RAFAKO S.A.

PBG GROUP

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31ST 2019

with the auditor's report on the financial statements

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(PLN '000)

Statement of comprehensive income

for the 12 months ended December 31st 2019

	Note	12 months ended December 31st 2019	12 months ended December 31st 2018
Continuing operations			
Revenue		**947,061**	**643,313**
Revenue from sale of goods and services	12.1	945,973	640,517
Revenue from sale of materials	12.2	1,088	2,796
Cost of products and services sold	13.1	(1,070,715)	(579,551)
Cost of materials sold		(810)	(1,865)
Gross profit/(loss)		**(124,464)**	**61,897**
Other income	13.4	8,892	16,587
Selling expenses	13.1	(22,452)	(24,053)
Administrative expenses	13.1	(35,175)	(38,959)
Other expenses	13.5	(65,860)	(5,618)
Research and development costs		(11,336)	(6,151)
Operating profit/(loss)		**(250,395)**	**3,703**
Finance income	14.1	7,013	8,404
Finance costs	14.2	(40,878)	(5,176)
Profit/(loss) before tax		**(284,260)**	**6,931**
Income tax	15	(384)	(2,629)
Net profit/(loss) from continuing operations	17	**(284,644)**	**4,302**
Other comprehensive income for period			
Items to be reclassified to profit or loss in subsequent reporting periods			
Exchange differences on translating foreign operations		–	337
Other net comprehensive income to be reclassified to profit or loss in subsequent reporting periods		–	**337**
Items that will not be reclassified to profit or loss in subsequent reporting periods			
Other comprehensive income from actuarial gains/(losses)		(6,877)	(4,275)
Tax on other comprehensive income	15.1	1,306	812
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(5,571)**	**(3,463)**
Total comprehensive income for period		**(290,215)**	**1,176**
Weighted average number of shares	17	127,431,998	127,431,998
Basic earnings/(loss) per share, PLN	17	(2.23)	0.03
Diluted earnings/(loss) per share, PLN	17	(2.23)	0.03

Racibórz, June 30th 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 ’000)

Statement of financial position

as at December 31st 2019

	Note	December 31st 2019	December 31st 2018
ASSETS			
Non-current assets			
Property, plant and equipment	20	122,381	132,814
Goodwill	23	1,774	1,774
Intangible assets	23	6,519	7,594
Right-of-use assets	21.1	8,524	–
Other long-term receivables	26	42,716	5,224
Shares	25	31,310	36,520
Other non-current financial assets	27; 27.1	28,148	36,242
Deferred tax assets	15.3	37,226	36,304
Long-term prepayments and accrued income		4,795	5,603
		283,393	**262,075**
Current assets			
Inventories	28	27,205	29,391
Short-term trade and other receivables	29	363,827	392,644
Contract assets	11	213,552	205,149
Other current financial assets	31.1	–	7,608
Cash and cash equivalents	31.2	23,917	5,404
Short-term prepayments and accrued income	30	20,591	15,301
		649,092	**655,497**
Non-current assets held for sale	22	103	163
TOTAL ASSETS		**932,588**	**917,735**

(PLN '000)

Statement of financial position

as at December 31st 2019

	Note	December 31st 2019	December 31st 2018
EQUITY AND LIABILITIES			
Equity			
Share capital	33.1	254,864	254,864
Share premium	33.4	165,119	165,119
Statutory reserve funds		15,902	11,600
Exchange differences on translating foreign operations		–	–
Retained earnings/accumulated losses, including:		(331,356)	(37,157)
Profit/(loss) brought forward		(46,712)	(41,459)
Net profit/(loss) for period		(284,644)	4,302
		104,529	**394,426**
Non-current liabilities			
Lease liabilities	21	1,704	1,223
Employee benefit obligations and provisions	36	29,334	23,495
Other non-current liabilities	37.1	18,556	9,647
Other long-term provisions	37.2	18,430	14,515
		68,024	**48,880**
Current liabilities			
Bank and other borrowings	35	112,021	100,831
Lease liabilities	21	4,037	1,148
Short-term trade and other payables	37.3	370,096	206,429
Employee benefit obligations and provisions	36	19,228	19,091
Contract liabilities	11	208,444	132,656
Other short-term provisions	37.4	45,840	13,088
Short-term accrued expenses and deferred income		139	139
Grants	38	230	1,047
		760,035	**474,429**
Total liabilities		**828,059**	**523,309**
TOTAL EQUITY AND LIABILITIES		**932,588**	**917,735**

Racibórz, June 30th 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 '000)

Statement of cash flows
for the 12 months ended December 31st 2019

	Note	*12 months ended December 31st 2019*	*12 months ended December 31st 2018*
Cash flows from operating activities			
Profit/(loss) before tax		**(284,260)**	**6,931**
Adjustments for:		**301,695**	**(159,968)**
Depreciation and amortisation		12,659	10,904
Foreign exchange gains/(losses)		–	4
Interest and dividends, net		4,813	4,177
(Gain)/loss from investing activities		26,988	(3,280)
Increase/(decrease) in liabilities under FX contracts		–	479
(Increase)/decrease in receivables	18	(14,900)	(109,348)
(Increase)/decrease in inventories		2,186	(3,071)
Increase/(decrease) in liabilities and provisions, excluding borrowings	18	171,729	(60,442)
Change in provisions, accruals and deferrals	18	30,583	(25,376)
Change in contract assets and liabilities	18	67,385	25,611
Income tax (paid)/received		–	323
Other		252	51
Net cash from operating activities		**17,435**	**(153,037)**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		477	451
Purchase of property, plant and equipment and intangible assets	18	(701)	(1,209)
Purchase of financial assets		(153)	(1,249)
Sale of financial assets		–	4,139
Dividends and interest		–	3
Other		–	402
Net cash from investing activities		**(377)**	**2,537**
Cash flows from financing activities			
Proceeds from issue of shares		–	–
Payment of lease liabilities		(4,386)	(2,321)
Proceeds from borrowings		11,197	2,267
Repayment of borrowings		–	–
Interest paid		(3,533)	(2,976)
Bank fees		(1,015)	(1,102)
Other		(808)	777
Net cash from financing activities		**1,455**	**(3,355)**
Net increase/(decrease) in cash and cash equivalents		18,513	(153,855)
Net foreign exchange gains/(losses)		–	338
Cash at beginning of period	31.2	5,404	158,921
Cash at end of period	31.2	23,917	5,404

Racibórz, June 30th 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 ’000)

Statement of changes in equity

for the 12 months ended December 31st 2019

	Share capital	*Share premium*	*Statutory reserve funds*	*Exchange differences on translating foreign operations*	*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 IFRS 16	–	–	–	–	318	318
As of January 1st 2019 *(restated)*	**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**
As at January 1st 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(71,222)**	**426,074**
Adjustment to opening balance following changes in accounting policies for warranty repair provisions	–	–	–	–	(9,959)	(9,959)
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(22,865)	(22,865)
As at January 1st 2018	**254,864**	**173,708**	**69,061**	**(337)**	**(104,046)**	**393,250**
Profit/(loss) from continuing operations	–	–	–	–	4,302	4,302
Other comprehensive income	–	–	–	337	(3,463)	(3,126)
Distribution of retained earnings	–	(8,589)	(57,461)	–	66,050	–
As at December 31st 2018	**254,864**	**165,119**	**11,600**	–	**(37,157)**	**394,426**

Racibórz, June 30th 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. w restrukturyzacji of Wysogotowo near Poznań.

2. Identification of consolidated financial statements

The Company has also prepared the consolidated financial statements of the RAFAKO Group for the year ended December 31st 2019, authorised for issue on June 30th 2020.

3. Composition of the Company's Management and Supervisory Boards

In the 12 months ended December 31st 2019 and as at the date of these financial statements, there were changes in the composition of the Management Board.

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

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

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

The Supervisory Board also decided to launch a formal recruitment process to select a new President of the Management Board.

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

On November 27th 2019, the Supervisory Board of RAFAKO S.A.:

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

On December 20th 2019, the Supervisory Board revoked the delegation of Jerzy Karney to temporarily perform the duties of a member of the Management Board and appointed Jacek Drozd as Vice President 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:

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- 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.

As at the date of these 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 12 months ended December 31st 2019 and until the date of these financial statements, there were changes in the composition of the Supervisory Board.

On November 25th 2019, PBG S.A. w restrukturyzacji, in the exercise of its special shareholder rights under RAFAKO S.A.'s Articles of Association:

- removed Helena Fic and Dariusz Szymański from the Supervisory Board, and
- appointed Jerzy Karney and Michał Maćkowiak to the 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 Board Member
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.

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4. Authorisation of the financial statements

These financial statements for the year ended December 31st 2019 were authorised for issue by the Management Board on June 30th 2020.

5. Company's investments

In the reporting period, the Company held investments in the following subsidiaries, jointly-controlled entities and associates:

Name and principal place of business	*Principal business activity*	*Ownership interest in the share capital (%)*	
		December 31st 2019	*December 31st 2018*
PGL – DOM Sp. z o.o. Racibórz	Real property activities with own property	100%	100%
RAFAKO ENGINEERING Sp. z o.o. Racibórz	Construction and process design, urban planning	51.05%	51.05%
ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice	Construction and process design, urban planning, engineering consultancy	100%	100%
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industries	100%	100%
RAFAKO ENGINEERING SOLUTION doo Belgrade	Process design, including construction, industry, and environmental protection consultancy and supervision	77%	77%
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	100%	100%
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology	100%	100%
RENG-NANO Sp. z o.o. Racibórz	Manufacture of metal structures and components, repair and maintenance of finished metal goods	30.63%	30.63%
RAFAKO MANUFACTURING Sp. z o.o. Racibórz	Production of steam generators, excluding hot water central heating boilers	100%	100%
RAFAKO EBUS Sp. z o.o. Racibórz	Manufacture of buses, electrical and electronic equipment for motor vehicles and manufacture of other motor vehicle parts and accessories	100%	-

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

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

On April 4th 2019, a notarial deed was signed under which a new company, RAFAKO EBUS Sp. z o.o., was established. The company's share capital is PLN 5,000 and is divided into 10 shares with a par value of PLN 500 per share. The shares were acquired for cash by RAFAKO S.A. On August 9th 2019, RAFAKO EBUS Sp. z o.o. was registered with the District Court of Gliwice, 10th Commercial Division of the National Court Register, under No. 0000798943.

6. Significant judgements and assumptions

6.1. Professional judgement

The preparation of the Company's financial statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

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.

6.2. Uncertainty of estimates

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

Impairment of assets

At the end of a reporting period, the Company conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives where indications of impairment have been identified. This requires an estimation of the recoverable amount of the cash-generating unit to which these assets belong. The recoverable amount is equal to the higher of two – value in use or fair value less costs to sell. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows.

The impairment test carried out as at December 31st 2019 did not reveal any need to recognise an impairment loss on the Company's assets. For the assumptions used in the impairment testing of assets, see Note 23.

For further information on asset impairment as at the reporting date, see Notes 20, 23, 25, 26, 27, 27.1, 28.1, 29 i 31.1 to these financial statements.

Measurement of employee benefit provisions

Employee benefit provisions (retirement severance pays and long-service benefits) were estimated using actuarial methods. The underlying assumptions are presented in Note 36.1 Change in provisions the change in employee benefit provisions in the reporting period resulted from the recognition of current service costs, interest expense and benefits paid.

Deferred tax asset

The Company recognises deferred tax assets (including deferred tax assets on tax loss) based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be realised. If future taxable profits deteriorate, this assumption may become unjustified.

Deferred tax assets are measured at tax rates to be applied when the asset is expected to be realised, based on tax laws in effect as at the date of preparation of the financial statements.

The Company has prepared financial projections based on which it assessed the recoverable amount of deferred tax assets. The analysis revealed the need to recognise an impairment loss on assets of PLN 13m, as presented in Note 15.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is determined with the use of appropriate measurement techniques. In selecting appropriate valuation methods and assumptions, the Company relies on professional judgement. For information on the fair value measurement method for individual financial assets, see Note 48.

Useful lives of non-current assets

Depreciation and amortisation rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment and intangible assets, as well as their estimated residual values. The Company reviews the useful lives of its assets annually, on the basis of current estimates. In the Management Board's opinion, as at December 31st 2019, the useful lives of assets assumed by the Company for depreciation and amortisation purposes reflect the expected periods of the assets remaining useful. However, the assets' actual useful lives may differ from those assumed due to technical wear and tear, among other factors. The carrying amount of property, plant and equipment and intangible assets subject to depreciation/amortisation is presented in Notes 20, 23

Recognition of income, cost and profit or loss

The Company recognises revenue at the transaction price, which is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer.

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

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

The Company makes these estimates based on historical data on settlements with customers and contractual provisions in the event of contract price indexation.

The Company recognises revenue as follows:

a) Revenue from sale of products and provision of services is recognised by reference to the progress towards their completion, using the input method.

b) Revenue from sale of goods is recognised at a point in time, i.e. when the customer obtains control of the merchandise. The customer obtains control of goods at the time of their receipt or delivery to the place of destination, depending on the contractual terms of delivery.

The Company recognises revenue over time because:

a) the Company’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and

b) the entity’s performance does not create an asset with an alternative use for the company and the Company has an enforceable right to payment for performance completed to date.

The Company assesses whether the contract includes a significant financing component. The Company does not adjust the promised amount of consideration for the effect of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Company estimates the total contract costs directly related to a specific contract based on market prices of materials, merchandise and services, as well as on preliminary subcontractors’ bids obtained in the process of offering a specific contract.

Profit or loss on a given contract with a customer is estimated based on recognised revenue and costs incurred in connection with that contract recognised as income and expenses, in line with the stage of completion of the contract as at the reporting date. Costs incurred include only those costs of the contract that reflect the progress of the work. The Company does not recognise revenue on the basis of the costs incurred as a result of any significant shortcomings in the performance of the obligation that were not reflected in the price specified in the contract.

Revenue, costs and profit or loss arising from the rendering of services is recognised and disclosed in line with the policies discussed in Note 8.23.

Provision for expected losses under ongoing contracts

At the end of each reporting period the Company remeasures total estimated revenues and costs of ongoing contracts accounted for using the percentage of completion method. The Company recognises provisions if it is probable that the total cost of the contract will exceed the total contract revenue (i.e. the contract gives rise to a charge). The expected loss on the contract is immediately expensed in accordance with IAS 37. The loss amount is determined irrespective of whether the contract work has commenced, of the progress of contract work or expected profits under other contracts which are not individual service contracts. Any change in provisions for expected losses increases or reduces the cost of sales under the contract to which the provision relates. Details of accounting for construction contract revenue and costs in the financial year are presented in Notes 8.23 and 11 to these financial statements.

Provision for costs due to late contract completion

The Company recognises a provision for liquidated damages due to late contract completion if the probability of being charged for late completion is significant and the delay is due to the fault of the Company as a contractor. The amount of the provision reflects the amount of liquidated damages that may be charged for the delay. For details of provisions estimated in accordance with this policy, see Note 11 to these financial statements.

Provision for warranty repairs

The warranties provided by the Company represent exclusively the assurance that the products or services provided will operate in accordance with the agreed specification and the parties’ intentions. Therefore, the Company does not recognise a separate performance obligation.

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

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

Impairment of financial assets

At the end of the reporting period, the Company measures the impairment loss on expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses over the life of the financial instrument. External bank ratings and publicly available information from rating agencies’ websites were used for the purpose of credit risk assessment. In the case of trade receivables, the Company applies a simplified approach and measures the impairment loss on expected credit losses in the amount equal to expected credit losses over the lifetime of the instrument. FullFor a detailed description of the methods used to determine impairment losses, see Note 8.12.

Current income tax, deferred tax assets and liabilities, other taxes

The Polish tax legislation is subject to frequent changes, leading to significant differences in its interpretation and significant uncertainty in its application. The tax authorities are entitled to verify the tax base (in most cases for the last five financial years) and to impose penalties and fines. Since July 15th 2016, the Tax Legislation has also taken into account the provisions of the General Anti-Abuse Rule (GAAR), which is intended to prevent the creation and use of artificial schemes to avoid paying taxes. The GAAR should be applied both with respect to transactions made after its effective date and with respect to the transactions which were made before its effective date in the case of which tax benefits continued or still continue after that date. Consequently, the determination of tax liabilities, deferred tax assets and deferred tax liabilities may require material judgements, including those relating to transactions already executed, and the amounts presented and disclosed in the financial statements may change in the future as a result of inspections by tax authorities.

The probability of utilising a deferred tax asset against future taxable profit is determined based on the Company’s budget approved by the Management Board. If financial forecasts indicate that the Company will generate sufficient taxable income, deferred tax assets are recognised at full amount. 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.

Impairment of non-financial assets

In order to determine the value in use, the Management Board estimates the projected cash flows and the rate at which the cash flows are discounted to their present value. In measuring the present value of future cash flows, assumptions are made with respect to projected financial results. These assumptions relate to future events and circumstances. Actual amounts may differ from estimated values, which in subsequent reporting periods may result in significant adjustments to the value of the Company’s assets.

Lease term

In determining the amount of a lease liability, the Company estimates the lease term, which includes:

- irrevocable lease term,
- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;
- periods covered by an option to terminate the lease if the lessee is reasonably certain to exercise that option.

In assessing whether the Company will exercise an option to extend the lease or not to exercise the termination option, the Company takes into account all relevant facts and circumstances that create an economic incentive for the Company to exercise or not to exercise the options.

Among other things, the following are considered:

- contractual terms of lease payments during the option periods,
- significant investments in leased assets,
- termination costs,
- the significance of the underlying asset for the Company's business,
- terms of exercising the options.

The lease liability presented in the statement of financial position reflects best estimates of the lease term, but a future change in circumstances may result in an increase or decrease in the amount of the lease liability and recognition of a corresponding adjustment to the right-of-use assets. Changes in the estimates made in 2019 are disclosed in Notes 6 and 21.

7. Basis of preparation of the financial statements

These financial statements have been prepared in accordance with the historical cost principle, modified with respect to financial instruments measured at fair value.

These financial statements have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the reporting period, i.e. December 31st 2019.

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 by 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 appropriate order book.

With respect to the construction and delivery of the steam boiler, turbine generator set, main building, and the electrical and I&C systems, the Jaworzno III Power Plant contract, performed for Tauron Wytwarzanie S.A, was to be completed by January 31st 2020.

This deadline was not met. Due to the overcapacity in the national power grid, there was a significant disruption in the process of tuning the generating unit to its designed operating parameters. Subsequently, on February 9th 2020, during the last phase of the tests carried out before the scheduled date of delivery of the Unit, an event occurred which resulted in damage to some of the boiler components.

An emergency committee was appointed, consisting of representatives of the Employer and the Contractor, to investigate the causes of the failure and to prepare recommendations and remedies to avoid further failures. The committee determined that the failure was caused by a sequence of adverse events which could not, individually, lead to the failure.

On May 4th 2020, the Parties entered into an agreement on cooperation in diagnosing the causes and removing the consequences of the event of February 9th 2020, the main purpose of which was to define the key matters to be addressed in Annex 8 to the Master Contract, including in particular changes in the deadlines for the performance of individual tasks and changes in the time and payment schedule.

On June 10th 2020, Annex 8 to the Master Contract was signed; it sets out the terms and conditions for the performance of additional works by the Contractor and addresses the following key issues:
- PLN 9.9m (VAT exclusive) increase in the contract price, to reflect execution and deliver of the additional works,
- change of the Unit's commissioning date to November 15th 2020,
- update of the Time and Payment Schedule to reflect changes in the delivery dates for individual milestones,
- transfer of ownership of 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.

The Client and the Contractor agreed to cooperate in good faith in order to have any damage caused by the failure liquidated under the Construction All Risks/Erection All Risks (CAR/EAR) policy, including to provide the insurer with the necessary documents, explanations or information. The Parties agreed that if only a part of the damage is covered from the policy, then the outstanding amount would be covered by the Parties on the terms to be agreed at a later date. The Parties also agreed to enter into further arrangements, in the form of an annex to the Master Contract, to resolve other issues pertaining to the settlement of outstanding mutual claims.

As the failure occurred on February 9th 2020, i.e. after the reporting date, the result for 2019 does not take into account any costs incurred as a result of the failure, any costs of contract extension, as well as additional revenue to be received for the additional contract work under Annex 8. The Company recognised the costs in profit or loss for 2020. Negotiations with the Employer concerning claims related to the failure continue and are expected to be completed by July 10th 2020 (as stipulated in Annex 8). The Contractor and the Employer requested the Insurer to cover the losses caused by the failure from the CAR/EAR policy.

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 2019, the Company and PKO BP S.A. signed an annex to the multi-purpose credit facility agreement (covering credit facilities and the guarantee limit), whereby the financing, for a total amount of PLN 200m will continue to be available to the Company until the end of June 2020. The Company has also secured new bank guarantee and insurance guarantee facilities providing security for its contracts. 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. As at the date of these financial statements, the Company received a recommendation from the credit committee and was at the final stage of negotiating the final terms of extending the credit facility from PKO BP Bank Polski S.A. The existing arrangements for renewal of the multi-purpose credit facility agreement with PKO BP S.A. of February 7th 2012, as amended (MPCF), provide for extending the availability period until November 10th 2020 and reducing the facility amount to PLN 142m. A relevant annex will be executed by the end of June 30th 2020, after all corporate approvals are obtained. The Management Board of RAFAKO S.A. is of the opinion that these terms and conditions will have no adverse effect on the Company's liquidity.

The Management Board of the parent expects to sign another extension of the loan agreement until November 10th 2020, which will be of key importance for the Company's financial liquidity.

As of the day of preparation of these full-year financial statements, the Company is finalising negotiations concerning the terms of sale of the eBus project to Agencja Rozwoju Przemysłu which has the exclusivity for negotiations until June 30th 2020, as agreed 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 a preliminary proposal setting out the scope and terms of the transaction and the other party's expectation that the exclusivity period be extended until July 31st 2020. The transaction will have a positive effect on the Company's liquidity position.

As at the end of December 2019, the value of the Company's order book was PLN 2,086m (compared with PLN 1,978m as at the end of December 2018). In pursuit of its strategy, from the beginning of 2019 to the issue date of these financial statements, the Company won new contracts worth PLN 1,196m, including PLN 898m in the power sector, PLN 180m in the oil and gas sector (the new strategic business area) and PLN 118m in the construction sector.

Major contracts won in 2019 include a contract to construct a coke gas-fired power generation unit at JSW KOKS S.A.'s KKZ Branch - Radlin Coking Plant (net contract price PLN 289m, or PLN 355.5m inclusive of VAT), a contract to upgrade the Flue Gas Desulfurisation Systems on units 8-12 at PGE GiEK S.A.'s Bełchatów Power Plant Branch (net contract price PLN 244.9m, or PLN 301.3m inclusive of VAT), a contract to construct the Kędzierzyn Gas Compressor Station, signed as part of a consortium with PBG S.A. (net contract price of PLN 168.7m, or PLN 207.5m inclusive of VAT), with the Company's share of 95%; and a contract to construct the St. John Paul II Memory and Identity Museum in Toruń (net contract price PLN 117.7m, or PLN 144.7m inclusive of VAT).

The Company has prepared a long-term development strategy, whose main objectives are to actively explore new sources of revenue based on technologies other than coal combustion and to win contracts in countries with lower environmental pressures. The Company's product strategy covers six main target markets: conventional power generation, environmental protection, thermal waste treatment (ITPO) and biomass installations, industrial power generation, and oil and gas markets which will be complemented by renewable energy and energy innovation, in particular energy storage. The Management Board believes that in order to implement this strategy it is necessary to obtain additional financing in the form of recapitalisation or debt financing and to carry out cost restructuring.

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.

A significant increase in the cost of performance of key contracts, as estimated by the Company, poses a material threat to the Company's ability to continue as a going concern. The Management Board of the parent believes that negotiations with the Company's key customers to increase contract prices will allow it to mitigate the risk. By at the date of issue of these full-year financial statements, the Company had not completed its discussions with key customers concerning additional payments (revenue) under the existing contracts, and therefore the Management Board, while convinced that the outcome of the discussions would be positive for the Company, has identified a material uncertainty as to the effect of potentially adverse outcome of the discussions on the Company's liquidity.

Taking into account all the circumstances described above, which the Management Board of the parent 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 takes all the steps described above to ensure that these risks do not materialise and present the full-year financial statements for 2019 prepared on the assumption that the Company will continue as a going concern.

7.1. Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as endorsed by the European Union ("EU IFRSs"). At the date of authorisation of these financial statements for issue, in light of the ongoing process of IFRS endorsement in the European Union and the nature of the Company's activities, within the scope of the accounting policies applied by the Company there is a difference between IFRSs and the EU IFRSs.

The Company has elected the option, available if the EU-endorsed International Financial Reporting Standards are applied, to apply amendments to IAS 19 and amendments resulting from the 2010−2012 IFRS Review − starting from annual periods beginning on January 1st 2016.

The EU IFRSs comprise standards and interpretations approved by the International Accounting Standards Board („IASB") and the Committee on International Financial Reporting Interpretations Committee („IFRIC").

The Company applied IFRSs applicable to financial statements prepared for the year beginning on January 1st 2019.

7.2. Functional currency and presentation currency

These financial statements are presented in the Polish zloty ("PLN"), and all amounts are stated in PLN thousands unless otherwise indicated.

The Polish zloty ("PLN") is the Company's functional and the presentation currency of these financial statements.

8. Significant accounting policies

8.1. Fair value measurement

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in a transaction carried out on typical terms of sale of the asset between market participants at the measurement date in the current market conditions. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs either:

- on the principal market for the asset or liability, or
- in the absence of a principal market − on most advantageous market for the asset or liability.

Both the principal and the most advantageous markets must be available to the Company.

The fair value of the asset or liability is measured on the assumption that market participants when determining the price of an asset or liability act in their best economic interest.

In the valuation of a non-financial asset at fair value the ability of a market participant to generate economic benefits by making maximum and optimal use of the asset or by selling it to another market participant who would make maximum and optimal use of the asset is taken into account.

The Company applies valuation methods that are appropriate given the circumstances and for which sufficient information is available to determine the fair value, whereby as many relevant observable inputs as possible are used and as little as possible non-observable inputs are used.

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: inputs for the asset or liability are quoted (unadjusted) market prices on an active market for identical assets or liabilities;
- Level 2: inputs for the asset or liability that are based on directly or indirectly observable market data;
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines at the end of each reporting period whether, due to a reassessment, a change has occurred in the level classification of the hierarchy (based on the input of the lowest level that is significant for the whole valuation).

(PLN ’000)

Summary of significant accounting policies concerning fair value measurement

The Management Board determines the rules and procedures for systematic fair value measurement of such assets as investment property or unlisted financial assets, as well as non-recurring measurements such as assets held for sale in discontinued operations.

For the purposes of the disclosure of the results of measurement to fair value the Company has established classes of assets and liabilities based on the nature, characteristics and risks of the various components of assets and liabilities and the level in the fair value hierarchy as described above.

8.2. Foreign currency translation

The Polish zloty is the functional and presentation currency of these financial statements.

Transactions denominated in currencies other than Polish zloty are translated into the Polish zloty at the rate of exchange prevailing on the transaction date.

As at the reporting date, cash assets and liabilities denominated in currencies other than the Polish zloty are translated into the Polish zloty at the relevant mid rate quoted by the National Bank of Poland for a given currency, effective as at the reporting date. Exchange differences resulting from currency translations are recognised as finance income (costs); realised and unrealised exchange differences on trade receivables − as revenue; realised and unrealised exchange differences on trade payables − as production cost, or are capitalised in the cost of the assets where so required under the applied accounting policies. Non-monetary assets and liabilities recognised at historical cost in a foreign currency are disclosed at the historical exchange rate from the transaction date.
Non-monetary assets and liabilities recognised at fair value in a foreign currency are translated at the exchange rate effective on the date of determining the fair value. Gains and losses on translation of non-monetary assets and liabilities measured at fair value are recognised in correspondence with gains and losses on change in the fair value of a given asset, meaning that translation gains and losses are posted to other comprehensive income or profit or loss, depending on where the change in fair value is recognised.

Exchange rates used to determine carrying amounts:

	December 31st 2019	*December 31st 2018*
USD	3.7977	3.7597
EUR	4.2585	4.3000
GBP	4.9971	4.7895
CHF	3.9213	3.8166
SEK	0.4073	0.4201
TRY	0.6380	0.7108

8.3. Property, plant and equipment

Property, plant and equipment are disclosed at cost less depreciation charges and impairment losses. Initial value of an item of property, plant and equipment comprises its cost plus any costs directly related to its acquisition and bringing it to working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred, if relevant recognition criteria are fulfilled. Costs incurred after an item of property, plant and equipment has been placed in service, such as costs of maintenance or repair, are charged to the profit or loss when incurred.

All material components of a given asset (which vary in terms of their useful lives) are recognised as at the date of acquisition of the asset. General overhauls also represent asset components.

Depreciation is charged on the cost of the fixed asset less its residual value. Depreciation commences when the asset is placed in service. Depreciation is based on the depreciation schedule, which specifies the expected useful life of a given asset. The applied depreciation method reflects the pattern in which the asset’s economic benefits are consumed by the enterprise.

Assets are depreciated with the straight-line method over the estimated useful life, as detailed below.

(PLN '000)

Asset type	Depreciation rate	Period
Land, perpetual usufruct rights	–	–
Buildings and structures	from 1.54% to 50.00%	from 2 to 65 years
Plant and equipment	from 3.33% to 50.00%	from 2 to 30 years
Office equipment	from 10.00% to 50.00%	from 2 to 10 years
Vehicles	from 6.67% to 50.00%	from 2 to 15 years
Computers	from 14.29% to 50.00%	from 2 to 7 years

The right of perpetual usufruct of land is classified by the Company as an item of property, plant and equipment. Due to the lack of premises indicating the withdrawal of or inability to renew the right of perpetual usufruct of plots of land located mainly within the area of the Group's production facilities, a decision was made to classify the rights as an item of non-depreciable property, plant and equipment. For more information, see Note 8.7.

An item of property, plant and equipment is derecognised from the statement of financial position after it has been disposed of in accordance with IFRS 15 or when no economic benefits are expected from its further use. Any gains or losses on removal of an asset from the statement of financial position (calculated as the difference between proceeds from its sale, if any, and the carrying amount of the asset) are charged to profit or loss for the period when the item was derecognised.

Items of property, plant and equipment under construction are measured at cost less impairment losses, if any. Property, plant and equipment under construction are not depreciated until completed and placed in service.

At the end of each financial year the Company performs a review of its property, plant and equipment for potential impairment, of the adopted economic useful lives and depreciation methods applied and, if necessary, makes appropriate accounting adjustments affecting the current or future periods. The cost of overhauling a fixed asset that meets the capitalisation criteria is recognised as an item of property, plant and equipment.

8.4. Intangible assets

Intangible assets which are separately acquired or produced (if they meet the criteria for being recognised as development expenditure) are initially recognised at cost. Cost of intangible assets acquired in a business combination is equivalent to their fair value as at the date of the combination. Following initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses, if any. Expenditure incurred on internally generated intangible assets, excluding capitalised development costs, is not capitalised and is charged against profits in the period in which it is incurred.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently.

Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are reflected by changing the amortisation period or amortisation method, as appropriate, and are treated as changes in accounting estimates. Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually, either individually or at the level of cash-generating units.

Intangible assets with definite useful lives are amortised on a straight-line basis.

Intangible assets are amortised over periods from 2 to 10 years.

Any gains or losses arising on derecognition of intangible assets are measured as the difference between proceeds from the sale of a given asset and its carrying amount, and are recognised in profit or loss upon derecognition of the asset.

Research and development work

Expenditure on research activities is recognised in the statement of profit or loss as incurred. Expenditure on development work performed as part of a given project is carried forward if it is expected to be recovered in the future. After initial recognition of expenditure on development work, the historical cost model is applied, which requires that assets be disclosed at cost less accumulated depreciation/amortisation and impairment. Any expenditure carried forward is amortised throughout the period during which revenue is expected to be generated under a given project.

The carrying amount of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment has been identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

A summary of the policies applied to the Company’s intangible assets is presented below:

	Patents and licenses	Software
Useful lives	In the case of patents and licenses used under an agreement concluded for a definite term, it is assumed that the term together with an additional period for which the agreement may be extended represents the useful life.	2 - 5 years
Method	Amortised throughout the agreement term (5 - 10 years) using the straight-line method	Amortised using the straight-line method
Internally generated or acquired	Acquired	Acquired
Review for impairment / determination of the recoverable amount	Annual assessment of whether there are any indications of impairment.	Annual assessment of whether there are any indications of impairment.

8.5. Goodwill

Goodwill arising on acquisition of an entity is initially recognised as the excess of:

- (i) the consideration transferred,
  (ii) the amount of any non-controlling interests in the acquiree, and
  (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer’s previously-held equity interest in the acquiree
- over the net fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Following initial recognition, goodwill is carried at acquisition cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. Goodwill is not amortised.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination. Each unit or set of units to which goodwill has been allocated:

- corresponds to the lowest level at the Company at which goodwill is monitored for internal management purposes, and
- is not greater than a single operating segment determined in accordance with IFRS 8 *Operating Segments*.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the Company recognises an impairment loss. For information on the assumptions used to estimate the recoverable amount of a cash-generating unit in the impairment test, see Note 24.

If goodwill comprises a part of a cash-generating unit and the Company sells a part of the cash-generating unit's business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

8.6. Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are recognised at historical cost net of impairment.

8.7. Leasing (from 2019)

The Company as a lessee

For each contract concluded on or after January 1st 2019, the Company decides whether the contract is or contains a lease. A lease is defined as a contract or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To this end, three main aspects are analysed:

- whether a contract relates to an identified asset which is either clearly identified in the contract or in an implied manner when the asset is made available to the Company,
- whether the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use specified in the contract,
- whether the Company has the right to direct the use of an identified asset throughout the period of use.

As at the commencement date, the Company recognises a right-of-use asset and a lease liability. A right-of-use asset is initially measured at cost consisting of the initial amount of the lease liability, initial direct costs, an estimate of the costs expected to be incurred to dismantle the underlying asset and the lease payments made at or before the commencement date, less any lease incentives.

The Company depreciates right-of-use assets on a straight-line basis from the commencement date to the end of the right-of-use period or to the end of the lease term or, in the case of a forced purchase or where the lessee is reasonably certain to exercise the purchase option, over the useful life of the underlying asset, whichever is earlier. If there is any indication of that a right-of-use asset may have been impaired, the asset is tested for impairment in accordance with IAS 36.

At the commencement date, the Company measures the lease liability at the present value of outstanding lease payments using the interest rate lease, if the rate can be readily determined. If the rate cannot be readily determined, the lessee uses the lessee's incremental borrowing rate.

Lease payments included in the value of a lease liability consist of fixed lease payments, variable lease payments based on an index or rate, expected amounts to be paid as a guaranteed residual value, payments for a purchase option and possible penalties for the use of a shortening option if its exercise is reasonably certain.

In subsequent periods, lease liabilities are reduced by payments made and increased by accrued interest. Measurement of a lease liability is updated to reflect changes in the contract and reassessment of the lease term, exercise of a purchase option, guaranteed residual value or lease payments based on an index or rate. As a rule, remeasurement is recognised as adjustment to the carrying amount of a right-of-use asset.

The Company applies permitted practical expedients for short-term leases and leases with low-value underlying asset . In such contracts, instead of recognising a right-of-use asset and a lease liability, the lease payments are recognised in profit or loss on a straight-line basis over the lease term.

The Company presents right-of-use assets in the same line items of the statement of financial position as the underlying assets, i.e. right-of-use assets.

The usufruct right to land is assessed by the Company as a lease in accordance with IFRS 16 and was treated as such. The lease term for such rights is assessed on general terms, with the proviso that any plan to sell usufruct rights is not treated as termination of the lease contract. As the Company decided to apply the practical expedient with respect to the first-time application of IFRS 16 and did not reassess the contracts as to whether they are leases, usufruct rights acquired before 2019 are treated as previously, i.e. as land under property, plant and equipment.

The Company as a lessor

As a lessor, the Company classifies contracts as operating or finance leases. A lease is recognised as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, the lease is treated as an operating lease.

In the case of subleasing, the assessment is made in the context of the use right asset and not the underlying asset.

8.8. Lease assets (until 2018)

Finance lease contracts under which substantially all risks and benefits resulting from possession of the leased asset are transferred to the Company are recognised in the assets and liabilities as at the commencement of the lease term. Carrying amounts of assets and liabilities are determined at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability, in such a way as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are recognised as an expense in the period in which they are incurred.

Property, plant and equipment used under finance leases are depreciated in accordance with the same rules as those applied to the Company's own assets. However, if there is no reasonable certainty that the Company will obtain ownership before the end of the lease term, then the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Lease payments under operating leases are recognised as an expense in profit or loss on a straight-line basis over the lease term.

8.9. Impairment of non-financial non-current assets

An assessment is made at the reporting date to determine whether there is any indication that any of non-financial long-term assets may be impaired. If such indication exists, or in case an annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or the asset's cash-generating unit.

The recoverable amount of an asset or cash-generating unit is the higher of the asset’s or cash-generating unit’s fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable amount. in assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on assets used in continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

At the end of a reporting period the Company makes an assessment to determine whether there is any indication that its assets may be impaired. If such indications exist, an estimate of the recoverable amounts of such assets is made. If the carrying amount of a given asset or a cash-generating unit exceeds its recoverable amount, an impairment loss is recognised and the carrying amount of the asset is reduced to its recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. The increased value may not exceed the carrying amount of the asset that would have been determined (after accumulated amortisation/depreciation) if no impairment losses had been recognised on that asset in the previous years.

Reversal of an impairment loss is immediately recognised as income in profit or loss. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of the asset.

Goodwill is tested for impairment annually. The test performed as at December 31st 2019 did not reveal any impairment of the goodwill disclosed in these financial statements. For the assumptions used in the impairment testing of assets, see Note 24.

8.10. Borrowing costs

Borrowing costs that are directly attributable to acquisition, construction or production of an asset are part of the cost of such asset. Other borrowing costs are recognised as finance cost for the period.

8.11. Financial instruments

Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity is a financial instrument.

A financial asset or financial liability is recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and liabilities is recognised using trade date accounting.

A financial asset is derecognised from the statement of financial position when contractual rights to cash flows from the asset expire or when the financial asset and substantially all risks and rewards related to it are transferred to another entity.

A financial liability is derecognised from the statement of financial position when it is extinguished, i.e. when the obligations specified in the contract are discharged, cancelled or expired.

8.12. Financial assets

On acquisition, the Company recognises financial assets at fair value, which is, in most cases, the fair value of the payment made. Transaction costs are included in the initial value of all financial assets, except in the case of financial assets at fair value through profit or loss. Exception to this rule is trade receivables, which the Company measures at transaction price within the meaning of IFRS 15, except for those items of trade receivables where the payment term is longer than one year and which include a significant financing component as defined in IFRS 15.

For the purpose of measurement subsequent to initial recognition, financial assets other than hedging derivatives are classified by the Company as:

- financial assets at amortised cost,
- financial assets at fair value through other comprehensive income,
- financial assets at fair value through profit or loss, and
- equity instruments at fair value through other comprehensive income.

These categories define rules of measurement as at the reporting date and recognition of gains or losses on measurement in profit or loss or in other comprehensive income. The Company's classification of financial assets is based on its business model of financial asset management and the contractual cash flows characteristic for the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are met (and has not been designated on initial recognition as at fair value through profit or loss):

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the nominal amount outstanding.

Financial assets measured at amortised cost include loans, trade and other receivables (except for those to which IFRS 9 does not apply) and debt securities.

These classes of financial assets are presented in the statement of financial position, broken down into non-current and current assets under 'Other long-term receivables', 'Trade and other receivables' and 'Other financial assets'. Current receivables are measured at amounts expected to be received as the effect of discounting is immaterial.

Given immaterial amounts, the Company does not recognise interest income as a separate item, but includes it under finance income.

Impairment losses on financial assets measured at amortised cost less gains on reversals are recognised in profit or loss under 'Finance income' or 'Finance costs', as appropriate. Gains and losses arising on derecognition of assets in this category from the statement of financial position are recognised in profit or loss under 'Gains (losses) on derecognition of financial assets measured at amortised cost'. As at December 31st 2019 and December 31st 2018, the Company had no such assets. Other gains and losses on financial assets recognised in profit or loss, including foreign exchange gains and losses, are presented as finance income or costs.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held in the 'hold to collect and sell' business model, that is a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the nominal amount outstanding.

Interest income, impairment gains and losses, and foreign exchange gains and losses on such assets are calculated and recognised in profit or loss in the same manner as in the case of financial assets measured at amortised cost. Other changes in the fair value of these assets are recognised through other comprehensive income. When a financial asset measured at fair value through other comprehensive income is derecognised, accumulated gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss.

In the reporting period, the Company did not hold any financial assets qualifying for this measurement category.

A financial asset is measured at fair value through profit or loss if it does not meet the criteria to be measured at amortised cost or at fair value through other comprehensive income and is not an equity instrument designated at initial recognition to be measured at fair value through other comprehensive income. The Company also classifies in this category the financial assets designated on initial recognition to be carried at fair value through profit or loss because they meet the criteria defined in IFRS 9.

This category includes all derivatives disclosed in the statement of financial position separately as' Derivative financial instruments', except for hedging derivatives, which are measured in accordance with the requirements of hedge accounting and shares in companies other than subsidiaries and associates.

Instruments classified in this category are measured at fair value through profit or loss under 'Finance income' or 'Finance costs', as appropriate. Gains and losses on measurement of financial assets are the changes in their fair value established on the basis of prices quoted in an active market as at the reporting date, or - if there is no active market - using valuation techniques.

Equity instruments measured at fair value through other comprehensive income include investments in equity instruments other than financial assets held for trading or contingent payments as part of a business combination, with respect to which, on initial recognition, the Company irrevocably elected to present subsequent changes in the fair value of those instruments in other comprehensive income. The Company makes this election individually and separately for each equity instrument.

In this category, the Company recognises shares in companies other than subsidiaries or associates, disclosed in the statement of financial position under 'Shares'.

Accumulated gains or losses on fair value measurements, previously recognised through other comprehensive income, are not reclassified to profit or loss under any circumstances, including derecognition of the assets. Dividends on equity instruments classified in this category are recognised in profit or loss in finance income if the conditions for recognition of dividend income specified in IFRS 9 are met, unless the dividends clearly represent recovery of a portion of the investment cost.

Financial assets designated as measured at amortised cost and at fair value through other comprehensive income due to the business model and their cash flow characteristics are assessed at each reporting date in order to recognise expected credit losses, regardless of whether there is any indication of impairment. The method of making this assessment and estimating allowances for expected credit losses varies depending on class of financial assets:

- In the case of trade receivables, the Company applies a simplified approach based on the calculation of allowances for expected credit losses over the lifetime of the instrument. Allowances are estimated on a collective basis and the receivables have been grouped based on the number of days past due. Allowances are estimated based mainly on historical data on days past due and an analysis of days past due and actual payments over the last five years, taking into account available information relating to the future.

  For the purpose of estimating expected credit losses, the Company uses a provision matrix estimated based on historical repayment levels and recoveries from trade receivables. The Company operates in one market segment and its customers are large entities operating mainly in the power market: power plants, combined heat and power plants, and large industrial plants. Due to the low diversity of the customer base, the Company does not apply customer grouping.

  As at December 31st 2019, the Company's provisioning matrix was determined based on the number of days by which the trade receivables were past due:

  - 0.54% if the receivable is not past due or is past due less than 30 days,
  - 12.93% if past due more than 30 days and less than 60 days,
  - 22.23% if past due more than 60 days and less than 90 days,
  - 44.03% if past due more than 90 days and less than 180 days,
  - 64.48% if past due more than 180 days and less than 360 days,

- 93.3% if past due more than 360 days.

100% of expected credit losses are recognised separately in the following cases:

- receivables from debtors that have been placed in liquidation or declared bankrupt – up to the receivable amount in respect of which no guarantee or other security has been provided and which has been notified to a liquidator or judge commissioner in bankruptcy proceedings,
- receivables from debtors where a bankruptcy petition has been dismissed on the grounds that the debtor's assets are insufficient to cover the costs of the bankruptcy proceedings − at the full amount of the claim;
- receivables disputed by the debtors (disputed receivables) and whose payment is overdue, and which, based on an assessment of the debtor's assets and financial condition, are unlikely to be repaid at the contractual amount – up to the receivable amount in respect of which no guarantee or other security has been provided.

An expected credit loss is calculated on recognition of the receivable in the statement of financial position and is updated as at each subsequent reporting date, depending on the number of days past due for a given amount receivable. The same policy for estimating allowances for expected credit losses is applied to related parties and other parties.

- As for the other asset classes, in the case of instruments for which credit risk has not increased significantly since initial recognition or for which credit risk is low, the Company in the first place recognises losses resulting from default events for the next 12 months. If the increase in credit risk since initial recognition has been significant, lifetime losses of the instrument are recognised.

As at the end of each reporting period, the Company assesses whether there were any indications that could result in classifying financial assets into the individual stages of determining allowances. The indications may include changes in the rating assigned to the debtor, financial distress, or a material adverse change in the debtor's its economic, legal or market environment.

For the purpose of estimating expected credit losses, the probability of default is used, based on market valuation of credit derivatives for entities assigned a given rating and operating in a given sector.

The Company takes into account forward-looking information in the parameters of the model used by it to estimate expected losses by calculating the probability of default based on currently quoted market prices.

The Company has assumed that the risk increases significantly when the number of days past due is more than 90 or when the rating assigned to the debtor has changed or when the debtor has experienced major financial problems.

The Company has assumed that a default occurs when the number of days past due has reached 180 days or when the debtor has declared bankruptcy.

8.13. Financial liabilities

Financial liabilities other than derivative hedging instruments are presented in the statement of financial position under the following items:

- bank and other borrowings,
- leases,
- trade and other payables, and
- derivative financial instruments.

On acquisition, the Company measures financial liabilities at fair value, that is most frequently the fair value of the amount received. Transaction costs are included in the initial value of all financial liabilities, except in the case of financial liabilities at fair value through profit or loss.

Following initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities held for trading or designated as ones to be measured at fair value through profit or loss. Financial liabilities measured at fair value through profit or loss include derivatives other than hedging instruments. Short-term trade payables are measured at amounts expected to be paid as the effect of discounting is immaterial.

Any gains or losses on measurement of financial liabilities are recognised in profit or loss under financing activities.

8.14. Non-current assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. That condition is met only if an asset is available for immediate sale in its present condition, and its sale is highly probable. Classification of an asset as held for sale assumes the intention of the company's management to carry out a sale transaction within one year from the moment of classification. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

8.15. Derivative financial instruments and hedges

The Company uses derivative financial instruments such as forward currency contracts to hedge against the currency risk. Such derivative financial instruments are measured at fair value. Derivative instruments are recognised as financial assets if their value is positive and as financial liabilities if their value is negative.

Given the nature of hedges and relation to the transactions hedged, despite the absence of hedge accounting policies, non-speculative gain/(loss) on realisation and measurement of derivatives representing economic security for acquisition and sale transactions adjusts revenue or cost of products sold, respectively.

The Company holds no hedging financial instruments.

8.16. Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventory items that are not ordinarily interchangeable and the cost of goods or services produced or segregated for specific projects is determined by employing specific identification.

Other materials are recognised at production cost using the FIFO method.

Inventories are recognised on a net basis (net of write-downs). Write-downs on inventories are recognised when a loss is identified, in order to bring the carrying amount of inventories to their net realisable value. The amount of write-downs recognised to reduce the carrying amount to net realisable value, as well as any other loss on inventories are recognised as expenses for the period in which an impairment or other loss occurred.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

8.17. Cash and cash equivalents

Cash and current deposits in the statement of financial position comprise cash at bank and on hand as well as current deposits with an original maturity of three months or less.

The balance of cash and cash equivalents disclosed in the statement of cash flows is the aggregate of cash and cash equivalents defined above.

8.18. Share capital

Share capital is disclosed in the financial statements in the amount specified in the Articles of Association and disclosed in the court register. Declared but outstanding contributions to equity are disclosed under "Called-up share capital not paid", as a negative value. Treasury shares are disclosed as a separate negative item of equity.

8.19. Provisions

The Company recognises a provision if the Company has a present obligation (legal or constructive) resulting from past events whose settlement is likely to result in an outflow of economic benefits and whose amount can be reliably estimated. Where expenditure required to settle a provision is expected to be reimbursed by another party (e.g. under an insurance agreement), the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that the reimbursement will be received if the entity settles the obligation. The expenditure relating to a given provision is presented in profit or loss net of any reimbursement.

Recognised provisions are disclosed as operating expenses, other expenses or finance cost, depending on circumstances to which future liabilities relate.

Where the effect of changes in the time value of money is material, the amount of provision matches the current value of expenditure expected to be necessary to perform the obligation.

A discount rate is determined before tax; therefore, it reflects the current market assessment of the time value of money and the risk relating specifically to a given liability. A discount rate is not burdened by the risk by which estimated future cash flows have been adjusted. If the discount method is used, any time-lapse-related increase in provision is carried as finance cost.

8.20. Interest-bearing borrowings and other debt instruments

All borrowings and other debt instruments are initially recognised at their fair value net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing borrowings and other debt instruments are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account the transaction costs and the discount or premium on settlement.

Upon removal of a liability from the statement of financial position, or accounting for a liability using the effective interest rate method, gains or losses are recognised in the statement of comprehensive income.

8.21. Trade and other payables

Liabilities (except for tax liabilities) meet the definition of financial liability laid down in IAS 32 *Financial Instruments: Presentation.*

On initial recognition, liabilities are measured at cost, i.e. in the amount equal to the fair value of the payment received, which is determined based on the transaction price or (if it is not possible to determine that price), the discounted sum of all future payments made.

After initial recognition, financial liabilities are measured, as a rule, at amortised cost using the effective interest rate method, except for liabilities held for trading and derivatives that are liabilities.

Liabilities held for trading and derivatives which are liabilities are measured at fair value.

Advance payments received from counterparties towards the performance of services are presented as contract liabilities in the statement of financial position.

8.22. Employee benefits

In accordance with internal remuneration systems, Company employees are entitled to jubilee benefits upon completion of a number of years in service and to retirement gratuity upon retirement due to old age or disability.

In accordance with the internal regulations, the Company also makes transfers to the Social Fund in respect of retired employees and recognises such costs on an accrual basis.

The amount of jubilee benefits depends on the number of years in service and the average monthly remuneration. Also, employees who retire due to old age receive a one-off retirement bonus. Employees who develop a permanent work disability are entitled to receive a disability severance payment. The amount of such benefits depends on the number of years in service and the average monthly remuneration.

The Company recognises a provision for retirement gratuities due to old age and disability, contributions to the Social Fund and jubilee benefits in order to allocate the costs of those allowances to the periods to which they relate. According to IAS 19, jubilee benefits are classified as other long-term employee benefits, whereas retirement gratuity benefits and contributions to the Social Fund in respect of retired employees – as defined post-employment benefit plans. The present value of these obligations as at the end of each reporting period is calculated by an independent actuary. The calculated value of the obligations is equal to the amount of discounted future payments, taking into account employment turnover, and relates to the reporting period. Information on demographics and employment turnover is sourced from historical data.

Actuarial valuation of long- and short-term benefits is made not less frequently than at the end of each financial year.

Revaluation of employee benefit obligations under defined benefit plans, including actuarial gains and losses, is recognised in other comprehensive income and is not subsequently reclassified to profit or loss.

8.23. Government grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

If a grant relates to a cost item, it is recognised as income in matching with the expenses it is to compensate for. Where a grant relates to an asset, its fair value is recognised in equity and liabilities in the statement of financial position and is released to the statement of profit or loss over the expected useful life of the relevant asset in equal annual instalments.

8.24. Revenue

Revenue comprises solely revenue from contracts with customers that fall within the scope of IFRS 15. Recognition of revenue in the Company’s financial statements, including both its amount and timing, is defined in a five-step model:

- identification of the contract with a customer,
- identification of performance obligations,
- determination of the transaction price,
- allocation of the transaction price to the performance obligations,
- recognition of revenue when or as performance obligations are satisfied.

Identification of the contract with a customer

The Company recognises the contract with the customer only when all of the following criteria are met:

- the contract has been approved by the parties to the contract (in writing, orally or in accordance with other customary business practices) and the parties are obliged to perform their respective obligations;
- The Company can identify each party’s rights regarding the goods or services to be transferred;
- The Company can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the Company’s future cash flows can be expected to change as a result of the contract); and
- it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer.

Identification of performance obligations

At the inception of the contract, the Company assesses the goods or services that have been promised to the customer, and identifies as a performance obligation each promised good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service promised to a customer is distinct if both of the following criteria are met:

- the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
- the Company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Determination of transaction price

When making this determination, the Company considers the contract terms and its customary business practices. Transaction price is the amount to which the Company expects to be entitled in exchange for the transfer of promised goods or services to a customer, excluding amounts collected on behalf of third parties. The consideration specified in the contract with the customer may include fixed amounts, variable amounts, or both.

If the consideration specified in the contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. The Company estimates the amount of variable consideration using the most likely amount method, which is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the contract). This method is the best for predicting the amount of variable consideration as the company uses contractual terms and has experience in performing similar contracts.

The Company includes in the transaction price some or all of the variable consideration only to the extent that it is highly probable that there will not be a significant reversal of cumulative revenue after the uncertainty associated with the variable consideration is gradually resolved. The Company verifies transaction prices based on data observable during the manufacturing process and indicating the level of settlements with the customer on account of product weight, and assesses the risk of contractual penalties on an ongoing basis.

The Company usually satisfies a performance obligation as services are rendered by delivering to the customer an asset that the customer controls as the asset is created or enhanced. Payment terms of each contract are negotiated on a case-by-case basis. Usually, payments are due within 60 days.

If a contract contains a significant financing component, the Company adjusts the promised contractual consideration for the effects of the time value of money. A significant financing component arises if the contract provides for payment deadlines longer than one year. The Company uses a practical expedient under which it does not adjust contracts with the payment term of less than a year by the effect of a significant financing component.

The Company does not recognise the refund liability.

Guarantees provided by the Company for products/services sold are recognised in accordance with IAS 37, because their terms and conditions reflect only the assurance that the products/services provided by the Company will be in accordance with the agreed-upon specifications.

Allocation of the transaction price to performance obligations

The Company allocates the transaction price to each performance obligation (or to a distinct good or service) in an amount that reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer by reference to their relative standalone selling prices determined by increasing expected costs by the contract margin.

Recognition of revenue when or as performance obligations are satisfied

The Company recognises revenue when or as a performance obligation is satisfied by transferring the promised good or service to the customer.

a) Revenue from sale of products and provision of services is recognised by reference to the progress towards their completion, using the input method.

b) Revenue from sale of goods is recognised at a point in time, i.e. when the customer obtains control of the merchandise. The customer obtains control of goods at the time of their receipt or delivery to the place of destination, depending on the contractual terms of delivery.

The Company recognises revenue over time because:

a) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and

b) the entity's performance does not create an asset with an alternative use for the company and the Company has an enforceable right to payment for performance completed to date.

The Company assesses whether the contract includes a significant financing component. The Company does not adjust the promised amount of consideration for the effect of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Company recognises additional costs of obtaining a contract as an asset if it expects to recover those costs. Costs which the Company does not expect to recover are recognised as costs of the period in which they are incurred. Capitalised costs include commissions paid only on obtaining a contract. Capitalised costs are presented in prepayments and accrued income and are amortised using the straight-line method over the expected contract term.

8.25. Taxes

8.25.1. Income tax

Income tax presented in profit or loss comprises the actual tax expense for the given reporting period, any corrections of tax settlements for prior years as determined by the Company in accordance with the provisions of the Corporate Income Tax Act, as well as movements in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

8.25.1.1. Current income tax

Current income tax payable and receivable for the current period and for previous periods is measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

8.25.1.2. Deferred income tax

For financial reporting purposes, the Company recognises deferred tax assets and deferred tax liabilities on all temporary differences existing at the reporting date between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax liability is recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in the case of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised:

- except where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in the case of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the

temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reviewed at the reporting date and are recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets are determined as the amount of income tax recoverable in the future in connection with deductible temporary differences which will reduce future income tax base and any deductible tax loss, determined in accordance with the prudence principle. Deferred tax assets are recognised only if it is probable that they will be realised.

Deferred tax liabilities are recognised at amounts of income tax payable in future in connection with taxable temporary differences, i.e. differences which will increase the future tax base.

Deferred tax assets and deferred tax liabilities are calculated using tax rates expected to be effective at the time of realisation of a particular asset or liability, based on tax rates (and tax legislation) which were enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss: as part of other comprehensive income for items recognised in other comprehensive income or directly in equity for items recognised directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset by the Company if and only if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

8.25.1.3. Value added tax

Revenue, expenses, assets and liabilities are recognised net of the VAT, except in the following cases:

- where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognised in the cost of a given asset or as part of the cost item, and
- in the case of receivables and payables, which are recognised inclusive of the VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or liabilities, as appropriate.

8.25.1.4. Assessment of tax uncertainties

If in the opinion of the Company it is probable that the tax authority will accept the company's approach to a tax matter or a group of tax matters, the company determines taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration the company's taxation approach planned for or used in the company's tax return.

If in the opinion of the Company it is improbable that the tax authority will accept the company's approach to a tax matter or a group of tax matters, the company reflects the effect of uncertainty in determining taxable income (tax loss), unused tax losses, unused tax credits and tax rates. The company reflects this effect using the best of the following methods:

- The company identifies the most probable scenario – a single amount selected from among possible outcomes;
- The company discloses the expected value − the aggregate of amounts multiplied by their respective probabilities;
- the company uses the "all-or-nothing" method.

8.26. Earnings/(loss) per share:

Earnings/(loss) per share for each reporting period are calculated as quotient of the earnings/(loss) for the given accounting period and the weighted average number of Company shares outstanding in the given accounting period.

9. Changes in accounting policies (significant accounting policies)

9.1. New IFRS 16 *Leases*

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

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

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

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

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

The Company also applied the following practical expedients permitted by the standard:

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

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

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

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

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

9.2. Amendments to other standards and interpretations, effective and applied by the Company in 2019

- Amendments to IFRS 9 *Financial Instruments*

The amendments allow for instruments on which an entity would receive a prepayment amount substantially less than unpaid amounts of principal and interest (negative compensation) to be measured at amortised cost.

The amendments to the standard had no effect on the full-year financial statements as there were no transactions that would require application of the standard.

- New IFRIC 23: Uncertainty over Income Tax Treatments

The interpretation of IAS 12 *Income Taxes* prescribes the approach to be taken when the interpretation of income tax laws is not unequivocal and it cannot be definitely established which tax treatment will be accepted by the taxation authority or a court. The management should first assess whether its interpretation is likely to be accepted by the tax authority. If so, this interpretation should be applied in preparing the financial statements. If not, the uncertainty of income tax amounts should be taken into account using the most-likely-amount or expected-value method. A company should consider any changes in facts and circumstances affecting the estimated value or amount. Any adjustments to the value or amount are treated as a change of estimate in accordance with IAS 8.

The new interpretation does not affect the Company's financial statements, as the Company did not carry out any transactions whose tax treatment would raise doubts.

- Amendments to IAS 28 *Investments in Associates and Joint Ventures*

The amendments clarify that IFRS 9 should be applied to financial instruments other than equity-accounted financial instruments in associates and joint ventures even if the instruments are part of the net investment in the entity.

The amendments did not affect the financial statements because the Company does not hold such financial instruments.

- Amendments to IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs*, IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*

Minor improvements to standards, introduced as part of annual improvements to standards (2015−2017 cycle):

- IAS 12: The IASB clarified a method for recognising income tax consequences of dividends. The tax should be recognised when a liability to pay dividend is recognised. The income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the past transactions that generated distributable profits were originally recognised.
- IAS 23: It was clarified that any borrowing originally made to finance an asset which has been completed should be treated as part of general borrowings, whose cost may then be capitalised in other assets.
- IFRS 3: The IASB clarified that the rules for accounting for a business combination implemented in stages, including the need to measure shares, also apply to previously held interests in joint operations.
- IFRS 11: The IASB clarified that a party to a joint operation that does not have joint control, on obtaining joint control of a joint operation that is a business should not remeasure its interests in that joint operation.

The amendments did not materially affect the full-year financial statements as:

- the Company is not a party to the transactions contemplated by the amendments to IAS 12,
- all adjustments to an asset of material value are financed by the Company from external sources used specifically for this purpose, (or) the Company has already applied the principles described in the amendment,
- The Company does not conduct any joint operations within the meaning of IFRS 11.

- Amendments to IAS 19 *Employee Benefits*

Under the amendment, if the net asset or liability under a defined benefit plan is remeasured as a result of amendment, curtailment or settlement, an entity should:

- determine the current service cost and the net interest for the period after remeasurement using the assumptions used for the remeasurement; and
- determine the net interest for the remaining period on the basis of the remeasured net asset or liability.

The amendments did not affect the financial statements because the Company has already applied the principles consistent with the amended standard.

The standards and interpretations which are effective as published by the IASB, but which have not been approved by the European Union, are discussed below in the section devoted to standards and interpretations which are not yet effective.

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

10.1. Early application of standards or interpretations

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

10.2. Published standards and interpretations which were not yet effective for periods beginning on January 1st 2019 and their impact on the Company’s financial statements

As at the date of issue of these financial statements, the following new or amended standards and interpretations effective for annual periods subsequent to 2019 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.

- 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 Company estimates that the new standard will not affect its 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, in the opinion of the Company, will not affect its 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 will not affect its financial statements.

- 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.

(PLN ’000)

11. Contract assets and liabilities

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

	December 31st 2019	*December 31st 2018*
Gross contract assets	214,763	206,997
Impairment of contract assets (-)	(1,211)	(1,848)
Contract assets	213,552	205,149
Contract liabilities, including prepayments	208,444	132,656

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

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

	December 31st 2019	*December 31st 2018*
Revenue initially agreed in contract	3,912,289	2,987,821
Change in contract revenue	(40,485)	69,565
Aggregate contract revenue	**3,871,804**	**3,057,386**
Contract costs incurred as at reporting date	2,052,801	1,114,203
Costs expected to be incurred by contract completion date	1,736,097	1,696,048
Estimated aggregate contract costs	**3,788,898**	**2,810,251**
Estimated aggregate profit/(loss) on contracts, including:	**82,906**	**247,135**
profit	292,742	302,086
loss (-)	(209,836)	(54,951)

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

	December 31st 2019	*December 31st 2018*
Advance payments received as at reporting date	127,665	76,064
Advance payments that can be set off against amounts due from customers for contract work	22,305	11,382
Contract costs incurred as at reporting date	2,091,798	1,118,280
Cumulative profit as at reporting date (+)	188,866	162,385
Cumulative loss as at reporting date (+)	(209,836)	(54,951)
Cumulative contract revenue as at reporting date	2,070,828	1,225,713
Amounts invoiced as at reporting date (progress billings)	1,936,844	1,074,902
Settlement of contracts (balance) as at the reporting date, including:	**133,984**	**150,811**
Contract assets less advance payments that can be offset	214,763	206,997
Contract liabilities	103,084	67,566

(PLN '000)

The Company analysed changes in contract assets and liabilities and reasons behind those changes in 2018 and 2019. For a detailed description of the effect of changes in estimates on the Company's key contracts, see the Directors' Report on the Company's operations in the year ended December 31st 2019 (Note 3.5).

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

Contract assets:

	December 31st 2019	*December 31st 2018*
Contract assets at beginning of period	205,149	137,583
Revenue charged in the reporting period to contract assets	122,695	171,551
Total revenue restatements charged to contract assets	50,298	17,688
Changes in impairment losses on contract assets	637	(507)
Reclassification to trade receivables (-)	(165,227)	(121,166)
Contract assets at end of period	**213,552**	**205,149**

Contract liabilities:

	December 31st 2019	*December 31st 2018*
Contract liabilities at beginning of period	132,656	39,457
Performance obligations recognised in the reporting period as contract liabilities	57,675	67,566
Change in advance payments	40,271	42,153
Total revenue restatements charged to contract liabilities	1,917	1,725
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(24,075)	(18,245)
Contract liabilities at end of period	**208,444**	**132,656**

Disclosures concerning capitalised costs of obtaining and performing contracts are presented under 'Short-term prepayments and accrued income' (Note 30).

11.1. Key contracts executed by the Company

11.1.1. 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 (following the execution of Annex 7) is PLN 4,537,822,795.84 (VAT exclusive). In terms of value, it is the largest contract ever performed by RAFAKO S.A. Currently, work is being performed on the last phase of the Jaworzno project, i.e. the start-up and commissioning phase, which will be continued until Unit is placed in service. After the completion of the milestone relating to placement of the unit in service, the warranty period under the contract will commence, during which the final measurements of guaranteed technical parameters are to be performed within 12 months from placing the unit in service.

During the warranty period, the employer will receive the as-built documentation and the invoice for the last milestone, in line with the schedule of works and expenditures.

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 steam generator. 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 2020, Annex 8 to the Master Contract was signed; it sets out the terms and conditions for the performance of additional works by the Contractor and addresses the following key issues: a PLN 9.9m (VAT exclusive) increase in the contract price to account for additional work; change of the Unit's commissioning deadline; 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.

Accounting for the Jaworzno Project:

For the purposes of execution of the project, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO S.A. subcontracted approximately 88.7% of the project's scope of work, with RAFAKO S.A. executing directly the remaining 11.3% (with an approximate value of PLN 510.7m; the scope includes the design of the boiler island and the supply of high-pressure boiler parts and a particle removal unit), scheduled mainly for 2015–2017.

For the purposes of the project, RAFAKO S.A. and E003B7 Sp. z o.o. signed agreements with financial institutions, under which the companies secured bank guarantees and insurance bonds required to deliver the project. The current value of the bonds and guarantees is PLN 587.5m. 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.

11.1.2. 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.

11.1.3. Vilnius Project

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

The additional contract costs estimated by the Company amount to PLN 87m (the estimated revenue increased by PLN 2.4m, mainly due to additional works) and result primarily from extraordinary increase in prices during the performance of the Vilnius Project, works which, in the Company's opinion, go beyond the project's scope, and longer than assumed execution of the project (through no fault of the Company), due in particular to delays in the employer's performance under the contract resulting in delayed orders for deliveries and services, whose prices increased dramatically owing to the expiry of relevant bids. The Company also estimated additional costs related to changes in the contract's scope introduced by the employer, resulting in the need to perform some additional work.

The Company estimated its claims at EUR 17.5m. The Company is still holding negotiations with the employer to reach an agreement that would take account of all RAFAKO S.A.'s claims. Given the good cooperation with the employer so far and well documented additional work by RAFAKO S.A., the Company expects the negotiations to achieve the desired end.

The effect of the Vilnius contract on RAFAKO S.A.'s results for the 12 months ended Deceember 31st was PLN (-)57.9m.

(PLN '000)

11.1.4. Kozienice Project

In the 12 months ended December 31st 2019, the Company updated the estimated costs of the contract of September 30th 2016 with ENEA Wytwarzanie Sp. z o.o. for delivery and installation of a catalytic flue gas NO_x reduction system for AP-1650 boilers 9 and 10 and for upgrade of the electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. The contract price is PLN 289m (VAT exclusive).

The additional contract costs, as estimated by the Company, amount to PLN 64,9m, and result from extraordinary increase in market prices during the performance of the contract and to works which, in the Company's opinion, go beyond the contract's scope, including in particular an increase in costs under contracts settled based on unit rates, claims raised in 2019 by major subcontractors, resulting from some necessary additional work, costs related to longer than assumed execution of the contract due to the additional work performed, as well as additional services and deliveries related to the electrostatic precipitator.

At the same time, the Company estimated its claims against the employer for the reasons indicated above at PLN 67.8m. A letter containing a settlement proposal was sent to the Employer on March 5th 2020. Its key elements were to recognise the works performed outside the scope specified in the contract, setting new deadlines for delivery of specific milestones, and determination of the final contract prices Further to the proposal made by RAFAKO S.A., the parties agreed on the text of an annex that is expected to be signed on June 30th 2020. The annex will address the contract's completion dates and payment terms.

The effect of the contract on RAFAKO S.A.'s profit or loss for the 12 months ended Deceember 31st was PLN (-)65m.

11.2. Provision for contract losses

The Company recognises provisions if it is probable that the total construction cost will exceed the total contract revenue. The expected loss is immediately expensed. The loss amount is determined irrespective of whether the contract work has commenced, of the progress of contract work or expected profits under other contracts which are not individual construction service contracts. Any change in provisions for expected losses increases or reduces the cost of sales under the construction contract to which the provision relates.

	December 31st 2019	*December 31st 2018*
Opening balance	4,077	15,844
Adjustment to opening balance	–	(1,754)
Opening balance after adjustment	4,077	14,090
Provision for the obligation	50,820	5,328
Reversal of provision for the obligation	–	–
Utilisation of provision for liability	(15,900)	(15,341)
Closing balance	**38,997**	**4,077**
Short-term as at	38,997	4,077
Long-term as at	–	–
	38,997	**4,077**

(PLN '000)

11.3. Provision for damages due to late contract completion or failure to meet contractually guaranteed technical parameters

The Company recognises provisions for liquidated damages if there is significant probability that such damages will be charged for failure to meet technical specifications provided for in the contract and covered by liquidated damages, or if the performance of a contract has resulted in infringement of third parties' interests. The amount of such provision depends on the amount of liquidated damages provided for in the contract for failure to meet technical specification or on the measurable value of the liability towards third parties.

In the 12 months ended December 31st 2019, the Company reviewed the amounts of recognised provisions for costs due to late contract completion (including delays in meeting contractual obligations and the terms of assessing damages) under running contracts.

	December 31st 2019	*December 31st 2018*
Opening balance	–	8,069
Adjustment to opening balance	–	1,691
Opening balance after adjustment	–	9,760
Provision for the obligation	–	322
Utilisation of provision for liability	–	(3,404)
Reversal of provision for the obligation	–	(6,678)
Closing balance	–	–
Short-term as at	–	–
Long-term as at	–	–
	–	–

12. Revenue and operating segments

12.1. Revenue from sale of goods and services

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Net revenue from sale of products	74,061	44,085
including: from related entities	350	3,796
Net revenue from sale of services	869,174	591,578
including: from related entities	3,376	5,655
Revenue from sale of other goods	3,822	4,382
Other income	–	317
Exchange differences on trade receivables	(1,084)	155
Net revenue from sale of goods and services, total	**945,973**	**640,517**
including: from related entities	3,726	9,451

*For a detailed description of the provision for liquidated damages, affecting the Company's revenue, see Note 11.3.

The increase in sales in 2019 was mainly attributable to increased involvement in projects already under way, including the contract for construction of a biofuel-fired co-generation unit for Lithuania's UAB VILNIAUS KOGENERACINE JEGAINE, the contract for construction of two steam generating units on the Lombok Island in Indonesia, and the commencement of execution of significant contracts in the new oil and gas sector.

(PLN '000)

12.2. Revenue from sale of materials

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Revenue from sale of materials	1,088	2,796
including: from related entities	–	–
Net revenue from sale of merchandise and materials, total	**1,088**	**2,796**
including: from related entities	–	–

12.3. Revenue by geography

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Revenue from sales to domestic customers	493,858	376,594
including: from related entities	3,726	5,954
Revenue from sales to foreign customers	453,203	266,719
including: from related entities	–	3,497
Net sales revenue, total	**947,061**	**643,313**
including: from related entities	3,726	9,451

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*	*12 months ended December 31st 2019*
UAB VILNIAUS KOGENERACINE JEGAINE	22%	205,680
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	17%	162,508
Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	11%	107,411
PT. PLN (Persero)	12%	111,171
Other	38%	360,291
Total	**100%**	**947,061**

Revenue from sales to related entities is presented in detail in Note 43 to these financial statements.

(PLN '000)

12.4. Operating segments

As at December 31st 2019, 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. In previous reporting periods, the Company operated in a single market segment of 'Power and environmental protection facilities'.

12 months ended December 31st 2019 or as at December 31st 2019	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Revenue			
Sales to external customers	109,965	837,096	947,061
Inter-segment sales	–	–	–
Total segment revenue	109,965	837,096	947,061
Cost of products and materials sold	(121,771)	(949,754)	(1,071,525)
Total			
Gross profit/(loss)	(11,806)	(112,658)	(124,464)
Other income/(expenses)	(16,257)	(109,674)	(125,931)
Operating profit/(loss)	(28,063)	(222,332)	(250,395)
Finance income/(costs)	13	(33,878)	(33,865)
Profit/(loss) before tax	(28,050)	(256,210)	(284,260)
Income tax	–	(384)	(384)
Segment's net profit/(loss)	(28,050)	(256,594)	(284,644)
Results			
Depreciation and amortisation	(215)	(12,444)	(12,659)
Share of profit of associates and joint ventures	–	–	–
Assets and liabilities as at December 31st 2019			
Segment assets	78,875	853,713	932,588
Segment liabilities	63,396	764,663	828,059
Other information			
Investments in associates and joint ventures	–	–	–
Capital expenditure	275	2,553	2,828

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.

(PLN '000)

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

12 months ended December 31st 2019	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Region			
Poland	107,411	386,447	493,858
European Union	2,554	333,341	335,895
Other countries	–	117,308	117,308
Total segment revenue	109,965	837,096	947,061
Term of the contract			
Short-term contracts	88,946	392,217	481,163
Long-term contracts	21,019	444,879	465,898
Total segment revenue	109,965	837,096	947,061

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

Product group name	*12 months ended December 31st 2019*	*12 months ended December 31st 2018*
Power generation units and steam generators	341,120	155,917
Revenue under the Jaworzno 910 MW project	18,678	61,152
Air pollution control systems	251,428	269,477
Power equipment, machinery and components, and related services	197,339	121,809
Services and products for oil and gas sector	109,965	28,829
Construction	21,825	–
Other revenue	6,706	6,129
Total	**947,061**	**643,313**

(PLN ’000)

13. Operating income and expenses

13.1. Expenses by nature

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Depreciation and amortisation	12,659	10,904
Raw materials and consumables used	210,576	142,166
Services	667,370	372,422
Taxes and duties	7,818	5,838
Salaries and wages	110,211	106,835
Social security and other employee benefits	24,314	22,693
Business travel expenses	3,390	4,055
Advertising expenses	1,336	1,825
Foreign exchange differences	(1,292)	970
Cost of insurance	761	559
Other expenses	1,350	1,087
Total expenses by nature	**1,038,493**	**669,354**
Change in inventories, provisions, accruals and deferrals	101,289	(19,337)
Cost of merchandise and materials sold	810	1,865
Work performed by entity and capitalised	(104)	(1,303)
	1,140,488	**650,579**
Selling expenses (negative value)	(22,452)	(24,053)
Administrative expenses (negative value)	(35,175)	(38,959)
Research and development costs (negative value)*	(11,336)	(6,151)
Cost of products and materials sold	**1,071,525**	**581,416**

*Does not include costs capitalised in the statement of financial position, which were PLN 7,305 thousand in 2019 (December 31st 2018: PLN 7,775 thousand).

The year-on-year increase in cost of products and materials sold compared with 2018 followed mainly from higher revenue, with a decrease in margins attributable mainly to the adjusted valuation of long-term contracts. For a detailed description of the impact of the estimate on the cost of performance of key contracts, see Note 11.1.

In 2019, selling expenses were PLN 22,451 thousand, having decreased by PLN 1,602 thousand year on year, mainly due to bid preparation costs. Administrative expenses in

2019 totalled PLN 35,176 thousand, having decreased by PLN 3,783 thousand year on year, mainly on lower costs of advisory services.

(PLN '000)

13.2. Depreciation, amortisation, impairment losses, exchange differences and inventory expenses recognised in the statement of profit or loss

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Items recognised as cost of sales (cost of merchandise and finished goods sold)		
Depreciation of property, plant and equipment	7,451	6,793
Amortisation of intangible assets	1,173	1,206
Warranty provisions	2,034	(6,832)
Net foreign exchange gains/(losses)	(1,292)	970
Inventory write-downs	1,687	(818)
	11,053	**1,319**
Items recognised as selling expenses		
Depreciation of property, plant and equipment	428	418
Amortisation of intangible assets	75	89
	503	**507**
Items recognised as administrative expenses		
Depreciation of property, plant and equipment	2,023	2,186
Amortisation of intangible assets	136	212
	2,159	**2,398**
Items recognised as cost of technical progress		
Depreciation of property, plant and equipment	1,344	–
Amortisation of intangible assets	–	–
	1,344	–

13.3. Employee benefits expense

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Salaries and wages, including:	110,211	103,644
- current wages and salaries expense	112,428	106,835
- post-employment benefits	(1,910)	(2,104)
- provision for bonuses*	(174)	(306)
- provision for holiday entitlements	(133)	(781)
Social security, including:	24,314	22,464
- social security relating to salaries and wages	19,745	19,270
- social security relating to provision for bonuses	(36)	(64)
- social security relating to provision for holiday entitlements	(27)	(165)
- other benefits	4,632	3,423
	134,525	**126,108**
Items recognised as cost of sales	10,335	90,461
Items recognised as selling expenses	25,219	10,232
Items recognised as administrative expenses	98,971	25,415

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	134,525	**126,108**

13.4. Other income

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Income from liquidated damages	145	135
Reversal of impairment loss on non-financial assets	480	–
Gain on sale of property, plant and equipment	47	108
Compensation received	277	397
Grants	1,341	1,266
Income from subsidiary for surety provided*	5,236	5,389
Reversal of restructuring provision and Voluntary Redundancy Programme provision	–	5,857
Reversal of provision for other costs**	297	2,813
Other	1,069	622
	8,892	**16,587**

** In 2015, the Company executed a surety agreement whereby it provided an irrevocable and unconditional surety for proper performance of all of the subsidiary's contractual obligations; in 2019, income under the surety less discount was PLN 5,236 thousand (2018: PLN 5,389 thousand).
*** In 2018, the Company reversed the provision for other costs as the statute of limitations had passed on a trading partner's claims.

13.5. Other expenses

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Donations	1,460	283
Scrapping of property, plant and equipment	421	124
Scrapping of materials	658	569
Repair of property, plant and equipment	196	163
Legal costs	123	–
Impairment loss on assets, including:	45,738	2,004
- property, plant and equipment and intangible assets	34	177
- trade receivables	9,589	1,320
- other receivables*	36,115	507
Recognition of provisions for other costs**	14,398	536
Cost of winding up the Turkish branch	–	688
Other	2,866	1,251
	65,860	**5,618**

* In the 12 months ended December 31st 2019, the Company recognised impairment losses on trade and other receivables, including on advance payments to PBG S.A. w restrukturyzacji, with respect to which the District Court of Poznań issued a decision to open remedial proceedings on February 12th 2020.
** In the 12 months ended December 31st 2019, the Company recognised provisions for costs of sureties of PLN 5,798 thousand. Further, in connection with a contract for the construction of a gas pipeline where PBG S.A. w restrukturyzacji acted as hte Company's subcontractor, the Company recognised a PLN 8,040 thousand provision towards claims of PBG S.A.'s subcontractors under joint and several liability.

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14. Finance income and expenses

14.1. Finance income

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Interest on financial instruments, including interest on loans, past due receivables, deposits, and bank accounts, measurement of long-term settlements	6,454	6,621
Interest on security deposits provided	549	349
Net foreign exchange gains	–	1,241
Income from measurement of financial instruments	–	90
Reversal of impairment of financial assets	–	100
Other finance income	10	3
	7,013	**8,404**

14.2. Finance costs

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Interest on financial instruments, including interest on bank and other borrowings, lease, past due liabilities, and bank loan fees	5,511	4,216
Interest on employee benefits	730	741
Other interest	–	–
Net foreign exchange losses	1,360	–
Costs on measurement of financial instruments	47	153
Recognition of impairment losses on financial assets	27,822	–
Recognition of impairment loss on shares	5,323	–
Recognition of provision for interest expense	6	64
Other finance costs	78	2
	40,877	**5,176**

In the 12 months ended December 31st 2019, the Company recognised impairment losses on bond issued by PBG S.A. w restrukturyzacji, with respect to which on February 12th 2020 the District Court of Poznań issued a decision to open remedial proceedings. *For a detailed description of bonds, see Note 27.2

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15. Income tax

15.1. Income tax expense

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

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Statement of profit or loss		
Current tax	–	323
Current income tax expense	–	–
Adjustments to current income tax from previous years	–	323
Deferred tax	(384)	(2,952)
Related to recognition and reversal of temporary differences	12,616	(2,952)
Adjustments to deferred tax from previous years	–	–
Impairment loss on deferred tax assets	(13,000)	–
Income tax expense in the statement of profit or loss	**(384)**	**(2,629)**
Deferred tax on other comprehensive income	1,306	812
Related to recognition and reversal of temporary differences	1,306	812
Income tax expense recognised in other comprehensive income	**1,306**	**812**

In the reporting period, the Company did not file with tax authorities any adjustments to tax returns for previous reporting periods.

15.2. Reconciliation of effective income tax rate

The table below presents reconciliation of corporate income tax on profit/(loss) before tax computed at the statutory tax rate with corporate income tax computed at the effective tax rate for the year ended December 31st 2019:

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Profit before tax from continuing operations	(284,260)	6,931
Tax rate applied by the Company	19%	19%
Income tax calculated at the tax rate applied by the Company	**(54,009)**	**1,317**
Reconciliation of income tax on account of:		
Non-taxable income (-)	(157)	(2,081)
Expenses which are permanently non-tax-deductible (+)	19,461	1,785
Unrecognised deferred tax asset on tax losses (+)	21,864	1,806
Adjustment to tax expense for previous periods (+/-)	–	(323)
Impairment loss on deferred tax	13,000	–
Other items	225	125
Income tax	**384**	**2,629**
Average tax rate applied	0%	38%

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15.3. Deferred income tax calculated as at December 31st 2019

Deferred income tax calculated as at December 31st 2019 relates to the following items of the financial statements:

	Statement of financial position		*Statement of comprehensive income for 12 months ended*	
	December 31st 2019	*December 31st 2018*	*December 31st 2019*	*December 31st 2018*
- investment reliefs	(1)	(2)	1	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(14,156)	(14,165)	9	1,577
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	953	2,113	(1,160)	(873)
- difference between tax base and carrying amount of loans and receivables	4,831	4,117	714	333
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(25,228)	(28,506)	3,278	(3,818)
- difference between tax base and carrying amount of inventories	2,275	1,954	321	(156)
- provisions	18,978	11,248	7,730	(5,194)
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	27	27	–	(1)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	58,353	39,418	18,935	8,336
- tax loss	–	16,178	(16,178)	(1,240)
- adjustment to costs of unpaid invoices	3,536	3,856	(320)	(609)
- other	657	66	591	(495)
Deferred tax expense/benefit disclosed in the statement of profit or loss			12,616	(2,952)
Deferred tax expense/benefit disclosed in other comprehensive income			1,306	812
Impairment loss on deferred tax	(13,000)	–	(13,000)	–
			922	**(2,140)**
Net deferred tax asset/(liability) including:	**37,226**	**36,304**		
Deferred tax assets	37,226	36,304		
Deferred tax liability	–	–		

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.

16. Proposed coverage of 2019 loss

The Management Board recommends that the net loss of PLN 284,644 thousand be offset against future profits of the Company.

17. Earnings /(loss) per share

Earnings per share are calculated as the quotient of net profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding during the period.

To calculate basic and diluted earnings/(loss) per share, the Company uses the amount of net profit/(loss) attributable to owners of RAFAKO S.A. in the numerator, which does not have a dilutive effect on profit/(loss).

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The table below presents the computation of the basic and diluted earnings/(loss) per share, with the reconciliation of the diluted weighted average number of shares.

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Net profit/(loss) from continuing operations	(284,644)	4,302
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(284,644)	4,302
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings per share	**(284,644)**	**4,302**
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 earnings/(loss) from profit/(loss) for the period	(2.23)	0.03
– diluted earnings/(loss) from profit/(loss) for period	(2.23)	0.03

The Company does not present diluted earnings/(loss) per share for the 12 months ended December 31st 2019 as it does not have any dilutive financial instruments.

18. Significant items disclosed in the statement of cash flows

The PLN 14,900 thousand increase in receivables disclosed in the statement of cash flows for the 12 months ended December 31st 2019 resulted mainly from:

- PLN (59,460) thousand increase in trade receivables,
- PLN (1,157) thousand increase in receivables from the state budget (including VAT),
- PLN (4,022) thousand increase in prepayments made,
- PLN 21,572 thousand decrease in security deposits receivable,
- PLN (5,972) thousand increase in security deposits receivable,
- PLN 34,139 thousand decrease in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the 12 months ended December 31st 2019, see Note 29.

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The PLN 171,729 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

- PLN 164,849 thousand increase in trade payables,
- PLN (11,300) thousand decrease in taxes and other duties payable,
- PLN 5,976 thousand increase/(decrease) in provisions for retirement benefits, excluding actuarial gains/losses,
- PLN 12,204 thousand increase in other liabilities.

The PLN 67,385 thousand change in gross amounts due to and from customers for contract work disclosed in the statement of cash flows resulted primarily from:

- PLN (8,403) thousand increase in amounts due from customers for contract work,
- PLN 75,788 thousand increase in gross amounts due to customers for contract work,

The PLN 30,583 thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN 2,034 thousand increase in the provision for warranty repairs,
- PLN 34,920 thousand increase in the provision for expected contract losses,
- PLN (6,083) thousand change in accruals and deferrals,
- PLN (288) thousand change in other provisions.

The cash flows of PLN 701 thousand relating to purchase of property, plant and equipment and intangible assets included PLN 397 thousand incurred to purchase property, plant and equipment, and PLN 304 thousand incurred to purchase intangible assets.

19. Assets and liabilities of the Company Social Benefits Fund

The Act on Company Social Benefits Fund of March 4th 1994, as amended, stipulates that every employer with more than 50 full-time employees is obliged to create a social benefits fund and make periodic (basic and post-employment) contributions to the fund. The objective of the fund is to finance the Company's social activities, loans advanced to its employees and other social expenditure.

	December 31st 2019	*December 31st 2018*
Assets of Company's social benefits fund:	1,073	1,794
Cash	617	1,371
Loans advanced to employees	456	423
Liabilities to Social Benefits Funds	(1,356)	(1,705)
Net balance	**(283)**	**89**

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Contributions to the Social Benefits Fund during the reporting period	2,088	635
	2,088	**635**

(PLN ’000)

20. Property, plant and equipment

December 31st 2019	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*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
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	54	1,625	–	–	1,679
Net carrying amount as at December 31st 2019	**9,184**	**74,160**	**36,682**	**2,355**	–	–	**122,381**
As at January 1st 2019							
Gross carrying amount	9,184	108,390	113,055	10,838	2,466	–	243,933
Accumulated amortisation and impairment	–	(31,638)	(71,352)	(5,663)	(2,466)	–	(111,119)
Net carrying amount	**9,184**	**76,752**	**41,703**	**5,175**	–	–	**132,814**
As at December 31st 2019							
Gross carrying amount	9,184	108,487	111,920	7,680	2,454	–	239,725
Accumulated depreciation and impairment**	–	(34,327)	(75,238)	(5,325)	(2,454)	–	(117,344)
Net carrying amount	**9,184**	**74,160**	**36,682**	**2,355**	–	–	**122,381**

* Property, plant and equipment pledged as security for the Company’s liabilities as at the reporting date are presented in Note 32.1.
** As at December 31st 2019, the amount of impairment losses on property, plant and equipment was PLN 104 thousand (December 31st 2018: PLN 233 thousand).

(PLN '000)

December 31st 2018	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 2018	**9,232**	**79,329**	**46,303**	**5,495**	**–**	**5**	**140,364**
Acquisitions	–	–	–	–	–	669	669
Lease agreements	–	–	178	1,660	–	–	1,838
Liquidation/sale	(48)	(5)	(45)	(395)	–	–	(493)
Transfers from property, plant and equipment under construction	–	57	617	–	–	(674)	–
Exchange differences on translating foreign operations	–	–	(11)	–	–	–	(11)
Depreciation for period	–	(2,629)	(5,208)	(1,560)	–	–	(9,397)
Impairment of property, plant and equipment in period	–	–	(51)	(113)	–	–	(164)
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	(80)	88	–	–	8
Net carrying amount as at December 31st 2018	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**–**	**132,814**
As at January 1st 2018							
Gross carrying amount	9,232	108,342	113,797	10,560	2,467	5	244,403
Accumulated amortisation and impairment	–	(29,013)	(67,494)	(5,065)	(2,467)	–	(104,039)
Net carrying amount	**9,232**	**79,329**	**46,303**	**5,495**	**–**	**5**	**140,364**
As at December 31st 2018							
Gross carrying amount	9,184	108,390	113,055	10,838	2,466	–	243,933
Accumulated amortisation and impairment	–	(31,638)	(71,352)	(5,663)	(2,466)	–	(111,119)
Net carrying amount	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**–**	**132,814**

(PLN '000)

21. Leases

21.1. The Company as a lessee (from 2019)

The carrying amount of leased assets is recognised in the statement of financial position under 'Right-of-use assets' and is presented as follows:

Class of underlying assets	*Carrying amount of right-of-use assets* *December 31st 2019*	Depreciation of right-of-use assets (cumulative) *December 31st 2019*	Depreciation in the reporting period *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 2019, 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.

The Group's leasing activities are summarised in the table 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	1.3	1.3	1.3	1	–	–	1
Buildings and structures	15	0.1	1.3	0.6	14	–	–	13
Plant and equipment	5	0.2	4.8	1.3	2	3	–	5
Vehicles	46	0.1	3.6	2.2	–	46	–	46
Intangible assets	1	4.8	4.8	4.8	1	–	–	1

In 2019, the Company did not change its estimates of the duration of its active contracts.

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.

(PLN '000)

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

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

In the 12 months ended December 31st 2019, interest expense related to leases was PLN 271 thousand.

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 12 months ended December 31st 2019, the related costs were as follows:

	December 31st 2019
Short-term leases	2,732
Leases of low-value assets	–
Total	**2,732**

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.

21.2. Finance leases (until 2018)

As a lessee, the Company used property, plant and equipment under contracts classified as finance leases until the end of 2018. The carrying amounts of assets held under finance leases were as follows:

	Plant and equipment	*Vehicles*	*Total*
As at January 1st 2018			
Gross carrying amount	559	7,209	7,768
Accumulated amortisation and impairment	(168)	(2,678)	(2,846)
Net carrying amount	**391**	**4,531**	**4,922**
As at December 31st 2018			
Gross carrying amount	738	6,621	7,359
Accumulated amortisation and impairment	(261)	(2,466)	(2,727)
Net carrying amount	**477**	**4,155**	**4,632**

(PLN '000)

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

	December 31st 2018	
	Minimum payments	*Present value*
up to 1 year	1,373	1,148
from 1 to 5 years	1,376	1,223
Total minimum lease payments	**2,749**	**2,371**
Less finance costs	(378)	–
Present value of minimum lease payments, including:	**2,371**	**2,371**
short-term	1,148	1,148
long-term	1,223	1,223

In 2018, no expenses were recognised on account of contingent lease payments and no sublease payments were made as the assets were used exclusively by the Company.

22. Non-current assets held for sale

As at December 31st 2019, the Company classified non-current assets worth PLN 103 thousand (December 31st 2018: PLN 163 thousand) as assets held for sale, unrelated to discontinued operations.

	December 31st 2019	*December 31st 2018*
Non-current assets held for sale, including:		
plant and equipment	45	99
vehicles	58	64
	103	**163**

Most of the assets held for sale were sold in 2019. The Management Board expects to sell the remaining assets in 2020.

(PLN '000)

23. Intangible assets

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**
As at January 1st 2019				
Gross carrying amount	1,774	26,681	29	28,484
Accumulated amortisation and impairment	–	(19,116)	–	(19,116)
Net carrying amount	**1,774**	**7,565**	**29**	**9,368**
As at December 31st 2019				
Gross carrying amount	1,774	26,818	196	28,788
Accumulated depreciation and impairment**	–	(20,495)	–	(20,495)
Net carrying amount	**1,774**	**6,323**	**196**	**8,293**

*Intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 32.2.
** As at December 31st 2019, the Company had no impaired intangible assets.

December 31st 2018	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2018	**1,774**	**8,041**	**698**	**10,513**
Acquisitions	–	–	362	362
Transfers from intangible assets under development	–	1,031	(1,031)	–
Amortisation for the year	–	(1,507)	–	(1,507)
As at December 31st 2018	**1,774**	**7,565**	**29**	**9,368**
As at January 1st 2018				
Gross carrying amount	1,774	25,757	698	28,229
Accumulated amortisation and impairment	–	(17,716)	–	(17,716)
Net carrying amount	**1,774**	**8,041**	**698**	**10,513**
As at December 31st 2018				
Gross carrying amount	1,774	26,681	29	28,484
Accumulated amortisation and impairment	–	(19,116)	–	(19,116)
Net carrying amount	**1,774**	**7,565**	**29**	**9,368**

Intangible assets included patents, licences and software. Intangible assets not placed in service by the reporting date are presented under 'Intangible assets under development'.

The largest item is the licence for BENSON supercritical boilers, with a carrying amount of PLN 2,417 thousand as at December 31st 2019 (December 31st 2018: PLN 2,685 thousand). The remaining licence amortisation period is nine years from December 31st 2019.

Goodwill

As at December 31st 2019, the Company disclosed goodwill of PLN 1,774 thousand, recognised on:

- - acquisition of control of an organised part of the business of PBG AVATIA Sp. z o.o. by RAFAKO S.A., the Company disclosed goodwill of PLN 1,398 thousand;
- - accounting for a transaction under which, in 2007, RAFAKO S.A. purchased an organised part of business from Wyrskie Zakłady Urządzeń Przemysłowych NOMA INDUSTRY Sp. z o.o. w upadłości (in bankruptcy) − PLN 376 thousand.

Test for goodwill impairment

At the reporting date, goodwill was tested for impairment following the acquisition of control of an organised part of the business of PBG AVATIA sp. z o.o. by RAFAKO S.A. The test was carried out based on the present value of estimated five-year cash flows allocated to a separate cash generating unit (IT department) and the estimated residual value. The weighted average cost of capital (WACC) was assumed at 6.96%. The test did not reveal any impairment indicator.

Development work

In the 12 months ended December 31st 2019 and the 12 months ended December 31st 2018, the Company made no expenditure on development work which would be capitalised under intangible assets.

24. Impairment of assets

As at December 31st 2019, the impairment test was performed based on the methodology for measuring recoverable amounts in accordance with IAS 36 Impairment of assets. The valuation was performed using the discounted future cash flows method (DCF). Projected flows used to measure residual value were calculated based on NOPLAT (Net Operating Profit Less Adjusted Taxes) and adjusted assumptions for capital expenditure, depreciation and working capital. It was assumed that capital expenditure in the residual period will be at least equal to projected depreciation charges. The amount of working capital depends on the assumed growth rate of FCFF (Free Cash Flow to Firm) over the residual period for a particular unit tested, with the dynamics of changes in working capital not lower than the assumed growth rate g. This procedure for measuring CGU's recoverable amount was based on the cash flows available to owners and creditors (FCFF) and the leveraged cost of capital (WACC).

The following assumptions were made for impairment testing purposes:

The discounted cash flow model was prepared using a four-year projection horizon for 2020-2023.

To calculate future cash flows, the forecast assumes a discount rate reflecting the weighted average cost of capital before tax. The individual elements were determined as follows:

- The risk-free interest rate was assumed at the average annual rate of return on 10-year US treasury bonds based on the secondary market data, i.e. 0.662% per annum.
- The calculation of Beta was based on A. Damodaran's calculation of "unleveraged" Beta factors and the debt structure for the West Europe market in the Engineering/Construction sectors, at 0.7045 and 44.0% respectively. Using these parameters, the leveraged Beta in the DCF calculation was set at 1.153.
- The market risk premium was assumed based on A. Damodaran's calculation for the Polish market at 6.04%.
- The size premium was set at 3.3%, based on market data for the Polish capital market published for Q4 2019 by Financial Craft. The 3.3% premium is defined by Polish companies listed on the Warsaw Stock Exchange with market capitalisation within the range PLN 42m –PLN 80m.
- The Company's additional specific risk premium was estimated at 3% (1% market risk (market volatility), 1% forecasting risk (risk that some of the assumptions would not materialise), and 1% change in energy requirements – departing from conventional energy sources (RAFAKO's strategy assumes a revenue shift from projects based on hard coal technology to projects using other technologies, mainly on the natural gas market).

Based on the above assumptions, WACC is estimated at 11.02%

Based on the above assumptions, the recoverable amount of assets was estimated at PLN 237,643 thousand. The impairment test carried out as at December 31st 2019 did not reveal any need to recognise an impairment loss on the Company's assets.

Business combinations

(PLN '000)

In the 12 months ended December 31st 2019 and 12 months ended December 31st 2018, the Company did not merge with another entity.

25. Shares in subsidiaries and other entities

	December 31st 2019	*December 31st 2018*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	29,814	35,132
Shares in other listed companies	120	160
Shares in other non-listed companies	1,376	1,228
	31,310	**36,520**

* Shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 32.3

In the 12 months ended December 31st 2019, the Company purchased one share in InnoEnergy Central Europe Sp. z o.o. for PLN 147 thousand. Additionally, in the 12 months ended December 31 2019, the Company established a new subsidiary RAFAKO EBUS Sp. z o.o., registered in the National Court Register on August 9th 2019 under entry No. 0000798943. The carrying amount of the shares in the new company is PLN 5 thousand.

25.1. Impairment of shares

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
At beginning of period	(4,975)	(4,973)
- write-down recognised	(5,370)	(92)
- write-down reversed	7	61
- write-down used	–	29
At end of period	**(10,338)**	**(4,975)**

In the 12 months ended December 31st 2019, the Company recognised an impairment loss of PLN 5,323 thousand on shares in RAFAKO Engineering Sp. z o.o. The reason for recognition of the impairment loss is the threat to the subsidiary's ability to continue as a going concern.

(PLN '000)

26. Other long-term receivables

	December 31st 2019	*December 31st 2018*
Financial receivables		
Security deposits	380	233
Other long-term receivables	42,336	4,991
Total long-term receivables, net	**42,716**	**5,224**

27. Other non-current financial assets

	December 31st 2019	*December 31st 2018*
Receivables under sureties granted to related parties	28,148	22,176
Long-term bonds	–	14,066
	28,148	**36,242**

27.1. Receivables under sureties granted to related parties

In 2015, the Company executed a surety agreement whereby it provided an irrevocable and unconditional surety for proper performance of all of its subsidiary's contractual obligations in connection with the performance of the 'Construction of a 910 MW supercritical power generating unit at the Jaworzno III Power Plant – Power Plant II' contract. The terms of the agreement provide for deferred payment of amounts due under the agreement – by March 31st 2021. Income under the surety agreement is recognised at fair value of the consideration, and is measured using the effective interest method.

27.2. 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 financial statements, the following series of bonds of PBG S.A. w restrukturyzacji were outstanding:

Redemption Date	June 30th 2019	December 31st 2019	June 30th 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

(PLN '000)

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 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.

Following change in the position of the Management Board with respect to the collectability of the receivables, as at December 31st 2019 the Company recognised an impairment loss for the entire amount of the bonds held.

	Series G1 bonds	*Series H1 bonds*	*Series I1 bonds*	*TOTAL*
Instalment amount as at repayment date	4,996	3,781	19,045	33,190
Discount rate	22.41%	22.41%	22.41%	–
Net amount as at January 1st 2019	4,519	3,089	14,066	21,674
Bond redemption in the period	–	–	–	–
Recognition of impairment loss	(4,519)	(3,089)	(14,066)	(21,674)
Net amount as at December 31st 2019	–	–	–	–

	Series E1 bonds	*Series F1 bonds*	*Series G1 bonds*	*Series H1 bonds*	*Series I1 bonds*	*TOTAL*
Instalment amount as at repayment date	4,139	1,229	4,996	3,781	19,045	33,190
Discount rate*	22.43%	22.43%	22.43%	22.43%	22.43%	–
Net amount as at January 1st 2018	**3,743**	**1,004**	**3,691**	**2,523**	**11,486**	**22,447**
Bonds redeemed in the period	(4,139)	(1,229)	–	–	–	(5,368)
Discount change in the period	396	225	828	566	2,580	4,595
Net amount as at December 31st 2018	–	–	**4,519**	**3,089**	**14,066**	**21,674**
Discount rate	22.41%	22.41%	22.41%	22.41%	22.41%	

*The discount rate also includes the risk related to bankruptcy of a related party.

28. Inventories

	December 31st 2019	*December 31st 2018*
Materials (at net realisable value)	27,205	29,391
At cost	39,179	39,678
At net realisable value	27,205	29,391

(PLN '000)

Total inventories, at the lower of cost and net realisable value	**27,205**	**29,391**

*Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 32.4

28.1. Inventory write-downs

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
At beginning of period	(10,287)	(11,105)
- write-down recognised	(2,096)	(464)
- write-down reversed	90	384
- write-down used	319	898
At end of period	**(11,974)**	**(10,287)**

29. Short-term trade and other receivables

	December 31st 2019	*December 31st 2018*
Financial receivables		
Trade receivables	207,730	198,667
Impairment losses on trade receivables (-)	(5,679)	(18,731)
Net trade receivables	**202,051**	**179,936**
Receivables on sale of property, plant and equipment and intangible assets	–	252
Security deposits	66,736	88,455
Disputed receivables in litigation *	31,896	25,869
Other financial receivables	10,489	10,483
Impairment loss on financial receivables (-)	(33,648)	(24,189)
Total financial receivables, net	**277,524**	**280,806**
Non-financial receivables		
Receivables under prepayments and advance payments	103,395	99,373
Receivables from the state budget	11,058	9,901
Other non-financial receivables	11,280	5,664
Impairment loss on non-financial receivables (-)	(39,430)	(3,100)
Total non-financial receivables, net	**86,303**	**111,838**
Total short-term receivables, net	**363,827**	**392,644**

*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 42.2 to these financial statements.

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

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

(PLN ’000)

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

The Company views the carrying amount of trade receivables as a reasonable approximation of their fair value.

Short-term trade receivables of PLN 202,051 thousand recognised in the statement of financial position as at December 31st 2019 relate to trading contracts with domestic and foreign trading partners.

The security deposits of PLN 66,736 thousand disclosed in the statement of financial position as at December 31st 2019 relate mainly to projects executed in the following areas:

- Construction of a coal-fired steam unit – PLN 17,242 thousand;
- SCR system – PLN 8,776 thousand;
- Construction of a coke gas-fired power generation unit − PLN 7,160 thousand;
- Manufacture of high-pressure parts of a boiler for an incineration plant – PLN 5,719 thousand.

The change in security deposits in the 12 months ended December 31st 2019 was primarily attributable to: a PLN 7,109 thousand cash deposit paid in connection with the construction of a coke gas-fired power generation unit, a PLN 11,168 thousand cash deposit returned in connection with the upgrade of a flue gas desulfurisation system, and a PLN 15,362 thousand cash deposit returned in connection with the construction of a gas pipeline.

Advance payments represented a significant portion of other receivables, and amounted to PLN 103,395 thousand as at December 31st 2019, including:

- Advance payment of PLN 44,740 thousand towards a contract to construct fuel storage tanks;
- Advance payment of PLN 15,994 thousand under a contract to construct a biomass boiler island;
- Advance payment of PLN 11,549 thousand under a contract for gas pipeline construction;
- Advance payment of PLN 6,450 thousand under a contract to construct an LNG storage tank.

29.1. Impairment losses on trade and other receivables

The Company tested receivables for impairment in accordance with the accounting policies applied, as described in Note 0 to these financial statements. Impairment losses on receivables, recognised in 2019 in the statement of comprehensive income, were as follows:

- for trade receivables – recognition/reversal of impairment losses for a total amount of PLN 13,052 thousand (2018: recognition of impairment losses for a total amount of PLN 1,007 thousand),
- for other short-term and long-term financial receivables – impairment losses of PLN 45,789 thousand were recognised (2018: impairment losses of PLN 323 thousand were reversed).

The tables below present changes in impairment losses on receivables during the reporting period.

In accordance with the adopted accounting policy, in the case of trade receivables the Company applies a simplified approach based on the calculation of allowances for lifetime expected credit losses.

	December 31st 2019	*December 31st 2018*
At beginning of period	(18,731)	(14,945)
Adjustment to opening balance	–	(2,779)
At beginning of period after adjustment	(18,731)	(17,724)
Allowances recognised as expense in period	(3,323)	(1,082)
Allowances reversed and recognised as income in period (-)	3,085	75
Allowances used (-)	13,290	–
At end of period	**(5,679)**	**(18,731)**

(PLN '000)

Allowances for other short-term and long-term financial receivables (i.e. other than trade receivables)

	December 31st 2019	*December 31st 2018*
At beginning of period	(27,289)	(18,210)
Adjustment to opening balance	–	(9,402)
At beginning of period after adjustment	(27,289)	(27,612)
Allowances recognised as expense in period	(46,312)	(615)
- 12M expected losses	(709)	(615)
- significant increase in credit risk, but no impairment	–	–
- impaired assets *	(45,603)	–
Allowances reversed and recognised as income in period (-)	523	345
- 12M expected losses	523	345
Allowances used (-)	–	593
- 12M expected losses	–	–
- significant increase in credit risk, but no impairment	–	–
- impaired assets	–	593
At end of period	**(73,078)**	**(27,289)**

*In the 12 months ended December 31st 2019, the Company recognised impairment losses on financial and non-financial receivables from PBG S.A. w restrukturyzacji (in restructuring), including impairment losses on advance payments of PLN 29,177 thousand and impairment losses on receivables of PLN 6,881 thousand under joint and several liability. The Company also recognised an impairment loss of PLN 9,545 thousand on disputed receivables from a foreign trading partner.

30. Short-term accrued expenses and deferred income

	December 31st 2019	*December 31st 2018*
Costs of bank and insurance guarantees	4,778	3,572
Costs of obtaining contracts with customers	–	2,938
Expenditure on development work – eBus	13,436	6,174
Other costs	2,377	2,617
Accrued expenses and deferred income	**20,591**	**15,301**

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 '000)

31. Current financial assets

31.1. Other current financial assets

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

*For a detailed description of bonds, see Note 27.2

31.2. Cash and cash equivalents

	December 31st 2019	*December 31st 2018*
Cash at bank and in hand	21,089	5,386
Short-term deposits for up to 3 months, including:	2,828	18
- deposits pledged as security for contingent liabilities	–	–
	23,917	**5,404**

Cash at banks earns interest at variable rates linked to O/N deposit rates. 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.

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

32.1. Property, plant and equipment pledged as security

As at December 31st 2019, the amount of property, plant and equipment pledged as security for liabilities was PLN 122,376 thousand. Property, plant and equipment are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, 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 the execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

(PLN '000)

	December 31st 2019	*December 31st 2018*
Mortgaged property, plant and equipment, including:	83,094	85,754
land	9,162	9,162
buildings and structures	73,932	76,592
Property, plant and equipment encumbered with registered pledge, including:	39,282	42,640
plant and equipment	36,880	41,400
vehicles	2,402	1,200
	122 376*	**128 394***

* The disclosed amounts include PLN 103 thousand of property, plant and equipment classified as held for sale (December 31st 2018: PLN 163 thousand), presented in Note 22.

32.2. Intangible items pledged as security

As at December 31st 2019, intangible assets worth PLN 8,097 thousand were pledged as security for the Company's liabilities (December 31st 2018: PLN 9,339 thousand). The assets are pledged as security for liabilities under the Multi-Purpose Credit Facility Agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, 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).

32.3. Shares pledged as security

As at December 31st 2019, shares with a carrying amount of PLN 31,310 thousand (December 31st 2018: PLN 36,520 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 the issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o in connection with the execution of the Jaworzno III 910 MW Project (a second-ranking registered pledge over a set of movables and rights).

The year-on-year decrease in the carrying amount of shares in the 12 months ended December 31st 2019 was attributable to the recognition of impairment losses on shares in a subsidiary, as discussed in more detail in Note 25.1.

32.4. Inventories pledged as security

As at December 31st 2019, inventories with a total carrying amount of PLN 27,205 thousand were pledged as security for the parent's liabilities (December 31st 2018: PLN 29,391 thousand). Inventories are pledged as security for liabilities under the Multi-Purpose Credit Facility Agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, 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 TAURON Wytwarzanie S.A. 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).

32.5. Trade receivables pledged as security

As at December 31st 2019, trade receivables of PLN 21,499 thousand were pledged as security for guarantees and borrowings received by the Company (December 31st 2018: PLN 20,170 thousand).

33. Equity

33.1. Share capital

In the 12 months ended December 31st 2019, RAFAKO S.A.'s share capital did not change and as at December 31st 2019 its amount of was PLN 254,864 thousand.

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

In connection with the 2016 bond issue carried out by PGB S.A. 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.

33.2. Par value per share

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

33.3. Shareholders' rights

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

33.4. Share premium

In the 12 months ended December 31st 2019, there were no changes in the share premium, and as at December 31st 2019 the amount of the share premium was PLN 165,119 thousand.

33.5. Dividends paid

In the 12 months ended December 31st 2019 and by the date of issue of these financial statements, the Company did not pay dividends nor did the Management Board declare any dividend.

(PLN '000)

33.6. 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).

	December 31st 2019	*December 31st 2018*
Debt to equity		
Equity	104,529	394,426
Borrowed funds (bank and non-bank borrowings)	112,021	100,831
Total equity and liabilities	932,588	917,735
Capitalisation ratio (equity / total assets)	**0.11**	**0.43**
Total financing sources		
Equity	104,529	394,426
Borrowed funds (bank and non-bank borrowings)	112,021	100,831
Leases	5,741	2,371
Capital-to-total financing sources ratio	**0.89**	**3.82**
EBITDA		
Operating profit/(loss)	(250,395)	3,703
Depreciation and amortisation	12,659	10,904
EBITDA	**(237,736)**	**14,607**
Debt		
Borrowings and other debt instruments	112,021	100,831
Leases	5,741	2,371
Debt to EBITDA	**(0.50)**	**7.07**

(PLN '000)

34. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO at the reporting date

The table below presents shareholders who held 5% or more of total voting rights at the General Meeting of RAFAKO S.A. as at December 31st 2019:

Shareholder	*Number of shares*	*Number of voting rights*	*Ownership interest*	*% of total voting rights at GM*
PBG S.A., Multaros Trading Company Ltd. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, in accordance with the agreement of October 24th 2017 referred to in Art. 87.1.6) of the Public Offering Act (*), of which:	55,081,769	55,081,769	43.22%	43.22%
PBG S.A.(*)	7,665,999	7,665,999	6.02%	6.02%
Multaros Trading Company Limited (subsidiary of PBG S.A.) (*) (***)	34,800,001	34,800,001	27.31%	27.31%
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych managed by PFR TFI S.A. (**)	12,615,769	12,615,769	9.90%	9.90%
Other	72,350,229	72,350,229	56.78%	56.78%

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

(PLN ’000)

35. Interest-bearing borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings December 31st 2019*	*Liabilities under borrowings December 31st 2018*
Short-term borrowings:							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts and financial pledge over assigned account*, set-off of claims 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, cash deposit	current account overdraft facility of up to PLN 70m***	PLN	1M WIBOR + margin	June 30th 2020****	69,569	60,081
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts and financial pledge over assigned account*, set-off of claims 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, cash deposit	revolving working capital facility of up to PLN 44m***	PLN EUR	1M WIBOR or 1M EURIBOR + margin	June 30th 2020****	34,149	40,750
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts and financial pledge over assigned account*, set-off of claims 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, cash deposit	revolving working capital facility to cover liabilities related to payments made under bank guarantees	PLN	1M WIBOR + margin	June 30th 2020****	8,303	–
						112,021	**100,831**

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

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

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

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

The Company plans to extend the credit facility agreement for subsequent periods. The Company's credit standing should be analysed taking into account the information presented in Note 7.

36. Employee benefit obligations

36.1. 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 provision amount and a reconciliation showing movements in the provision during the reporting period are presented in the table below:

	December 31st 2019	*December 31st 2018*
As at January 1st	26,097	23,185
Interest expense	730	741
Current service costs	654	540
Actuarial (gains)/losses	6,877	4,275
Benefits paid	(2,564)	(2,644)
Closing balance	**31,794**	**26,097**
Long-term provisions	29,329	23,482
Short-term provisions	2,465	2,617

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

	December 31st 2019	*December 31st 2018*
Discount rate (%)	1.9	2.8
Expected inflation rate (%)*	–	–
Employee turnover rate	7.5	7.5
Expected growth of salaries and wages (%)**	2	2

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

Sensitivity analysis

Change of the discount rate by half percentage point:

	Increase (PLN '000)	*Decrease (PLN '000)*
December 31st 2019		
Effect on the defined benefit obligation	(1,398)	1,520
December 31st 2018		
Effect on the defined benefit obligation	(1,064)	1,150

(PLN ’000)

36.2. Long-term employee benefit obligations

	December 31st 2019	*December 31st 2018*
Unpaid bonus accrual	5	13
Provisions for retirement severance payments	8,570	6,838
Provision for long-service benefits	13,944	12,197
Provision for other employee benefits	6,815	4,447
	29,334	**23,495**

36.3. Short-term employee benefit obligations and provisions

	December 31st 2019	*December 31st 2018*
Social security	6,682	6,488
Salaries and wages payable	6,555	6,179
Obligations under Employee Capital Plans	225	–
Obligations under voluntary redundancy programme	–	145
Accrued holiday entitlements	2,769	2,929
Unpaid bonus accrual	532	733
Provisions for retirement severance payments	432	540
Provision for long-service benefits	1,772	1,754
Provision for other employee benefits	261	323
	19,228	**19,091**

37. Trade and other payables

37.1. Other non-current liabilities

	December 31st 2019	*December 31st 2018*
Financial liabilities		
Other non-current liabilities	18,556	9,647
	18,556	**9,647**

37.2. Other long-term provisions

	December 31st 2019	*December 31st 2018*
Provision for warranty repairs	18,430	14,515
	18,430	**14,515**

(PLN ’000)

37.3. Short-term trade and other payables

	December 31st 2019	*December 31st 2018*
Trade payables	332,640	176,700
Amounts payable for tangible and intangible assets	163	217
Retentions (security deposits)	87	259
Other financial liabilities	–	199
Total financial liabilities	**332,890**	**177,375**
Non-financial liabilities		
Taxes and other duties payable	5,525	16,825
Amounts payable under sureties/joint and several liability	15,386	1,549
Liabilities due to delayed payment of costs	13,582	8,307
Other non-financial liabilities	2,713	2,373
Total non-financial liabilities	**37,206**	**29,054**
	370,096	**206,429**

As at December 31st 2019, the Company estimated the amount of the surety provision described in Note 27.1 at PLN 7,344 thousand.

The Company entered into a contract for the construction of a gas pipeline, where PBG S.A. w restrukturyzacji acted as the Company’s subcontractor. Under joint and several liability, the Company recognised a PLN 8,040 thousand liability on account of claims of PBG S.A.’s subcontractors.

The Company views the carrying amount of trade payables as a reasonable approximation of their fair value.

37.4. Other short-term provisions

	December 31st 2019	*December 31st 2018*
Provision for warranty repairs	6,555	8,436
Provision for expected contract losses	38,997	4,077
Other provisions	288	575
	45,840	**13,088**

37.5. Liabilities under financial derivatives

As at December 31st 2019 and December 31st 2018, the Company carried no open FX contracts with a negative fair value.

37.6. Amounts payable for property, plant and equipment and intangible assets

As at December 31st 2019, the Company had commitments to purchase property, plant and equipment of PLN 163 thousand (December 31st 2018: PLN 217 thousand).

As at December 31st 2019, the Company was not a party to any contracts or agreements which would commit the Company to incurr capital expenditure but were not disclosed in the accounting records as at the reporting date.

(PLN '000)

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

37.7.1. Amounts payable for unused holiday entitlements

Amounts payable for unused holiday entitlements are calculated on a monthly basis based on the actual number of days of unused holidays as at the end of each month. One twelfth of the holiday leave due for the whole year, increased by any unused days of holiday leave due for prior periods, is allocated to each individual month of the financial year. The number of days thus calculated is then multiplied by the average daily rate applicable to a given employee, determined on the basis of their salary for the month for which the accrual is made, plus amounts due to the Social Insurance Institution.

	December 31st 2019	*December 31st 2018*
Opening balance	2,929	3,874
Provision for the obligation	–	–
Cost of benefits paid	(160)	(945)
Reversal of provision for the obligation	–	–
Closing balance	**2,769**	**2,929**
Short-term as at	2,769	2,929
Long-term as at	–	–
	2,769	**2,929**

37.7.2. Unpaid bonus accrual

The Company pays to its employees an annual bonus whose amount depends on the achievement by the Company of its operating profit target. In accordance with the provisions of the Collective Bargaining Agreement (CBA), within 30 days of the date of authorisation of the Company's full-year financial statements, the Management Board, upon consultation with the Trade Unions, makes a decision as to the payment of a discretionary bonus to the Company employees. During the financial year, the Company recognises an accrual for the annual bonus in the amount provided for in the CBA, unless the Company's Management Board decides not to recognise the accrual. The Company also recognises an accrual for bonuses to project managers, which are paid upon completion of contracts.

	December 31st 2019	*December 31st 2018*
Opening balance	746	1,118
Provision for the obligation	64	3,876
Cost of benefits paid	(130)	(134)
Reversal of provision for the obligation	(143)	(4,114)
Closing balance	**537**	**746**
Short-term as at	532	733
Long-term as at	5	13
	537	**746**

(PLN '000)

37.7.3. Provision for warranty repairs

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

	December 31st 2019	*December 31st 2018*
Opening balance	22,951	17,489
Adjustment to opening balance	–	12,295
Opening balance after adjustment	22,951	29,784
Provision for the obligation	14,874	14,767
Costs of warranty repairs incurred	(9,458)	(15,802)
Reversal of provision for the obligation	(3,382)	(5,798)
Closing balance	**24,985**	**22,951**
Short-term as at	6,555	8,436
Long-term as at	18,430	14,515
	24,985	**22,951**

37.7.4. Obligations under voluntary redundancy programme

On November 15th 2016, the Management Board of RAFAKO resolved to launch a voluntary redundancy programme for the Company employees. The term of the programme was from December 1st 2016 to January 31st 2017.

The programme's objective was to adapt the level, structure and costs of employment at RAFAKO S.A. to the conditions prevailing in the Company's markets so as to avoid the need to initiate a collective redundancy procedure. The programme was to cover up to 200 employees and was addressed in particular to:

- employees at retirement age,
- employees who were entitled to pre-retirement protection,
- other employees meeting the requirements set out in the programme rules.

176 employees applied to participate. 128 applications were approved and the final amount of the resulting obligations (fully provisioned for, charged to the Company's 2016 profit or loss) was PLN 7,622 thousand.

	December 31st 2019	*December 31st 2018*
Opening balance	145	1,596
Provision for the obligation	–	–
Costs incurred	(141)	(1,332)
Reversal of provision for the obligation	(4)	(119)
Closing balance	–	**145**
Short-term as at	–	145
Long-term as at	–	–
	–	**145**

(PLN '000)

37.7.5. Restructuring provision

In 2017, the Management Board decided to commence the next stage of RAFAKO S.A.'s organisational restructuring. The restructuring is in particular designed to reduce the Company's workforce by 15.6% of the current level. The programme aims to adapt the level and costs of employment to the conditions prevailing in RAFAKO S.A.'s markets. The total number of employees covered by the collective redundancy programme will not exceed 276. In 2017, the Company recognised a restructuring provision of PLN 8,368 thousand, including severance payments, compensations for lost long-service benefits, etc.

	December 31st 2019	*December 31st 2018*
Opening balance	–	8,368
Provision for the obligation	–	–
Costs incurred	–	(2,622)
Reversal of provision for the obligation	–	(5,746)
Closing balance	–	–
Short-term as at	–	–
Long-term as at	–	–
	–	–

37.8. Income tax payable

As at December 31st 2019 and December 31st 2018, the Company carried no income tax payable.

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and sanctions. As the legal regulations in these areas are relatively new in Poland, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within public administration bodies and between the public administration and businesses, leading to uncertainty and conflicts. Consequently, the tax risk in Poland is substantially higher than in countries with more mature tax systems.

Tax settlements may be subject to inspection for a period of five years from the end of the calendar year in which the tax payment was made. Such inspections may result in additional tax liabilities for the Company.

In the 12 months ended December 31st 2018, a customs and tax inspection commenced at the Company concerning the accuracy of declared taxable income and correctness of calculation and payment of corporate income tax for 2016. As at the date of preparation of these financial statements, the audit had not been completed.

38. Grants

Grants recognised as at December 31st 2019 amounted to PLN 230 thousand. The grants pertain to:

- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed the design, delivery and installation of natural gas detection and signalling systems for two gas furnaces at RAFAKO; the grant was made in cash.
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to install a hydrocarbons detection system in RAFAKO's paint and varnish storage facility; the grant was made in cash.
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to modernise and extend RAFAKO's CCTV system; the grant was made in cash.
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A. and InterRisk Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, under which the insurance companies co-finance the fire safety improvement programme in a production building of RAFAKO; the grant was made in cash.
- Research project 'Flexibility of existing power generating units given limited capital expenditure' funded by the National Centre for Research and Development under measure SGOP 1.2 as part of the PBSE sectoral programme; the grant was made in cash.

(PLN '000)

- Research project 'Development of a low-cost method to increase the efficiency of flue gas desulfurization units' funded by the National Centre for Research and Development under measure SGOP 1.2 as part of the INNOCHEM sectoral programme; the grant was made in cash.
- Research project 'CO_2 methanisation unit for storing electricity by producing CO2-SNG' pursued in partnership with TAURON Wytwarzanie S.A., Institute for Chemical Processing of Coal, AGH University of Technology, West Technology & Trading Polska Sp. z o.o. of Opole, EXERGON Sp. z o.o. of Gliwice, CEA Institute of France, and Atmostat of France; the grant was made in cash,
- Research project 'Municipal polygeneration system fired with biomass and refuse-derived fuel', pursued in partnership with EXERGON Sp. z o.o. of Gliwice, TAURON Wytwarzanie S.A., Institute for Chemical Processing of Coal, EQTEC of Spain, CEA Institute of France, and Atmostat of France; the grant was made in cash.
- Research project 'HYBRID system to reduce emissions of acidic components and fly ashes from flue gas' funded by the National Centre for Research and Development under the POIR 4.1.4 activity in the Application Projects competition; the grant was made in cash.

Grant settlements:

Purpose	*As at January 1st 2019*	*Increase*	*Grants recognised as other income*	*Grants returned*	*Other decrease in grants*	*As at December 31st 2019*
Modernisation of property, plant and equipment	168	–	(9)	–	–	159
Partial performance of research project	879	4,226	(5,034)	–	–	71
	1,047	**4,226**	**(5,043)**	**–**	**–**	**230**

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

In the 12 months ended December 31st 2019 and December 31st 2018, the Company did not issue, redeem or repay any debt or equity securities.

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

	December 31st 2019	*December 31st 2018*
Receivables under bank guarantees obtained mainly as security for performance of contracts, including:	228,666	226,019
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	62,630	64,159
- from related entities	51,925	55,657
Letters of credit	5,643	–
	296,939	**290,178**

(PLN ’000)

	December 31st 2019	*December 31st 2018*
Liabilities under bank guarantees issued mainly as security for contract performance, including:	510,939	416,053
- to related entities	–	–
Liabilities under sureties, including:	1,175,587	1,238,500
- to related entities	1,175,587	1,238,500
Promissory notes issued as security, including:	107,900	21,978
- to related entities	–	–
Letters of credit	–	–
	1,794,426	**1,676,531**

In the 12 months ended December 31st 2019, the Company’s contingent liabilities grew by PLN 117,895 thousand, which resulted from an increase in guarantees granted and an increase in promissory notes issued. In the 12 months ended December 31st 2019, a number of guarantees were issued by banks and insurance companies to trading partners upon the Company’s instructions, including performance bonds of PLN 159,338 thousand, advance payment guarantees of PLN 61,448 thousand and bid bonds of PLN 25,702 thousand. In this category of liabilities, the largest item was a performance bond of PLN 35,547 thousand, issued in June 2019. As at the end of December 2019, liabilities under promissory notes issued were PLN 107,900 thousand. The largest item of this category of liabilities is the guarantee promissory note issued for the benefit of the National Centre for Research and Development of Warsaw of PLN 86,552 thousand in connection with the implementation of Phase II of a project executed under a contract for the execution and financing of a project under the 200 + Units Programme. As at the end of December 2019, liabilities under sureties in issue were PLN 1,175,587 thousand. In this category of liabilities, the largest item was the sureties covering E003B7 Sp. z o.o.’s liabilities, issued by RAFAKO S.A. on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to develop new coal-fired generation capacities at TAURON Wytwarzanie S.A. - construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II. The largest item of guarantees expired in the 12 months ended December 31st 2019 was a EUR 2,310 thousand performance bond.

In the 12 months ended December 31st 2019, the Company’s contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 6,761 thousand, including a PLN 2,647 thousand increase in receivables under bank and insurance guarantees, a PLN 5,643 thousand increase in letters of credit, and a PLN 1,529 thousand decrease in receivables under promissory notes. The largest item of guarantees obtained in 2019 was a USD 1,268 thousand advance payment guarantee. The largest guarantee which expired in 2019 was a EUR 1,004 thousand performance bond.

41. Bank and insurance guarantees

As at December 31st 2019, the Company carried contingent liabilities under bank and insurance guarantees with a total amount of PLN 510,939 thousand, including:

No.	*Guarantee provider:*	*Guarantee amount (PLN '000)*	*Type of guarantee*
1.	Alior Bank	38,625	performance bond, warranty bond
2.	ALLIANZ	16,873	performance bond, warranty bond
3.	AXA	6,906	warranty bond
4.	Generali	30,958	performance bond, warranty bond, advance payment guarantee
5.	Hermes	9,406	performance bond, warranty bond, advance payment guarantee
6.	Hestia	75,493	performance bond, warranty bond, advance payment guarantee
7.	HSBC	50,726	performance bond, warranty bond, advance payment guarantee, bid bond
8.	InterRisk	31,440	performance bond, warranty bond
9.	KUKE	109,806	performance bond, warranty bond, advance payment guarantee
10.	Lev Ins	14,477	performance bond, warranty bond
11.	mBank	41,500	performance bond, warranty bond, advance payment guarantee
12.	PKO BP	75,437	performance bond, warranty bond, advance payment guarantee, payment guarantee
13.	TUW PZUW	2,107	advance payment guarantee
14.	UNIQA	5,065	performance bond, warranty bond, advance payment guarantee
15.	WARTA	2,120	performance bond, warranty bond
	TOTAL	**510,939**	

Most insurers' claims under the financial guarantees are secured by blank promissory notes with promissory note declarations, while the banks' claims are secured with collateral (mainly assignment of contract receivalbes) under respective facility agreements.

42. Litigation and disputes

42.1. Court proceedings against Mostostal Warszawa S.A.

On October 11th 2016, the Company filed a claim against Mostostal Warszawa S.A. with the Regional Court of Gliwice, demanding payment of PLN 8,042,475 plus statutory interest accrued from August 3rd 2016 as a refund of 70% of the amounts retained by Mostostal as a performance bond. The grounds for the claim were that the parties terminated their cooperation under the subcontractor agreement for design, delivery and erection of a grid, boiler and flue gas treatment system for two lines of the Thermal Waste Treatment Plant in Szczecin, concluded on December 18th 2012 (eventually, on July 7th 2016, RAFAKO submitted a notice of termination of the subcontractor agreement due to Mostostal Warszawa S.A.'s fault). As cooperation on the project had been discontinued, Mostostal Warszawa S.A. was obliged to refund the amounts retained as a performance bond, because the contractual basis for providing a performance bond had ceased to exist. On December 12th 2018, the court issued a final judgment in favour of RAFAKO S.A. The awarded amount (approximately PLN 9.5m) was credited to the Company's account in January 2019.

42.2. Court proceedings against Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o.

On March 20th 2017, the Company filed with the Regional Court of Gliwice a joint and several claim against Mostostal Warszawa S.A. and Zakład Termicznego Unieszkodliwiania Odpadów Sp. z o.o. for payment of PLN 13,136,446.57 plus statutory interest accrued from November 18th 2016, based on an invoice issued for the work performed by the Company and not paid by Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o. under the subcontract concerning the Thermal Waste Treatment Plant in Szczecin. RAFAKO considers the claim to be well-founded and, to support it, the Company carried out a relevant survey of the work performed and delivered the results to the debtors. On March 29th 2017, the court issued a non-final order for payment of the claimed amounts. On April 19th 2017, the respondents lodged with the court objections against the payment order. On July 27th 2017, RAFAKO S.A. filed a pleading which, in addition to the reply to the respondents' objections, extended the claim by PLN 3,021,268, to a total of PLN 16,157,215. In the Company's opinion, the respondents may challenge the amount of RAFAKO's claim because the claim will be subject to award by the court and may ultimately be dependent on the results of the survey prepared by a court expert. The expert has drawn up this opinion and its analysis is pending. The parties to the dispute have been given a 3-month period to make any objections to it. Since the subject matter of the dispute is very complicated, it is difficult to predict its closing date. As at December 31st 2019, the Company recognised this disputed receivable, net of a prudentially recognised impairment loss, at PLN 13m in 'Other receivables and prepayments'. In the opinion of the law firm representing the Company in these proceedings, the claim as such is legitimate (the chances that the case will be resolved in favour of the Company are about 90%). In view of the current status of the court proceedings and the position presented by the law firm representing the Company, in the opinion of the Management Board as at the date of these financial statements the risk of non-recovery of the above receivables in the disclosed net amount is marginal.

42.3. Dispute with Wärtsilä Finland Oy (Customer)

On March 29th 2018, the Company and Wärtsilä Finland Oy (Customer) signed a contract for the construction of an LNG storage tank in Hamina, Finland. On October 19th 2018, the Customer informed the Company about it having exercised the right of substitute performance with respect to the construction of the steel part of the LNG storage tank, citing the Company's failure to present a signed subcontractor agreement as the only reason. The Customer estimated additional costs of substitute performance at EUR 3,537,412.00. The Customer did not provide any documentation to justify these costs.

The Company disagrees with the Customer's decision, considering it groundless and incompatible with the contract, and rejects the claim in its entirety. The Customer failed to provide the Company with any technical documentation related to the above scope of work, thus preventing the Company from performing the work. The Customer also failed to comply with the substitute performance procedures, as laid down in the contract. This opinion has been confirmed by the Finnish law firm engaged in connection with the dispute.

In view of delays in delivering documents by the Customer and changes to the scope and technology of the work, the Company summarised the work performed by December 2018 and notified the Customer about its claims totalling EUR 3m.

By letter of September 16th 2019, the client terminated the contract, claiming that RAFAKO S.A. had allegedly discontinued the performance of a part of the contract. On the dame day, PKO BP received calls on two bank guarantees for payment of a total of EUR 2,687,800.00; the payments were made on September 25th 2019. Wärtsilä Finland Oy's call on the bank guarantees was not preceded by any financial claim against RAFAKO S.A. The Company is of the opinion that the calls for payment are unfounded. RAFAKO S.A. disputes the Client's claim in its entirety, and therefore on January 10th 2020 it initiated arbitration proceedings which are currently in the initial phase. The amounts drawn on account of the guarantee have been recognised under 'Disputed receivables in litigation'. The Management Board is of the opinion that the risk of non-recovery of the funds has increased significantly and that it is not possible to estimate the date of conclusion of the proceedings, and therefore decision has been made to recognise an impairment losses for the disputed amount.

42.4. Court proceedings against Mostostal Warszawa S.A.

Another case is the legal action brought by RAFAKO S.A. against Mostostal Warszawa S.A. on April 30th 2019. In the statement of claim, the Company demands payment of PLN 2,429 thousand in interest, citing incorrect invoices issued by the defendant that prevented the Company from making relevant deductions from output VAT on time. The parties undertook negotiations to resolve the matter and on March 2nd 2020 executed an agreement whereby Mostostal Warszawa S.A. paid PLN 1.5m to the Company.

42.5. Action brought by Elektrobudowa S.A.

Elektrobudowa S.A. filed a suit with the District Court of Gliwice against the court administrator of PBG S.A. w restrukturyzacji and RAFAKO S.A. (as jointly and severally liable), as a result of which on March 20th 2020 the court issued a payment order. The action concerns joint and several liability for payment of PLN 4,664,337.56 towards a subcontractor for liabilities of PBG S.A. w restrukturyzacji (formerly PBG oil and gas sp. z o.o.) which acted as a subcontractor of RAFAKO S.A. under one of the contracts. RAFAKO S.A. rejects the claim in its entirety on the grounds that the sub-contractor agreement with PBG S.A. in restructuring and further sub-contracting of works with Elektrobudowa S.A. was not a construction contract and therefore no joint and several liability arose. As at the date of these financial statements, no hearing date was set.

42.6. Action brought by Stal-Systems S.A.

On March 24th 2020, the District Court in Gliwice issued a payment order with writ of enforcement in the case brought by Stal-Systems against RAFAKO S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. (as jointly and severally liable). The claimant demands payment of PLN 3,391,319.10 for services subcontracted by RAFAKO S.A. as part of the contract for modernisation of electrostatic precipitators at unit 2 of the Bełchatów power plant. Objection to the payment order was filed on June 15th 2020, On grounds that the amount of the claim was set off against the amount of liquidated damages charged by the Company, and therefore RAFAKO S.A. maintains that the claim is without merit. As at the date of preparation of these financial statements, no hearing date was set.

42.7. Dispute with CIECH SODA POLSKA S.A.

By letter of June 13th 2020, CIECH SODA POLSKA S.A. (CIECH) submitted to RAFAKO S.A. a notice of termination of the contract for upgrade of OP140 boiler No. 4 at the Janikowo CHP Plant due to the fault of RAFAKO S.A., and demanded payment of PLN 3,935,500.00 as liquidated damages. In the opinion of RAFAKO S.A., the grounds for termination given by CIECH are sham and artificial, and therefore in response, on June 15th 2020, RAFAKO S.A. served a notice of termination of the contract due to the fault of CIECH and declared CIECH's termination ineffective. On June 17th 2020, CIECH filed a demand for payment of PLN 5,903,250 from the bank performance guarantee, which, in addition to the absence of grounds for such a claim, is an amount far exceeding the amount of the liquidated damages. Therefore, on June 23rd 2020 RAFAKO S.A. filed a motion for injunctive relief (with measures including prohibiting CIECH from drawing on the bank guarantee). The court's decision is pending.

42.8. Dispute with PGE GiEK S.A. Oddział Elektrownia Bełchatów

As at the date of preparation of these financial statements, the Company is in two separate disputes with PGE GiEK S.A.

As part of the contract 'Upgrade and overhaul of the low-furnace system, along with the pressure part of boiler No. 2 of PGE GiEK S.A. Oddział Elektrownia Bełchatów', the customer demanded payment of PLN 4,649,390.63 as liquidated damages for delay in the completion of Phase 8 (Insulation). RAFAKO S.A. disputes both the grounds for charging the damages and, as a matter of procedural caution – the amount of the damages. PGE GiEK S.A. set off the amount of liquidated damages against remuneration due to RAFAKO S.A. The Company is preparing an action challenging the validity of the claim.

A similar situation occurred with respect to the contract 'Upgrade of unit 2 electrostatic precipitators at PGE GiEK S.A. Oddział Elektrownia Bełchatów'. In this case, the amount of liquidated damages claimed for delays in the performance of the contract is PLN 4,951,972.17. The damages were set off against the remuneration due to RAFAKO S.A., and the Company is preparing an action to challenge the validity of the claim for damages.

In both cases, RAFAKO S.A. also holds claims against a subcontractor under both contracts, for a total amount in excess of PLN 9.77m.

(PLN '000)

43. 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 S.A. w restrukturyzacji, 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 to related parties, see Note 40.

In 2019 and 2018, the Company did not enter into any material transactions with related parties on non-arm's length terms.

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

	Operating income	
	from January 1st 2019 to December 31st 2019	*from January 1st 2018 to December 31st 2018*
Sales to:		
Entities related through equity links:	3,824	9,594
Entities related through personal links:	62	1
TOTAL	**3,886**	**9,595**

	Receivables	
	December 31st 2019	*December 31st 2018*
Sales to:		
Entities related through equity links:	65,792	87,398
Entities related through personal links:	5	510
TOTAL	**65,797**	**87,908**

** Including bonds from PBG S.A. described in Note 27.1*

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

	Purchases (costs, assets)	
	from January 1st 2019 to December 31st 2019	*from January 1st 2018 to December 31st 2018*
Purchases from:		
Entities related through equity links:	95,927	56,788
Entities related through personal links:	2,853	1,653
TOTAL	**98,780**	**58,441**

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	Liabilities	
	December 31st 2019	*December 31st 2018*
Purchases from:		
Entities related through equity links:	15,802	3,624
Entities related through personal links:	718	75
TOTAL	**16,520**	**3,699**

43.1. Shares held by members of management and supervisory bodies

The table below presents the number of shares in the Company or the Company's related parties held by the management and supervisory personnel as at December 31st 2019:

	Company	*Total number of shares*	*Par value per share (PLN)*
Management staff member			
Agnieszka Wasilewska-Semail	RAFAKO S.A.	60,245	120,490
Supervisory staff member			
Przemysław Schmidt	Get Fresh Sp. z o.o.	50	2,500
	Comanche Investments Sp. z o.o. (in the process of dissolution)	160	80,000
Adam Szyszka	FSG S.A.	25,000	25,000
	AT Invest Sp. z o.o.	50	25,000
	Biznes i Nauka Sp. z o.o.	1,521	76,050
	Eko-Devoloper Sp. z o.o.	51	229,500

43.2. Company's parent

As at the date of these financial statements, PBG S.A. w restrukturyzacji was the parent of RAFAKO S.A.

As at December 31st 2019, PBG S.A. w restrukturyzacji of Wysogotowo held 33.32% of ordinary shares in the Company (6.02% of shares held directly, and 27.31% of shares held indirectly, through Multaros Trading Company Ltd.).

43.3. Joint ventures

The Company is not a partner in any joint ventures.

43.4. Related-party transactions

In the 12 months ended December 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 or a blank promissory note. 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.

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43.5. Transactions with other members of the Management Board and Supervisory Board

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

In the reporting and comparative periods, the Group companies did not enter into any transactions with members of their management boards. responsibilities of the Management Board and Supervisory Board

43.6. Shares held by senior management staff under employee stock option plan

The Company does not operate any employee stock option plans.

43.7. Transactions with key management personnel

The Company's key management personnel includes members of the Management Board and of the Supervisory Board. The remuneration paid to members of the key management personnel during the reporting period is presented below:

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Short-term employee benefits (salaries and overheads)*	3,683	4,894
Long-service benefits	–	–
Post-employment benefits	–	–
Termination benefits	–	–
Total cost of the remuneration paid to key management staff	**3,683**	**4,894**

* In 2018, under this item the Company disclosed the amount of short-term employee benefits paid to members of the Management and Supervisory Boards and other employees deemed as management personnel of RAFAKO S.A.; in 2019, the Company changed the presentation of this item which now includes short-term employee benefits paid to members of the Management Board and Supervisory Board only.

For detailed information on remuneration paid to members of the Company's Management Board and Supervisory Board, see Note 43.8.

In the reporting period, the Company did not receive or advance any loans from or to the key management personnel.

In 2019, the Company did not enter into any purchase transaction with the key management personnel, nor does it recognise any amount payable under such transactions.

In 2019, the Company did not enter into any sale transaction with the key management personnel, nor does it recognise any amount receivable under such transactions.

43.8. Remuneration of members of the Management Board and Supervisory Board

The remuneration paid to members of the Company's Management and Supervisory Boards for the year ended December 31st 2019 was as follows:

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	Base pay	*Awards*	*Other*
Management Board	**2,015**	–	**94**
Jarosław Dusiło	400	–	18
Agnieszka Wasilewska-Semail	710	–	57
Jerzy Wiśniewski	420	–	–
Helena Fic	164	–	2
Ciechanowski Jerzy	200	–	17
Karney Jerzy	40	–	–
Jarczewski Paweł	66	–	–
Drozd Jacek	15	–	–
	Base pay	*Awards*	*Other*
Supervisory Board	**876**	–	**611**
Krzysztof Gerula	108	–	–
Przemysław Schmidt	144	–	108
Szyszka Adam	108	–	162
Karney Jerzy	9	–	–
Maćkowiak Michał	21	–	–
Małgorzata Wiśniewska	229	–	243
Dariusz Szymański	97	–	98
Helena Fic	160	–	–
Total	**2,891**	–	**705**

The remuneration paid to members of the Company's Management and Supervisory Boards for the year ended December 31st 2018 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**2,907**	–	**288**
Krzysztof Burek	85	–	24
Jarosław Dusiło	600	–	26
Edward Kasprzak	466	–	69
Tomasz Tomczak	498	–	27
Agnieszka Wasilewska-Semail	720	–	128
Karol Sawicki	415	–	14
Jerzy Wiśniewski	123	–	–

(PLN '000)

	Base pay	*Awards*	*Other*
Supervisory Board	**836**	–	**773**
Małgorzata Wiśniewska	128	–	241
Jerzy Wiśniewski	199	–	500
Dariusz Szymański	108	–	9
Krzysztof Gerula	108	–	–
Przemysław Schmidt	144	–	9
Adam Szyszka	108	–	14
Michał Sikorski	–	–	–
Helena Fic	41	–	–
Total	**3,743**	–	**1,061**

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

The Company has not published any forecasts for 2019.

45. Agreement with qualified auditor or auditing firm qualified to audit financial statements

The table below presents the remuneration paid or payable to the qualified auditors of financial statements for the years ended December 31st 2019 and December 31st 2018, by type of service:

Service	*Year ended December 31st 2019**	*Year ended December 31st 2018**
Mandatory audit of the separate and consolidated financial statements	139	139
Other services	–	–
Total**	**139**	**139**

** Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością*

46. Objectives and policies of financial risk management

The objective of RAFAKO S.A.'s financial risk management policy is to limit the volatility of the Company's cash flows and results of its core activities to acceptable levels. The key financial instruments used by the Company include cash, current deposits, currency exchange transactions, advanced loans, overdraft facilities, working capital facilities, and leases. The main purpose of these instruments is to support and secure financially the day-to-day operations of the Company by stabilising and neutralising liquidity, exchange rate and interest rate risks, and by ensuring efficient distribution of available funds. Other financial instruments, such as trade receivables and payables, arise in the course of the Company's day-to-day operations and form their inherent part.

The Company does not trade in financial instruments. The role of all financial instruments discussed in this section is to support the core business processes. The Company does not use financial instruments for speculative or other purposes not directly related to its principal business.

The Company's key financial risk is liquidity risk; see Notes 7 and 46.5

46.1. Currency risk

Currency risk is a significant financial risk for the Company. The source of the risk are exchange rate movements, causing uncertainty as to the level of future cash flows denominated in foreign currencies. The Company's exposure to currency risk stems from the fact that a significant portion of its cash flows is denominated in foreign currencies. Changes in PLN exchange rates, especially if frequent and significant, may materially affect both profitability of contracts denominated in foreign currencies and the amount of currency translation differences on assets and liabilities denominated in foreign currencies and translated into PLN.

In the reporting period, more than 31.4% of the Company's invoiced revenue was denominated in foreign currencies, primarily in EUR.

The Company's currency risk management strategy provides for the use of natural hedging to the largest possible extent. The Company seeks to achieve the highest possible level of structural matching of income and expenses denominated in the same currency and related to the running contracts. From 30% to 70% of the estimated net exposure to currency risk which is not covered by natural hedging is hedged at the time of contract singing, exclusively with accepted types of derivative instruments. As at December 31st 2019, the Company did not have any open hedging positions.

Given its expected revenue and expenses and the present structure of its net currency exposure, the Company refrained from entering into new hedging FX transactions for purchase or sale of foreign currencies within the limits set under its currency risk hedging policy. The Company periodically updates its currency positions and based on such update it makes decisions on hedging the positions.

The Company's financial assets and liabilities, other than foreign-currency denominated derivatives, translated into the złoty using the closing exchange rate effective for the reporting date, were as follows:

	Amount in foreign currency ('000)							*Translated amount*
	EUR	*USD*	*GBP*	*HUF*	*SEK*	*TRY*	*SGD*	
December 31st 2019								
Financial assets (+):								
Loans	–	–	–	–	–	–	–	–
Trade receivables and other financial receivables	31,819	–	2	–	–	–	–	135,502
Other financial assets	–	–	–	–	–	–	–	–
Cash and cash equivalents	2,700	1	–	–	1	–	–	11,503
Financial liabilities (-):								
Borrowings and other debt instruments	–	–	–	–	–	–	–	–
Leases	–	–	–	–	–	–	–	–
Trade payables and other financial liabilities	(21,647)	(17)	(3)	(16)	–	–	(54)	(92,414)
Total exposure to currency risk	**12,872**	**(16)**	**(1)**	**(16)**	**1**	–	**(54)**	**54,591**
December 31st 2018								
Financial assets (+):								
Loans	–	–	–	–	–	–	–	–
Trade receivables and other financial receivables	17,002	1	174	–	–	–	–	73,841
Other financial assets	–	–	–	–	–	–	–	–
Cash and cash equivalents	484	20	1	–	1	–	–	2,146
Financial liabilities (-):								
Borrowings and other debt instruments	–	–	–	–	–	–	–	–
Leases	–	–	–	–	–	–	–	–
Trade payables and other financial liabilities	(7,732)	(160)	(1)	(8)	–	–	(148)	(34,008)
Total exposure to currency risk	**9,754**	**(139)**	**174**	**(8)**	**1**	–	**(148)**	**41,996**

(PLN '000)

The table below presents the sensitivity of profit/(loss) before tax (due to changes in the value of monetary assets and liabilities) to reasonable movements in the EUR, GBP, SGD, USD and HUF exchange rates, *ceteris paribus*.

	Exchange rate increase/decrease	***Effect on profit/(loss) before tax***	***Effect on net profit/loss***
December 31st 2019 – EUR	+10%	1,287	1,042
	-10%	(1,287)	(1,042)
December 31st 2019 – SGD	+10%	(5)	(4)
	-10%	5	4
December 31st 2019 – GBP	+10%	–	–
	-10%	–	–
December 31st 2019 – USD	+10%	(2)	(2)
	-10%	2	2
December 31st 2019 – HUF	+10%	(2)	(2)
	-10%	2	2

	Exchange rate increase/decrease	***Effect on profit/(loss) before tax***	***Effect on net profit/loss***
December 31st 2018 – EUR	+10%	975	790
	-10%	(975)	(790)
December 31st 2018 – SGD	+10%	(15)	(12)
	-10%	15	12
December 31st 2018 – GBP	+10%	17	14
	-10%	(17)	(14)
December 31st 2018 – USD	+10%	(14)	(11)
	-10%	14	11
December 31st 2018 – CHF	+10%	(1)	(1)
	-10%	1	1

The exposure to currency risk varies during the year, and depends on the volume of transactions executed in foreign currencies. Nevertheless, the above sensitivity analysis can be regarded as a representative measure to quantify the Company's exposure to the currency risk at the reporting date.

46.2. Interest rate risk

Management of interest rate risk focuses on minimising the impact of fluctuations in interest cash flows on financial assets and liabilities bearing variable rates of interest. As at December 31st 2019, the Company was party to a credit facility agreement which was a source of potential interest rate risk. Changes in market interest rates may trigger changes in the amount of interest charged on the credit facility, as well as the amount of interest earned by the Company on its deposits.

Sensitivity to such changes is presented in the table below.

(PLN ’000)

Sensitivity to interest rate risk

The table below presents sensitivity of profit/(loss) before tax to reasonable movements in interest rates, assuming that other factors remain constant (deposits, advanced loans, bank credit facility). The effect on the Company’s equity is not presented.

	Increase/ decrease (percentage points)	***Effect on profit/(loss) before tax***
Period ended December 31st 2019		
PLN	+ 1%	2,803
EUR	+ 1%	1,355
GBP	+ 1%	–
PLN	- 1%	(2,803)
EUR	- 1%	(1,355)
GBP	- 1%	–
Period ended December 31st 2018		
PLN	+ 1%	962
EUR	+ 1%	731
USD	+ 1%	8
PLN	- 1%	(962)
EUR	- 1%	(731)
USD	- 1%	(8)

46.3. Commodity price risk

The Company is exposed to price risk, particularly the risk of increase in the prices of materials of strategic importance to its operations. The level of this risk is greatly determined by the conditions prevailing in the global commodity markets (including steel, precious metals, fuel and energy markets), which are affected by both exchange rate movements and producers’ consolidation efforts intended to achieve joint control of prices. The Company manages the commodity price risk by seeking to ensure that its contracts with sub-suppliers are denominated in the currency of the master contract; that employers are responsible for procurement of materials; and that procurement contracts provide for fixed prices of deliveries. The Company does not enter into long-term contracts with sub-suppliers. The scope of supplies is determined and suppliers selected on a case-by-case basis, depending on current needs.

In 2019, the Company’s supplier base was highly fragmented as none of the suppliers represented more than 10% of the total value of purchases.

RAFAKO S.A. relies on external suppliers for various services – delivery and assembly of machinery and equipment, construction and installation services and transport, as well as pipes, metal sheets, shaped materials, welding materials and specialist equipment. The Company purchases goods and services both from domestic suppliers (76.8% of total purchases) and foreign suppliers (23.2%), and therefore the Company is exposed to currency risk, as described in more detail in Note 46.1

46.4. Credit risk

The Company’s exposure to credit risk is closely related to its principal business activities. The exposure results from outstanding trade contracts and is related to the risk of occurrence of such credit events as the contractor’s insolvency, partial payment of receivables, and significant payment delays. Providing credit to trading partners is an essential part of the Company’s business. However, the Company undertakes a number of measures to mitigate the risk of trading with potentially unreliable customers. Each customer who wishes to trade on credit terms is subject to credit verification procedures.

Customers who − based on results of the credit verification procedures performed by the Company − are deemed financially unreliable, are required to provide appropriate financial security to mitigate the credit risk.

For detailed information on receivables involving higher credit risk, see Note 42.

The Company has developed a model for estimating expected losses on its receivables and contract assets. A simplified version of the model, assuming the calculation of lifetime expected losses, was used with respect to trade receivables and contract assets.

The model for the other instruments assumes – in the case of instruments for which credit risk has not increased significantly since initial recognition or for which the risk is low – recognising in the first place losses given default for the next 12 months.

An expected credit loss is calculated on recognition of the receivable in the statement of financial position and is updated as at each subsequent reporting date, depending on the number of days past due for a given amount receivable. The same policy for estimating allowances for expected credit losses is applied to related parties and other parties. As at December 31st 2019, the Company reviewed the model of estimating expected credit losses on trade receivables and determined new rates of allowaces based on the number of days past due.

The Company considers that loans advanced have low credit risk if they are not past due as at the assessment date and the borrower has confirmed the outstanding amount.

With respect to listed debt securities for which financial information on their issuers is available, the Company assumes that credit risk is low if, based on available financial statements, the financial condition of the issuers of these securities gives no rise to concerns. The Company has assumed that there is a significant increase in risk when, for instance, payments are past due 90 days or more. If the increase in credit risk has been significant, lifetime losses on the instrument are recognised. The Company assumes that a default occurs if the number of days past due is 180, or other circumstances indicate that a default has occurred, as described in more detail in 0 0 to these financial statements. Items in respect of which the debtor is in default as described above are treated by the Company as credit impaired financial assets.

The Company applies a general model to receivables under loans and bonds. In the general model, the Company monitors changes in the level of credit risk related to a given financial asset and classifies financial assets into one of three steps of determining impairment losses based on observation of changes in the level of credit risk in relation to the initial recognition of the instrument. Depending on the classification into individual stages, an impairment loss is estimated in the 12-month horizon (stage 1) or in the life of the instrument (stage 2 and 3).

As at the end of each reporting period, the Company assesses whether there were any indications that could result in classifying financial assets into the individual stages of determining allowances. The indications include changes in the rating assigned to the debtor, financial distress, or a material adverse change in the debtor's its economic, legal or market environment.

For the purpose of estimating expected credit losses, the probability of default is used, based on market valuation of credit derivatives for entities assigned a given rating and operating in a given sector. As at the reporting date, the Company used ratings provided by BISNODE Polska sp. z o.o. (since 2002, the strategic partner of Dun & Bradstreet, a global business information provider).

Prepayments for the supply of inventories or services are not financial assets within the meaning of IFRS 9 (because they do not give rise to an obligation to deliver financial assets but to deliver non-financial assets or to provide services) and are therefore outside the scope of IFRS 9. They are not contract assets within the meaning of IFRS 15 because they do not result from the performance of an obligation in exchange for which remuneration can be expected.

Any prepayments made by the Company in respect of performance of contracts for the Company are monitored on an ongoing basis by reviewing the progress of performance of the contracts.

With respect to trade receivables, which are the most significant class of assets exposed to credit risk, as well as in the case of contract assets, the Company is exposed to credit risk related to a single major counterparty. As the contracts have been secured through public procurement, the Company does not use any security for these receivables. Analysis of the financial condition of the Company's counterparties did not reveal an increased risk of non-payment of those receivables. 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 data on days past due and an analysis of days past due and actual payments over the last four years.

In 2019, the Company did not hold any negotiations or make any arrangements that would follow from a significant increase in credit risk, as a result of which payment dates would change or expected cash flows under trade receivables and contract assets would be otherwise modified.

In its operations, the Company does not acquire any credit impaired financial assets, except for receivables arising under joint and several liability to subcontractors. With respect to such receivables, the Company recognises allowances for the full amount of expected credit losses.

(PLN ’000)

As at December 31st 2019, the gross amounts of individual groups and impairment losses were as follows:

	Contract assets	Trade receivables Current	0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
December 31st 2019								
Location: Poland								
Impairment loss 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: outside Poland								
Impairment loss 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)**

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

As at December 31st 2019, an impairment loss of PLN 109,121 thousand was recognised on other financial receivables with a gross carrying amount of PLN 33,648 thousand (December 31st 2018: a PLN 125,059 thousand impairment loss on other receivables with a gross carrying amount of PLN 24,189 thousand).

46.5. Liquidity risk

The Company is exposed to liquidity risk, i.e. the risk of losing ability to timely meet its financial liabilities. The Company manages liquidity risk by monitoring payment dates and cash requirements for short-term payments (current transactions monitored weekly) and long-term cash requirements based on cash flow forecasts updated on a monthly basis. Cash requirements are then compared against the available cash sources (in particular, the Group's borrowing capacity) and placements of free cash.

The Company's financial liquidity in 2019 is discussed at length (in the context of the going concern uncertainties) in Note 7 to these financial statements.

(PLN '000)

The table below presents the Company's financial liabilities by maturity as at December 31st 2019 and December 31st 2018, based on contract cash flows.

December 31st 2019	*Payable on demand*	*Under 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total undiscounted liabilities*	*Carrying amount*
Interest-bearing borrowings	–	–	112,021	–	–	112,021	112,021
Lease liabilities	–	984	3,053	1,704	–	5,741	5,741
Trade payables and other financial liabilities	91,238	124,477	117,492	17,414	2,028	352,649	351,446
	91,238	**125,461**	**232,566**	**19,118**	**2,028**	**470,411**	**469,208**

December 31st 2018	*Payable on demand*	*Under 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total undiscounted liabilities*	*Carrying amount*
Interest-bearing borrowings	–	–	100,831	–	–	100,831	100,831
Lease liabilities	–	374	774	1,223	–	2,371	2,371
Trade payables and investment commitments	47,673	111,731	17,972	8,526	2,028	187,930	187,022
	47,673	**112,105**	**119,577**	**9,749**	**2,028**	**291,132**	**290,224**

(PLN ’000)

47. Derivative instruments

As at December 31st 2019 and December 31st 2018, the Company did not have any open positions in derivative financial instruments.

As at December 31st 2019 and December 31st 2018, the Company did not have other types of derivative instruments.

48. Financial instruments

48.1. Carrying amounts of various classes and categories of 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 December 31st 2019 and December 31st 2018 related to the following categories of financial instruments defined in IFRS 9:

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

Classes and categories of financial assets	*Carrying amount December 31st 2019*	*Carrying amount December 31st 2018*
Assets at fair value through profit or loss	**120**	**160**
Long-term shareholdings	120	160
Assets at fair value through other comprehensive income	**1,376**	**1,228**
Long-term shareholdings	1,376	1,228
Assets at amortised cost	**372,306**	**335,284**
Bonds	–	21,674
Trade receivables	244,387	184,927
Receivables on sale of property, plant and equipment and intangible assets	–	252
Other financial receivables*	75,853	100,851
Other financial assets	28,149	22,176
Cash and cash equivalents	23,917	5,404
	373,802	**336,672**

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

(PLN ’000)

The amount of financial liabilities presented in the statement of financial position as at December 31st 2019 and December 31st 2018 related to the following categories of financial instruments defined in IFRS 9:

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

Classes and categories of financial liabilities	*Carrying amount December 31st 2019*	*Carrying amount December 31st 2018*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**463,467**	**287,853**
Borrowings	112,021	100,831
Trade payables (including capital commitments)	351,359	186,564
Other financial liabilities	87	458
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**5,741**	**2,371**
Liabilities under leases and rental contracts with purchase option	5,741	2,371
	469,208	**290,224**

As at December 31st 2019 and December 31st 2018, the Company held the following financial instruments measured at fair value:

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	–	–

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

(PLN '000)

48.2. Interest rate risk

The tables below present the carrying amounts of the Company's financial instruments exposed to the interest rate risk, by maturity.

December 31st 2019

Fixed interest rate	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	–	–	–	–	–	–
Short-term deposits	–	–	–	–	–	–	–

Variable interest rate	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	23,917	–	–	–	–	–	23,917
Loans advanced	–	–	–	–	–	–	–
Bonds	6,605	–	–	–	–	–	6,605
Other assets	–	28,148	–	–	–	–	28,148
Liabilities under finance leases and rental contracts with purchase option	4,036	835	585	285	–	–	5,741
Borrowings	112,021	–	–	–	–	–	112,021
Borrowings	–	–	–	–	–	–	–

(PLN '000)

December 31st 2018

Fixed interest rate	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	–	–	–	–	–	–
Short-term deposits	–	–	–	–	–	–	–

Variable interest rate	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	5,404	–	–	–	–	–	5,404
Loans advanced	–	–	–	–	–	–	–
Bonds	7,608	14,066	–	–	–	–	21,674
Other assets	–	22,176	–	–	–	–	22,176
Liabilities under finance leases and rental contracts with purchase option	1,148	624	393	206	–	–	2,371
Borrowings	100,831	–	–	–	–	–	100,831
Borrowings	–	–	–	–	–	–	–

Interest on financial instruments earning interest at variable rates is updated in periods of less than one year. Interest on financial instruments earning interest at fixed rates remains unchanged until maturity. Other financial instruments used by the Company which are not included in the above tables do not bear interest and are therefore not subject to interest rate risk.

49. Employment

The employment structure at the Company by employee groups at the reporting date and staff turnover are presented below:

	Year ended December 31st 2019	*Year ended December 31st 2018*
Production employees	604	666
Engineering design offices staff	200	212
Technology office staff	55	56
Quality control staff	68	67
Maintenance staff	19	27
Other employees (financial and accounting, sales and procurement staff)	545	502
Total	**1,491**	**1,530**

	Year ended December 31st 2019	*Year ended December 31st 2018*
New hires	102	63
Terminations	(153)	(295)
Total	**(51)**	**(232)**

For a detailed description of changes in the employment structure, see Section III.4 of the Directors' Report on the Operations of RAFAKO S.A. in 2019.

50. 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, December 31st 2019: 4.2585 PLN/EUR, December 31st 2018: 4.3000 PLN/EUR,
- the average exchange rate for the period, calculated as the arithmetic mean of the exchange rates effective for the last day of each month in the period: January 1st–December 31st 2019: 4.2988; PLN/EUR, January 1st–December 31st 2018: 4.2617PLN/EUR,

The highest and lowest exchange rates for each period were as follows: January 1st–December 31st 2019: 4.3891/4.2406, PLN/EUR, January 1st–December 31st 2018: 4.3978/4.1423 PLN/EUR.

	December 31st 2019	*December 31st 2018*	*December 31st 2019*	*December 31st 2018*
	PLN '000		*EUR '000*	
Statement of financial position				
Assets	932,588	917,735	218,994	213,427
Non-current liabilities	68,024	48,880	15,974	11,367
Current liabilities	760,035	474,429	178,475	110,332
Equity	104,529	394,426	24,546	91,727
PLN/EUR exchange rate at end of period			4.2585	4.3000

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 2019 to December 31st 2019	from January 1st 2018 to December 31st 2018	from January 1st 2019 to December 31st 2019	from January 1st 2018 to December 31st 2018
	PLN '000		EUR '000	
Statement of comprehensive income				
Revenue	947,061	643,313	220,308	150,951
Operating profit/(loss)	(250,395)	3,703	(58,248)	869
Profit/(loss) before tax	(284,260)	6,931	(66,125)	1,626
Net profit/(loss)	(284,644)	4,302	(66,215)	1,009
Earnings per share (PLN)	(2.23)	0.03	(0.52)	0.01
Average PLN/EUR exchange rate in the period			4.2988	4.2617
Statement of cash flows				
Net cash from operating activities	17,435	(153,037)	4,056	(35,910)
Net cash from investing activities	(377)	2,534	(88)	595
Net cash from financing activities	1,455	(3,355)	338	(787)
Net increase/(decrease) in cash and cash equivalents	18,513	(153,858)	4,307	(36,102)
Average PLN/EUR exchange rate in the period			4.2988	4.2617

51. Events after the reporting period

After the reporting period, no events took place that would affect the Company's financial results and would not be recognised in the Company's financial results for 2019.

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 Company 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 June 30th 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 Company. 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. For a detailed description of the project execution, see Note 11.1 these financial statements.

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. Shortly after the state of epidemic was announced in Poland in mid-March 2020, the Company adapted to the situation to the largest extent possible. In order to ensure that the highest safety standards are met, a Crisis Management Team has been established, 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's headquarters and at the contract performance sites, where additional sanitary procedures have been implemented by the employers.

Despite these efforts, the epidemic has affected the performance of contracts by the Company. This holds true particularly for subcontracted work and foreign supplies. 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 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. Taking into account the gradual easing of lockdown restrictions, the dedicated team is monitoring the situation on an ongoing basis and takes appropriate measures to mitigate its adverse impacts on the Company's operations, and its priority is to maintain business continuity and keep employees and stakeholders safe.

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).

52. Authorisation for issue

These financial statements were authorised for issue on June 30th 2020 by the Management Board's resolution of June 30th 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	....