(13,739)
Net carrying amount as at January 1st 2019	**76**	**76,752**	**41,227**	**1,020**	**–**	**119,075**
Acquisitions	–	–	–	–	109	109
Liquidation/sale	–	–	(103)	(6)	–	(109)
Transfers from property, plant and equipment under construction	–	96	13	–	(109)	–
Depreciation for period	–	(669)	(1,204)	(1,147)	–	(3,020)
Impairment loss for period	–	–	56	–	–	56
Other, including reclassification to/from other asset category	–	–	56	1,763	–	1,819
Net carrying amount as at March 31st 2019	**76**	**76,179**	**40,045**	**1,630**	**–**	**117,930**

(PLN thousand)

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

	3 months ended March 31st 2020	*3 months ended March 31st 2019*
Purchase of property, plant and equipment and intangible assets *	1,211	835
Proceeds from sale of property, plant and equipment	70	108

* Capital expenditure incurred in the reporting 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.

11.8 Right-of-use assets

The carrying amount of leased assets is disclosed recognised in the statement of financial position under 'Right-of-use assets'.

Class of underlying assets	*Carrying amount of right-of-use assets*	*Depreciation of right-of-use assets (cumulative)*	*Depreciation in the reporting period*
	March 31st 2020	*March 31st 2020*	*January 1st–March 31st 2020*
Land	109	144	29
Buildings and structures	884	1,072	272
Plant and equipment	4,487	2,637	506
Vehicles	3,060	1,188	100
Intangible assets	102	11	6
Total	**8,642**	**5,052**	**913**

Class of underlying assets	*Carrying amount of right-of-use assets*	*Depreciation of right-of-use assets (cumulative)*	*Depreciation in the reporting period*
	December 31st 2019	*December 31st 2019*	*January 1st–December 31st 2019*
Land	134	115	115
Buildings and structures	713	800	828
Plant and equipment	4,343	2,131	1,870
Vehicles	3,226	1,087	737
Intangible assets	108	6	6
Total	**8,524**	**4,139**	**3,556**

In 2020, the most significant lease contract was the lease of the CO_2 capture unit with a carrying amount of PLN 5,037 thousand as at the date of recognition of the lease contract. The contract was executed on March 8th 2018 for two years, after which time the Company will have the right to purchase the leased asset. The Company is required to insure the lease asset and maintain it in the working condition described in the contract.

(PLN thousand)

The Company's leasing activities are summarised below.

Class of underlying assets	*Number of rights of use*	*Remaining lease term (years) from*	*to*	*Average remaining lease term (years)*	*Number of contracts with extension option*	*Number of contracts with purchase option*	*Number of contracts with variable rate-indexed payments*	*Number of contracts with early termination option*
Land	1	1.0	1.0	1.0	1	–	–	1
Buildings and structures	20	0.1	1.7	0.7	19	–	–	18
Plant and equipment	7	0.2	4.6	1.5	2	3	–	5
Vehicles	45	0.1	3.3	2.0	–	46	–	46
Intangible assets	1	4.6	4.6	4.6	1	–	–	1

In 2020, the Company changed its estimates of the duration of active lease contracts for the lease of residential units. The Company estimated that it would exercise the extension options, which it had not previously foreseen. As a result of the change, the amount of lease liabilities and right-of-use assets increased by PLN 186 thousand.

The economic useful lives of those assets are consistent with the lease terms, ranging from 12 months to 60 years. The Company depreciates leased assets with the straight-line method.

The following table presents future minimum lease payments as at the reporting date:

	March 31st 2020		*December 31st 2019*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	4,365	4,552	4,167	4,037
from 1 to 5 years	1,915	1,558	1,893	1,704
Total minimum lease payments	**6,280**	**6,110**	**6,060**	**5,741**
Less finance costs	(170)	–	(319)	–
Present value of minimum lease payments, including:	**6,110**	**6,110**	**5,741**	**5,741**
short-term	4,552	4,552	4,037	4,037
long-term	1,558	1,558	1,704	1,704

The Company does not recognise liabilities under short-term leases or leases of low-value underlying assets. Contingent lease payments are not recognised in lease liabilities. In the three months ended March 31st 2020, the related costs were as follows:

	March 31st 2020
Short-term leases	1,310
Leases of low-value assets	–
Total	**1,310**

(PLN thousand)

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.

11.9 Other long-term receivables

	March 31st 2020	*December 31st 2019*
Financial receivables		
Security deposits/amounts retained	324	380
Other long-term receivables	81,633	42,336
Other long-term financial receivables (net)	**81,957**	**42,716**
Total other long-term receivables (net)	**81,957**	**42,716**

11.10 Shares in subsidiaries and other entities

	March 31st 2020	*December 31st 2019*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	29,814	29,814
Shares in other listed companies	82	120
Shares in other non-listed companies	1,376	1,376
	31,272	**31,310**

* Shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.18.3.

11.11 Other non-current financial assets

	March 31st 2020	*December 31st 2019*
Receivables under sureties provided to related entities	29,817	28,148
	29,817	**28,148**

11.12 Inventories

	March 31st 2020	*December 31st 2019*
Materials (at net realisable value)	30,773	27,205
At cost	42,747	39,179
At net realisable value	30,773	27,205
Total inventories, at the lower of cost and net realisable value	**30,773**	**27,205**

*Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 11.18.4.

(PLN thousand)

11.13 Other current financial assets

	March 31st 2020	*December 31st 2019*
Other current financial assets, including:	–	–
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*	27,822	27,822
Impairment of short-term bonds	(27,822)	(27,822)
	–	–

* For a detailed description of the bonds, see Note 11.13.1.

11.13.1 Bonds

On November 9th 2016, following the execution of annexes to restructuring documents, PBG S.A. w restrukturyzacji 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. restrukturyzacji 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 by PBG S.A. w restrukturyzacji 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. By the end of 2019, PBG S.A. redeemed Series B1, C1, D1, E1 and F1 bonds for a total amount of PLN 11,026,800.

On December 19th 2019, PBG S.A. filed a petition to open remedial proceedings and to rescind the arrangement with its creditors of August 5th 2015. On January 9th 2020, the District Court in Poznań rescinded the arrangement. On February 12th 2020, the remedial proceedings were opened with respect to PBG S.A. w restrukturyzacji.

As at the date of these interim condensed financial statements, the following series of bonds of PBG S.A. w restrukturyzacji were outstanding:

Redemption Date	30.06.2019	31.12.2019	30.06.2020
Series	G, G1 and G3	H, H1 and H3	I, I1 and I3
Amount of Bonds to be redeemed	PLN 61,934,800	PLN 46,875,600	PLN 238,445,700
including Bonds acquired by RAFAKO S.A.	*PLN 4,996,100*	*PLN 3,781,300*	*PLN 19,045,000*

In accordance with the terms of issue, the bonds issued by PGB S.A. have been secured bonds within the meaning of the Bonds Act of January 15th 2015. The bonds are secured primarily with a registered pledge over 42,466,000 RAFAKO shares in a book-entry form (currently representing 33.2% of RAFAKO's share capital), mortgages over the PBG Group's properties, registered pledges over other selected assets of the PBG Group, including over shares in selected companies of the PBG Group (including PBG oil and gas Sp. z o.o), sureties and declarations of voluntary submission to enforcement up to PLN 1,065,000,000.00.

Although as at the date of these interim condensed financial statements, the outstanding bonds of PBG S.A. (for a total amount of PLN 353.3m) were secured with the collateral specified above, the Management Board is of the opinion that given the total amount of liabilities under the Bonds and other liabilities of PBG S.A. w restrukturyzacji the security is not sufficient to consider the receivables as collectible.

As at March 31st 2020, RAFAKO S.A. recognised impairment losses on all bonds held by the parent.

(PLN thousand)

11.14 Cash and cash equivalents

	March 31st 2020	*December 31st 2019*	*March 31st 2019*
Cash at bank and in hand	4,874	21,089	36,697
Short-term deposits for up to 3 months, including:	36	2,828	109
- deposits pledged as security for contingent liabilities	–	–	–
	4,910	**23,917**	**36,806**

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.

11.15 Short-term trade and other receivables

	March 31st 2020	*December 31st 2019*
Financial receivables		
Trade receivables	230,301	207,730
Impairment loss on trade receivables (-)	(7,408)	(5,679)
Net trade receivables	**222,893**	**202,051**
Receivables on sale of property, plant and equipment and intangible assets	–	–
Security deposits	56,070	66,736
Receivables in litigation*	32,150	31,896
Other financial receivables	10,591	10,489
Impairment loss on financial receivables (-)	(33,866)	(33,648)
Total financial receivables, net	**287,838**	**277,524**
Non-financial receivables		
Receivables under prepayments and advance payments	99,343	103,395
Receivables from the state budget	18,499	11,058
Other non-financial receivables	17,033	11,280
Impairment loss on non-financial receivables (-)	(44,085)	(39,430)
Total non-financial receivables, net	**90,790**	**86,303**
Total short-term receivables, net	**378,628**	**363,827**

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

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

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

(PLN thousand)

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

Short-term trade receivables of PLN 222,893 thousand disclosed in the statement of financial position as at March 31st 2020 relate to contracts with domestic and foreign trading partners.

The short-term security deposits of PLN 56,070 thousand disclosed in the statement of financial position as at March 31st 2020 relate mainly to:

- construction of a coal-fired steam unit – PLN 18,432 thousand;
- construction of a coke gas-fired power generation unit − PLN 7,113 thousand;
- manufacture of high-pressure parts of a boiler for an incineration plant – PLN 6,114 thousand,
- construction of a compressor station of PLN 3,120 thousand.

The change in the amount of security deposits in the three months ended March 31st 2020 was primarily attributable to the refund of a PLN 3,000 thousand cash security deposit provided in connection with the performance of contracts for the upgrade of FGD units and the refund of a PLN 8,139 thousand cash security deposit provided in connection with the performance of a contract for delivery of a catalytic flue gas NOx reduction unit.

Advance payments represented a significant portion of other receivables, and as at March 31st 2020 amounted to PLN 99,343 thousand, including:

- advance payment of PLN 44,740 thousand towards a contract to construct fuel storage tanks;
- advance payment of PLN 14,537 thousand under a contract to construct a biomass boiler island;
- advance payment of PLN 11,119 thousand under a contract to construct a gas pipeline;
- advance payment of PLN 6,450 thousand under a contract to construct an LNG storage tank.

11.16 Short-term accrued expenses and deferred income

	March 31st 2020	*December 31st 2019*
Accrued expenses and deferred income		
Costs of bank and insurance guarantees	4,349	4,778
Costs of obtaining contracts with customers	–	–
Expenditure on development work – eBus	14,551	13,436
Other costs	2,954	2,377
Accrued expenses and deferred income	**21,854**	**20,591**

In 2017, RAFAKO S.A. commenced the construction of a prototype of the first Polish zero-emission electric bus with a battery under the chassis. For detailed information on the eBus project, see Section III.5. of the Directors' Report on the Company's operations in 2019.

(PLN thousand)

11.17 Impairment of assets

	Property, plant and equipment	*Shares**	*Other financial assets ****	*Other non-financial assets *****	*Inventories***	*Contract assets*	*Receivables****
January 1st 2020	**(104)**	**(10,336)**	**(10,400)**	**(5,676)**	**(11,974)**	**(1,211)**	**(78,757)**
Recognised	(9)	(40)	–	–	(1,018)	–	(7,168)
Used	–	–	–	–	1,018	–	–
Reversed	–	–	–	–	–	166	567
March 31st 2020	**(113)**	**(10,376)**	**(10,400)**	**(5,676)**	**(11,974)**	**(1,045)**	**(85,358)**
January 1st 2019	**(233)**	**(4,973)**	**(10,400)**	**(5,676)**	**(10,287)**	**(1,848)**	**(46,020)**
Recognised	–	(14)	–	–	–	(886)	–
Used	55	–	–	–	158	–	–
Reversed	–	–	–	–	73	–	905
March 31st 2019	**(178)**	**(4,987)**	**(10,400)**	**(5,676)**	**(10,056)**	**(2,734)**	**(45,115)**

* Impairment losses on shares are allowances recognised for shares in companies declared bankrupt as well as allowances arising from remeasurement of shares.
** 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 Management Board of the Company estimates that financial assets covered by the agreement executed in 2012 are exposed to a significant default risk and has upheld its decision to recognise an impairment loss for the entire amount of the investment.

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

(PLN thousand)

The gross carrying amounts by individual days past due groups and the impairment losses as at March 31st 2020 and the comparative reporting date are presented below.

		Trade receivables						
	Assets assets	Not past due	0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
March 31st 2020								
Location: Poland								
Write-down rate	0.85%	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	180,315	74,241	13,282	617	23	3,504	2,226	274,208
Impairment loss	(1,045)	(403)	(72)	(137)	(10)	(2,259)	(2,166)	(6,092)
Location: foreign markets								
Write-down rate	–	0.85%	0.85%	32.22%	55.44%	67.89%	92.44%	–
Gross carrying amount	–	209,929	8,078	–	462	812	482	219,763
Impairment loss	–	(1,140)	(44)	–	(204)	(523)	(450)	(2,361)
Total impairment losses	**(1,045)**	**(1,543)**	**(116)**	**(137)**	**(214)**	**(2,782)**	**(2,616)**	**(8,453)**

		Trade receivables						
	Assets assets	Not past due	0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
December 31st 2019								
Location: Poland								
Write-down rate	0.54%	0.54%	0.54%	22.23%	44.03%	64.48%	93.30%	–
Gross carrying amount	214,763	122,381	2,813	26	3,487	62	1,972	345,504
Impairment loss	(1,211)	(671)	(15)	(6)	(1,536)	(40)	(1,913)	(5,392)
Location: foreign markets								
Write-down rate	–	0.54%	0.54%	22.23%	44.03%	64.48%	93.30%	–
Gross carrying amount	–	112,099	5,562	453	471	491	249	119,325
Impairment loss	–	(609)	(30)	(101)	(208)	(317)	(233)	(1,498)
Total impairment losses	**(1,211)**	**(1,280)**	**(45)**	**(107)**	**(1,744)**	**(357)**	**(2,146)**	**(6,890)**

As at March 31st 2020, an impairment loss of PLN 33,866 thousand was recognised on other short-term financial receivables with a gross carrying amount of PLN 98,810 thousand (December 31st 2019: PLN 109,121 thousand; impairment loss on other receivables: PLN 33,648 thousand).

(PLN thousand)

11.18 Assets pledged as security for the Company's liabilities

11.18.1 Property, plant and equipment pledged as security

As at March 31st 2020, the carrying amount of property, plant and equipment pledged as security for the Company's liabilities was PLN 120,564 thousand. The assets were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, PKO BP's, mBank's and PZU's claims against 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 TAURON Sp. z o.o. in connection with the execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

	March 31st 2020	*December 31st 2019*
Mortgaged property, plant and equipment, including:	81,944	83,094
land	9,162	9,162
buildings and structures	72,782	73,932
Property, plant and equipment encumbered with registered pledge, including:	38,620	39,282
plant and equipment	36,230	36,880
vehicles	2,390	2,402
	120,564*	**122,376***

* The disclosed amounts include property, plant and equipment of PLN 382 thousand classified as held for sale (December 31st 2019: PLN 103 thousand).

11.18.2 Intangible items pledged as security

As at March 31st 2020, intangible assets worth PLN 7,790 thousand were pledged as security for the Company's liabilities (December 31st 2019: PLN 8,097 thousand). The assets 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, PKO BP's, mBank's and PZU'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 TAURON Sp. z o.o. in connection with execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

11.18.3 Shares pledged as security

As at March 31st 2020, shares in subsidiaries and other entities worth PLN 31,272 thousand (December 31st 2019: PLN 31,310 thousand) 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, PKO BP's, mBank's and PZU'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 TAURON Sp. z o.o. in connection with execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over shares in E003B7 Sp. z o.o.).

11.18.4 Inventories pledged as security

As at March 31st 2020, inventories worth PLN 30,773 thousand were pledged as security for the Company's liabilities (December 31st 2019: PLN 27,205 thousand). The inventories 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 unit Project (a second-ranking registered pledge over a set of movables and rights, a financial pledge and a registered pledge over shares in E003B7 Sp. z o.o).

11.18.5 Trade receivables pledged as security

As at March 31st 2020, trade receivables of PLN 68,101 thousand were pledged as security for guarantees and borrowings received by the Group (December 31st 2019: PLN 21,499 thousand).

11.19 Share capital

In the three months ended March 31st 2020, there were no changes in RAFAKO S.A.'s share capital, and as at March 31st 2020 the amount of the share capital was PLN 254,864 thousand.

Equity	*Number of shares*	*Par value 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. restrukturyzacji, 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. w restrukturyzacji (34,800,001 shares) for the benefit of bondholders.

11.20 Par value per share

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

11.21 Shareholders’ rights

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

11.22 Share premium

In the three months ended March 31st 2020, there were no changes in the share premium, and as at March 31st 2020 the share premium was PLN 165,119 thousand.

11.23 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 thousand)

Profit/(loss) and share data used to calculate basic earnings /(loss) per share are presented below.

	3 months ended March 31st 2020	*3 months ended March 31st 2019*
Net profit/(loss) from continuing operations	6,071	290
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	6,071	290
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	**6,071**	**290**
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) for period	0.05	0.00

The Company does not present diluted earnings per share for the three months ended March 31st 2020 as it did not issue any dilutive financial instruments.

11.24 Other non-current liabilities

	March 31st 2020	*December 31st 2019*
Financial liabilities		
Other non-current liabilities	16,762	18,556
	16,762	**18,556**

11.25 Long-term employee benefit obligations and provisions

	March 31st 2020	*December 31st 2019*
Unpaid bonus accrual	15	5
Provisions for retirement severance payments	8,716	8,570
Provision for long-service benefits	14,383	13,944
Provision for other employee benefits	6,872	6,815
	29,986	**29,334**

(PLN thousand)

11.26 Post-employment and other benefits

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

	March 31st 2020	*December 31st 2019*
As at January 1st	31,794	26,097
Interest expense	149	730
Current service costs	171	654
Actuarial (gains)/losses	639	6,877
Benefits paid	(477)	(2,564)
Closing balance	**32,276**	**31,794**
Long-term provisions	29,971	29,329
Short-term provisions	2,305	2,465

The main assumptions adopted by the actuary as at March 31st 2020 and for the three months ended March 31st 2019 as well as for the 12 months ended December 31st 2019 to determine the amount of the obligation are presented below.

	March 31st 2020	*December 31st 2019*
Discount rate (%)	1.9	1.9
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

11.27 Other long-term provisions

	March 31st 2020	*December 31st 2019*
Provision for warranty repairs	19,755	18,430
	19,755	**18,430**

11.28 Short-term trade and other payables

	March 31st 2020	*December 31st 2019*
Financial liabilities		
Trade payables	356,559	332,640
Amounts payable for tangible and intangible assets	118	163
Retentions (security deposits)	87	87
Total financial liabilities	**356,764**	**332,890**

(PLN thousand)

	March 31st 2020	*December 31st 2019*
Non-financial liabilities		
Taxes and other duties payable	1,858	5,525
Amounts payable under sureties/joint and several liability	10,571	15,386
Liabilities due to delayed payment of costs	6,024	13,582
Other non-financial liabilities	2,933	2,713
Total non-financial liabilities	**21,386**	**37,206**
	378,150	**370,096**

11.29 Short-term employee benefit obligations and provisions

	March 31st 2020	*December 31st 2019*
Social security	6,832	6,682
Salaries and wages payable	6,837	6,555
Obligations under Employee Capital Plans	102	225
Accrued holiday entitlements	3,345	2,769
Unpaid bonus accrual	533	532
Provisions for retirement severance payments	329	432
Provision for long-service benefits	1,717	1,772
Provision for other employee benefits	260	261
	19,955	**19,228**

11.30 Other short-term provisions

	March 31st 2020	*December 31st 2019*
Provision for warranty repairs	5,595	6,555
Provision for expected contract losses	30,998	38,997
Other provisions	216	288
	36,809	**45,840**

12 Objectives and policies of financial risk management

The objectives and policies of financial risk management have not changed relative to those published in the most recent financial statements for 2019.

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 amount of financial assets presented in the statement of financial position as at March 31st 2020 and December 31st 2019 related to the following IFRS-9 categories of financial instruments:

- 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,

(PLN thousand)

- 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).

Classes and categories of financial assets	*Carrying amount March 31st 2020*	*Carrying amount December 31st 2019*
Assets at fair value through profit or loss	**82**	**120**
Long-term shareholdings	82	120
Assets at fair value through other comprehensive income	**1,376**	**1,376**
Long-term shareholdings	1,376	1,376
Assets at amortised cost	**404,522**	**372,306**
Bonds	–	–
Trade receivables	304,526	244,387
Other financial receivables*	65,269	75,853
Other financial assets	29,817	28,149
Cash and cash equivalents	4,910	23,917
	405,980	**373,802**

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

The amount of financial liabilities presented in the statement of financial position as at March 31st 2020 and December 31st 2019 related to the following IFRS-9 categories of financial instruments:

- 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 March 31st 2020*	*Carrying amount December 31st 2019*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**450,503**	**463,467**
Borrowings	76,977	112,021
Trade payables (including capital commitments)	373,439	351,359
Other financial liabilities	87	87
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**6,110**	**5,741**
Liabilities under leases and rental contracts with purchase option	6,110	5,741
	456,613	**469,208**

(PLN thousand)

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

- level 1 - quoted prices in active markets for identical assets or liabilities (not adjusted),
- level 2 – inputs other than level-1 quoted market prices that are observable for the assets and liabilities in active markets,
- Level 3 - inputs not observable in active markets.

March 31st 2020	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	**82**	–	–
Long-term shareholdings	82	–	–
Assets at fair value through other comprehensive income	**1,376**	–	–
Long-term shareholdings	1,376	–	–

December 31st 2019	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	**120**	–	–
Long-term shareholdings	120	–	–
Assets at fair value through other comprehensive income	**1,376**	–	–
Long-term shareholdings	1,376	–	–

In the reporting period there were no significant transfers between level 1 and level 2 of the fair value hierarchy.

14 Derivative instruments

As at March 31st 2020 and December 31st 2019, the Company did not carry any open currency forward contracts or 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 purchase/sale contracts denominated in foreign currencies.

(PLN thousand)

15 Borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						March 31st 2020	*December 31st 2019*
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	10.11.2020****	46,923	69,569
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	10.11.2020****	21,753	34,149
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility to cover liabilities related to payments made under bank guarantees	PLN	1M WIBOR + margin	10.11.2020****	8,301	8,303
						76,977	**112,021**

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

**As at the date of these interim condensed 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 interim condensed financial statements, in accordance with the annex of June 30th 2020 to the multi-purpose credit facility agreement, the facility limit was set at PLN 142m, including an overdraft facility of up to 50 million;

***As at the date of issue of these interim condensed financial statements, in accordance with the annex of June 30th 2020 to the multi-purpose credit facility agreement, the term of the facility and its repayment date were extended until November 10th 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 thousand)

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).

	March 31st 2020	*December 31st 2019*
Debt to equity		
Equity	110,082	104,529
Borrowed funds (bank and non-bank borrowings)	76,977	112,021
Total equity and liabilities	937,263	932,588
Capitalisation ratio (equity / total assets)	**0.12**	**0.11**
Total financing sources		
Equity	110,082	104,529
Borrowed funds (bank and non-bank borrowings)	76,977	112,021
Finance leases	6,110	5,741
Capital-to-total financing sources ratio	**1.32**	**0.89**
EBITDA		
Operating profit/(loss)	5,399	(250,395)
Depreciation and amortisation	2,970	12,659
EBITDA	**8,369**	**(237,736)**
Debt		
Borrowings and other debt instruments	76,977	112,021
Finance leases	6,110	5,741
Debt to EBITDA	**9.93**	**(0.50)**

(PLN thousand)

17 Change in provisions, liabilities and accruals and deferrals disclosed in the statement of financial position

	*Provision for expected contract losses**	*Provision for jubilee benefits, retirement gratuity and Company Social Benefits Fund*	*Provision for holiday entitlements*	*Provision for warranty repairs*	*Employee benefit obligations*	*Provision for credit losses on sureties*	*Provision for Voluntary Redundancy Programme*	*Provision for other costs*	*Other provisions*
January 1st 2020	**38,997**	**31,794**	**2,769**	**24,985**	**537**	**7,347**	**–**	**8,040**	**139**
Recognised	774	959	576	2,709	16	–	–	–	71
Reversed	(8,773)	–	–	(351)	(5)	–	–	–	–
Used	–	(476)	–	(1,993)	–	–	–	(4,816)	–
March 31st 2020	**30,998**	**32,277**	**3,345**	**25,350**	**548**	**7,347**	**–**	**3,224**	**210**
January 1st 2019	**4,077**	**26,096**	**2,928**	**22,951**	**747**	**1,549**	**145**	**1,531**	**139**
adjustment to opening balance	–	–	–	–	–	–	–	–	–
January 1st 2019	**4,077**	**26,096**	**2,928**	**22,951**	**747**	**1,549**	**145**	**1,531**	**139**
Recognised	25	621	1,214	1,506	15	–	–	–	71
Reversed	–	–	–	(2,482)	–	–	(4)	(32)	–
Used	(2,535)	(438)	–	–	(10)	–	(141)	–	–
March 31st 2019	**1,567**	**26,279**	**4,142**	**21,975**	**752**	**1,549**	**–**	**1,499**	**210**

* Amounts resulting from accounting for the service contracts described in Note 10.

(PLN thousand)

18 Issue, redemption and repayment of debt and equity securities

In the three months ended March 31st 2020, the Company did not issue, redeem or repay any debt or equity securities.

19 Dividends paid or declared

In the three months ended March 31st 2020, the Company did not pay any dividends, nor did the Management Board declare any dividend.

20 Investment commitments

As at March 31st 2020, the Company did not recognise any commitments related to purchase of property, plant and equipment.

As at March 31st 2020, the Company was not a party to any contracts or agreements which would commit the Company to incur capital expenditure but were not disclosed in the accounting records as at the reporting date.

21 Movements in off-balance sheet items, information on loan sureties and guarantees granted

	March 31st 2020	*December 31st 2019*
Receivables under bank guarantees obtained mainly as security for performance of contracts, including:	257,210	228,666
– from related entities	–	–
Receivables under sureties received, including:	–	–
– from related entities	–	–
Promissory notes received as security, including:	50,255	62,630
– from related entities	32,107	51,925
Letters of credit	6,430	5,643
	313,895	**296,939**

	March 31st 2020	*December 31st 2019*
Liabilities under bank guarantees issued mainly as security for contract performance, including:	503,719	510,939
– to related entities	–	–
Liabilities under sureties, including:	1,175,587	1,175,587
– to related entities	1,175,587	1,175,587
Promissory notes issued as security, including:	111,069	107,900
– to related entities	–	–
	1,790,375	**1,794,426**

In the three months ended March 31st 2020, there was a-PLN 4,051 thousand decrease in the amount of the Company's contingent liabilities, mainly due to the lower amount of the guarantees granted. In the reporting period, at the request of the parent, the banks and insurance companies issued guarantees (performance bonds and bid bonds) for the benefit of the Group's trading partners for a total amount of PLN 1,601 thousand. The largest item in this group of liabilities was a EUR 231 thousand performance bond issued in January 2020. As at March 31st 2020, liabilities under sureties in issue were PLN 1,175,587. 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 3 months ended March 31st 2020 was a EUR 8,139 thousand performance bond.

In the three months ended March 31st 2020, the Company's contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 16,956 thousand, including a PLN 28,544 thousand increase in receivables under bank and insurance guarantees, a PLN 12,375 thousand increase in letters of credit, and a PLN 787 thousand decrease in receivables under promissory notes. The largest item among guarantees received in the three months ended March 31st 2020 was an advance payment guarantee of EUR 953 thousand. The largest guarantee which expired in the reporting period was a EUR 974 thousand performance bond.

22 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 2019, available at:

https://www.rafako.com.pl/relacje-inwestorskie/raporty-okresowe?page=18326

The disputes described in Notes 42.1 and 42.4 to the full-year financial statements are considered closed. With respect to the case described in Note 42.7, the court dismissed the motion for injunctive relief; the dispute amount was drawn from the bank guarantee, with the Company's account debited for the same amount. On July 27th 2020, RAFAKO S.A. filed a claim for payment of PLN 1,917,750.00 due to the lack of grounds for release of the amount from the bank guarantee. RAFAKO is preparing a separate action regarding the remaining amount of approximately PLN 4m drawn under the guarantee, which according to SODA CIECH Polska S.A. represents liquidated damages for termination of the contract.

Dispute with UAB VILNIAUS KOGENERACINE JEGAINE (VKJ), the employer in the Vilnius project, is a new case. In the absence of willingness on the part of VKJ to resolve amicably the claims made by RAFAKO S.A., on July 10th 2020 the Company submitted a request to initiate arbitration proceedings, which will be held at the Arbitration Institute of the Stockholm Chamber of Commerce in Stockholm. RAFAKO S.A. is of the opinion that the lack of proper coordination by VKJ of work carried out simultaneously at the same site, as part of two different projects (including the project executed by the Company), led to a number of delays/extensions of execution time, with additional costs incurred by RAFAKO S.A. Therefore, the main claims made by the Company are: (i) to extend the project completion date until April 1st 2021, and (ii) to increase the contract price by EUR 13,487,081.65. Additionally, RAFAKO S.A. has moved that the liquidated damages demanded by VKJ for late contract performance be considered unfounded due to the lack of fault of RAFAKO S.A. in this respect.

There were no material changes in all other proceedings described in the full-year financial statements for 2019.

23 Management Board and Supervisory Board

In the three months ended March 31st 2020 and until the date of these interim condensed financial statements, there were changes in the composition of the Management Board.

On January 7th 2020, Jerzy Ciechanowski, Vice President of the Management Board, resigned from his position on the Management Board, with effect from January 7th 2020, citing personal reasons.

On May 20th 2020, the Supervisory Board of RAFAKO S.A:

- removed Paweł Jarczewski from the Management Board,
- appointed Ms Agnieszka Wasilewska-Semail as acting President of the Management Board,
- delegated Michał Sikorski to temporarily serve as Member of the Management Board for a period of three months, and
- Appointed Mr Radosław Domagalski-Łabędzki to the Management Board as its Vice President.

(PLN thousand)

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

Agnieszka Wasilewska-Semail	– acting President of the Management Board
Jacek Drozd	– Vice President of the Management Board
Radosław Domagalski-Łabędzki	– Vice President of the Management Board
Michał Sikorski	– delegated by the Supervisory Board to temporarily perform the duties of a Management Board Member.

In the three months ended March 31st 2020 and until the date of these interim condensed consolidated financial statements, there were changes in the composition of the Company's Supervisory Board.

On February 4th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special shareholder rights, removed Jerzy Karney from the Supervisory Board and appointed Mr Maciej Stańczuk to the Supervisory Board.

On April 18th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special shareholder rights, removed Michał Maćkowiak from the Supervisory Board and appointed Konrad Milczarski to the Supervisory Board.

On May 11th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special shareholder rights, removed Małgorzata Wiśniewska from the Supervisory Board and appointed Piotr Zimmerman to the Supervisory Board.

On May 28th 2020, PBG S.A. w restrukturyzacji, in the exercise of its special shareholder rights:

- removed Konrad Milczarski from the Supervisory Board,
- appointed Bartosz Sierakowski as Member of the Supervisory Board.

On the same day, the Extraordinary General Meeting of RAFAKO S.A.:

- removed Adam Szyszka from the Supervisory Board, and
- appointed Konrad Milczarski as Member of the Supervisory Board.

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

Piotr Zimmerman	– Chairman of the Supervisory Board
Michał Sikorski	– Deputy Chairman of the Supervisory Board – delegated to perform the duties of a Management BoardMember
Przemysław Schmidt	– Secretary of the Supervisory Board (independent member)
Krzysztof Gerula	– Member of the Supervisory Board (independent member)
Konrad Milczarski	– Member of the Supervisory Board
Bartosz Sierakowski	– Member of the Supervisory Board
Maciej Stańczuk	– Member of the Supervisory Board.

24 Transactions with members of the Management Board and the 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 25.

25 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 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 21.

(PLN thousand)

In the three months ended March 31st 2020 and March 31st 2019, the Company did not enter into any material transactions with related parties on non-arm's length terms. All transactions with related parties are executed on terms applied by the Company in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are applied. A related party must ensure that a contract is performed in accordance with the relevant documentation, give a warranty for a specified period, and provide security in the form of a performance bond. Related parties are also required to accept standard liquidated damages clauses, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

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

	Operating income	
	from January 1st 2020 to March 31st 2020	*from January 1st 2019 to March 31st 2019*
Sales to:		
Entities related through equity links:	693	1,434
Entities related through personal links:	10	–
TOTAL	**703**	**1,434**

	Receivables	
	March 31st 2020	*December 31st 2019*
Sales to:		
Entities related through equity links:	72,081*	65,792
Entities related through personal links:	3	5
TOTAL	**72,084**	**65,797**

** Including bonds from PBG S.A. described in Note 11.11 and receivables under advance payments.*

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

	Purchases (costs, assets)	
	from January 1st 2020 to March 31st 2020	*from January 1st 2019 to March 31st 2019*
Purchases from:		
Entities related through equity links:	5,668	21,320
Entities related through personal links:	311	186
TOTAL	**5,979**	**21,506**

	Liabilities	
	March 31st 2020	*December 31st 2019*
Purchases from:		
Entities related through equity links:	11,089	15,802

(PLN thousand)

Entities related through personal links:	692	718
TOTAL	**11,781**	**16,520**

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

The Company has not published any forecasts for 2020.

27 Brief description of significant achievements or failures of the Company in the three months ended March 31st 2020

On January 16th 2020, the Company and Agencja Rozwoju Przemysłu S.A. of Warsaw executed a memorandum of understanding to define the terms of cooperation between the parties and to initiate discussions with respect to ARP and RAFAKO S.A. obtaining a business plan and valuation. These documents would be used for the purposes of a contemplated transaction consisting in the sale by the parent to ARP of an organised part of its business following spin-off (or the sale of shares in a special purpose vehicle, i.e. RAFAKO E-Bus spółka z ograniczoną odpowiedzialnością of Racibórz, to which the organised part of business would be contributed by any legal process), in the form of the Company's branch established in Solec Kujawski on February 1st 2020, whose business would consist in the production and sale of electric vehicles, the provision of related engineering design services and R&D activities.

In the memorandum, RAFAKO granted ARP exclusive rights to negotiate and carry out the Transaction until July 31st 2020. Each party has the right to terminate the memorandum of understanding subject to a notice period of two weeks from the date of delivery of the relevant notice to the other party.

In connection with the contract for the construction of a supercritical 910 MW power generation unit at the Jaworzno III Power Plant - Power Plant II, in January 2020, the Management Board of RAFAKO S.A. was notified of a delay in execution of the works which originally were to be completed by January 31st 2020. The delay was caused by circumstances beyond the control of the parent. According to the information received by the Management Board of RAFAKO S.A., E003B7 Sp. z o.o., the special purpose vehicle responsible for the performance of the contract, is expected to complete the tests and technical work necessary to hand over the project to the Employer by February 4th 2020. During the final testing of the unit, a number of objective events occurred which affected the date of delivery of the unit to the employer.

According to the information received, following the unit's being taken offline due to extreme weather conditions, it was found that an unforeseeable event had occurred, involving damage to a component of the steam generator.

In March 2020, the Company, in consultation with the employer, took immediate steps to prepare the unit for restart as soon as possible. An analysis carried out by the joint commission established to determine effects of the event, consisting of representatives of the Employer, RAFAKO S.A. and E003B7 Sp. z o.o, helped determine the rules for removing those effects and set an updated timetable for commissioning the unit by July 31st 2020. On June 10th 2020, Annex No. 8 to the contract was concluded in order to bring about efficient and swift handover of the unit to the customer. Annex 8 introduces a new schedule for the performance of the contract, with November 15th 2020 confirmed as the date the unit is to be handed over for use. The new schedule is already followed by the Company.

On March 17th 2020, a contract was signed by and between JP Elektroprivreda Srbije and a consortium of RAFAKO S.A. (leader), RAFAKO ENGINEERING Solution d o.o. and VIA Ocel Serbia. The contract provides for the design, supply, supervision of the assembly of pressure components and launch of a modernised BB-2000 steam generator for the TENT B1 Obrenovac Power Plant in Serbia. The contract price is approximately EUR 34.4m (VAT-exclusive), with the share of RAFAKO S.A. and its subsidiary RAFAKO ENGINEERING Solution d o.o. amounting to approximately EUR 17.35m (VAT-exclusive), of which RAFAKO S.A.'s share is approximately EUR 14.6m (VAT-exclusive). The project is to be completed in November 2021.

The World Health Organisation declaring the coronavirus outbreak a pandemic prompted many governments to introduce various restrictions aimed at limiting spread of the disease. The countermeasures taken by the state administration have caused significant disturbances in the economic, legal and administrative system in Poland. Following the introduction in mid-March 2020 of the state of epidemic in Poland, the Company adapted to the new situation to the extent possible. In order to ensure that the highest safety standards are met, the parent has established a Crisis Management Team, which monitors the situation on an ongoing basis, takes decisions and prepares operating guidelines related to the risk of coronavirus infection. Based on the guidelines from the Ministry of Health and Chief Sanitary Inspector, the sanitary rules have been tightened both at the Company and at contract performance sites, where additional sanitary procedures have been implemented by the employers.

(PLN thousand)

Despite the measures taken, the Company's active contracts were affected, as the restriction on freedom of movement of the population and business activities had an adverse effect on the Company's core business, with subcontracted works and foreign supplies particularly affected. The impact of the epidemic is being analysed and estimated in consultation with project owners on a case-by-case basis. As at the date of these interim condensed financial statements, the future development of the epidemic in Poland and globally and its impact on the Company's operations and financial results are unknown and cannot be predicted. However, given the gradual easing of the lockdown restrictions, the Company monitors the situation on an ongoing basis and, in consultation with the Management Board of RAFAKO S.A., takes appropriate measures to mitigate the adverse impact of the situation on the business, and its priority is to maintain business continuity and the safety of employees and stakeholders.

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

Shareholders holding 5% or more of the 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 three months ended March 31st 2020.

29 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	*As at June 30th 2020*	*Increase*	*Decrease*	*As at July 28th 2020*
Management staff member					
Agnieszka Wasilewska-Semail – Vice President of the Management Board	RAFAKO S.A.	60,245	–	–	60,245
Supervisory staff member		–	–	–	–

30 Factors with a material bearing on the Groups's in Q2 2020

- Possible changes in cost estimates for ongoing contracts, including as a result of ongoing procurement processes for products and services, which may have a positive or negative effect on the results after March 31st 2020;
- Adequacy of provisions and impairment losses for ongoing contracts;
- Risk that provisions may need to be recognised for liquidated damages for time overruns or failure to meet the guaranteed technical parameters under certain contracts;
- Risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs;
- Currency movements − significant 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;
- Progress in work on bringing the 910 MW unit into operation at the Jaworzno Power Plant and successful completion of negotiations on mutual relations and settlements with the parties to the contract;
- Adverse economic impact of the COVID-19 epidemic.

31 Key items of the financial statements translated into the euro

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, March 31st 2020: 4.5523 PLN/EUR, December 31st 2019: 4.2585 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–March 31st 2020: 4.3257; 9LN/EUR, January 1st–December 31st 2019: 4.2988 PLN/EUR.

The highest and the lowest exchange rates in each period were as follows: January 1st–March 31st 2020: 4.6044/4.2279 PLN/EUR, January 1st–December 31st 2019: 4.3891/4.2406 PLN/EUR.

	March 31st 2020	*December 31st 2019*	*March 31st 2020*	*December 31st 2019*
	PLN '000		*EUR '000*	
Statement of financial position				
Assets	937,263	932,588	205,888	218,994
Non-current liabilities	68,061	68,024	14,951	15,974
Current liabilities	759,120	760,035	166,755	178,475
Equity	110,082	104,529	24,182	24,546
PLN/EUR exchange rate at end of period			4.5523	4.2585

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

	from January 1st 2020 to March 31st 2020	*from January 1st 2019 to March 31st 2019*	*from January 1st 2020 to March 31st 2020*	*from January 1st 2019 to March 31st 2019*
	PLN '000		*EUR '000*	
Statement of comprehensive income				
Revenue	236,901	216,696	54,766	50,356
Operating profit/(loss)	5,399	994	1,248	231
Profit/(loss) before tax	6,192	836	1,431	194
Net profit/(loss)	6,071	290	1,403	67
Earnings per share (PLN)	0.05	0.00	0.01	0.00
Average PLN/EUR exchange rate in the period			4.3257	4.3033

	from January 1st 2020 to March 31st 2020	*from January 1st 2019 to March 31st 2019*	*from January 1st 2020 to March 31st 2020*	*from January 1st 2019 to March 31st 2019*
	PLN '000		*EUR '000*	
Statement of cash flows				
Net cash from operating activities	18,152	28,510	4,196	6,625
Net cash from investing activities	(427)	(31)	(99)	(7)
Net cash from financing activities	(36,732)	2,923	(8,492)	679
Net increase/(decrease) in cash and cash equivalents	(19,007)	31,402	(4,394)	7,297
Average PLN/EUR exchange rate in the period			4.3257	4.3033

32 Events after the reporting period

After the reporting period, there were no events that would materially affect the Company's financial results.

On June 10th 2020, Annex No. 8 to the contract was concluded in order to bring about efficient and swift handover of the unit to the customer. Annex 8 introduces a new schedule for the performance of the contract, with November 15th 2020 confirmed as the date the unit is to be handed over for use. The new schedule is already followed by the Company. For a detailed description of the project execution, see Note 10 these interim condensed financial statements.

On June 2nd 2020, the Management Board of RAFAKO S.A. passed a resolution to increase the share capital of RAFAKO MANUFACTURING Sp. z o.o. from PLN 30 thousand to PLN 60 thousand, through the issue of 300 new shares with a par value of PLN 100 per share.

On June 25th 2020, the Extraordinary General Meeting of RAFAKO EBUS Sp. z o.o. adopted a resolution to increase the company's share capital from PLN 5 thousand to PLN 15 thousand, through the issue of 20 new shares with a par value of PLN 500 per share. The new shares will be acquired by RAFAKO S.A. and paid for in cash (PLN 10 thousand).

On June 30th 2020, the Company agreed to extend until July 31st 2020 the exclusive rights of Agencja Rozwoju Przemysłu S.A. to negotiate and acquire an organised part of RAFAKO S.A.'s business, i.e. the Solec Kujawski branch, and 100% of shares in RAFAKO EBUS sp. z o.o.

On June 30th 2020, the Company executed Annex 31 to the multi-purpose credit facility agreement of February 7th 2012, as amended. The Annex sets out primarily the following amendments:

- The limit of the facility was set at PLN 142m limit, including:
  - an overdraft facility of up to PLN 50 million;
  - a revolving working capital facility, in PLN and EUR, up to PLN 30m to finance current liabilities under day-to-day operations;
  - a revolving working capital facility of up to PLN 142m, intended to cover the Issuer's liabilities towards the Bank under any payments drawn bank guarantees issued by the Bank;
  - bank guarantees in PLN, CZK, USD, EUR and GBP up to PLN 142m.
- The annex extended the facility’s term and maturity date until November 10th 2020.

On June 30th 2020, the Company and ENEA Wytwarzanie Sp. z o.o. executed Annex 6 to the contract for the delivery and installation of a catalytic flue gas NOx removal system for AP-1650 steam generators No. 9 and 10, with upgrade of the electrostatic precipitators, and an arrangement regarding extension of the term of delivery of the DRIM II station under the contract, with the commissioning date agreed as March 30th 2021. RAFAKO S.A. and ENEA Wytwarzanie Sp. z o.o. waived their mutual claims arising from late performance of the contract and payment for additional works and exceptional changes in circumstances.

After the reporting date, there were changes in the composition of the Management Board and the Supervisory Board of the Company, as described in detail in Note 23 to these interim condensed financial statements.

33 Authorisation for issue

These financial statements were authorised for issue on July 28th 2020 by resolution of the Management Board of July 28th 2020.

Signatures:

Agnieszka Wasilewska-Semail	– acting President of the Management Board	....
Jacek Drozd	– Vice President of the Management Board	....
Radosław Domagalski-Łabędzki	-Vice President of the Management Board	....
Michał Sikorski	-Member of the Supervisory Board delegated to serve on the Management Board	....
Jolanta Markowicz	-Chief Accountant	....