RAFAKO GROUP

PBG GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2019

with the auditor's report on the audit of the consolidated financial statements

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(PLN ’000)

Consolidated 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		**1,244,904**	**1,268,818**
Revenue from sale of goods and services	11.1	1,243,905	1,266,400
Revenue from sale of materials	11.2	999	2,418
Cost of products and services sold	12.1	(1,528,647)	(1,148,236)
Cost of materials sold		(3,556)	(1,867)
Gross profit/(loss)		**(287,299)**	**118,715**
Other income	12.4	5,869	12,732
Selling expenses	12.1	(22,884)	(24,413)
Administrative expenses	12.1	(49,702)	(51,903)
Other expenses	12.5	(72,210)	(8,449)
Research and development costs		(11,335)	(6,151)
Operating profit/(loss)		**(437,561)**	**40,531**
Finance income	13.1	9,294	8,470
Finance costs	13.2	(47,407)	(5,825)
Profit/(loss) before tax		**(475,674)**	**43,176**
Income tax	14.1	(1,912)	(9,707)
Profit/(loss) from continuing operations		**(477,586)**	**33,469**

(PLN '000)

Consolidated 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*
Other comprehensive income for period			
Items to be reclassified to profit or loss in subsequent reporting periods			
Exchange differences on translating foreign operations		(199)	362
Exchange differences on translating foreign operations attributable to non-controlling interests		(36)	9
Other net comprehensive income to be reclassified to profit or loss in subsequent reporting periods		**(235)**	**371**
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	14.1	1,307	812
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(5,570)**	**(3,463)**
Total comprehensive income for period		**(483,391)**	**30,377**
Net profit/(loss) attributable to:		**(477,586)**	**33,469**
Owners of the parent		(473,121)	33,585
Non-controlling interests		(4,465)	(117)
Comprehensive income attributable to:		**(483,391)**	**30,377**
Owners of the parent		(478,890)	30,484
Non-controlling interests		(4,501)	(107)
Weighted average number of shares		127,431,998	127,431,998
Basic earnings per share (PLN)	16	(3.75)	0.26
Diluted earnings per share (PLN)	16	(3.75)	0.26

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)

Consolidated statement of financial position

as at December 31st 2019

	Note	*December 31st 2019*	*December 31st 2018*
ASSETS			
Non-current assets			
Property, plant and equipment	19	147,362	161,250
Goodwill	22	6,704	9,166
Intangible assets	22	6,840	8,007
Right-of-use assets	20.1	15,793	–
Other long-term receivables	25	77,780	40,396
Shares	24	1,496	1,388
Other non-current financial assets	26	–	14,066
Deferred tax assets	14.3	42,672	42,006
Long-term prepayments and accrued income		4,866	5,743
		303,513	**282,022**
Current assets			
Inventories	27	33,027	34,153
Short-term trade and other receivables	28	607,964	532,543
Contract assets		269,787	381,352
Income tax asset		605	184
Other current financial assets	30.1	–	7,608
Short-term loans	30.2	–	11,351
Cash and cash equivalents	30.3	66,082	88,692
Short-term prepayments and accrued income	29	21,330	19,441
		998,795	**1,075,324**
Non-current assets held for sale	21	123	175
TOTAL ASSETS		**1,302,431**	**1,357,521**

(PLN '000)

Consolidated statement of financial position
as at December 31st 2019

	Note	*December 31st 2019*	*December 31st 2018*
EQUITY AND LIABILITIES			
Equity			
Share capital	32.1	254,864	254,864
Share premium	32.4	165,119	165,119
Statutory reserve funds		215,219	191,580
Exchange differences on translating foreign operations		(272)	(73)
Retained earnings/accumulated losses, including:		(524,686)	(22,675)
Profit/(loss) brought forward		(51,565)	(56,260)
Net profit/(loss) for period		(473,121)	33,585
		110,244	**588,815**
Non-controlling interests	32.7	4,019	8,520
Total equity		**114,263**	**597,335**
Non-current liabilities			
Bank and other borrowings	33	24	61
Lease liabilities	20	7,589	2,546
Employee benefit obligations and provisions	34	29,480	23,604
Other non-current liabilities	35.1	20,595	12,940
Other long-term provisions	35.2	36,357	30,228
Long-term accrued expenses and deferred income		–	152
		94,045	**69,531**
Current liabilities			
Bank and other borrowings	33	113,051	103,507
Lease liabilities	20	5,490	2,306
Short-term trade and other payables	35.3	628,655	342,508
Income tax payable		156	1,365
Employee benefit obligations and provisions	34	26,324	30,209
Contract liabilities	10	251,625	173,499
Other short-term provisions	35.4	47,121	15,151
Short-term accrued expenses and deferred income		21,471	21,063
Grants	36	230	1,047
		1,094,123	**690,655**
Total liabilities		**1,188,168**	**760,186**
TOTAL EQUITY AND LIABILITIES		**1,302,431**	**1,357,521**

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)

Consolidated 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 from continuing operations		**(475,674)**	**43,176**
Adjustments for:		**456,527**	**(134,356)**
Depreciation and amortisation	12.2	17,599	14,825
Foreign exchange gains/(losses)		(65)	36
Interest and dividends, net		4,457	3,822
(Gain)/loss from investing activities		34,668	(4,088)
Increase/(decrease) in financial liabilities/financial assets from valuation of derivative instruments		–	479
(Increase)/decrease in receivables	17	(113,100)	(47,335)
(Increase)/decrease in inventories		1,126	(5,330)
Increase/(decrease) in liabilities and provisions, excluding borrowings	17	288,916	(79,341)
Change in provisions, accruals and deferrals	17	37,908	(9,061)
Change in contract assets and liabilities	17	187,527	607
Income tax paid		(2,482)	(9,332)
Other		(27)	362
Net cash from operating activities		**(19,147)**	**(91,180)**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		2,998	1,771
Purchase of property, plant and equipment and intangible assets		(3,235)	(1,812)
Proceeds from debt instruments held	26	–	4,139
Purchase of financial assets		(148)	(1,209)
Dividends and interest received		–	3
Granting of loans	30.2	–	(11,500)
Repayment of loans		–	10,000
Other		234	504
Net cash from investing activities		**(151)**	**1,896**

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Consolidated statement of cash flows - contd.

for the 12 months ended December 31st 2019

	Note	*12 months ended December 31st 2019*	*12 months ended December 31st 2018*
Cash flows from financing activities			
Proceeds from issue of shares		–	–
Payment of lease liabilities		(7,501)	(3,534)
Proceeds from borrowings		12,244	5,819
Repayment of borrowings		(2,621)	(1,384)
Interest paid		(3,546)	(3,145)
Bank fees		(1,052)	(1,131)
Other		(807)	766
Net cash from financing activities		**(3,283)**	**(2,609)**
Net increase/(decrease) in cash and cash equivalents		(22,581)	(91,893)
Net foreign exchange gains/(losses)		(29)	294
Cash at beginning of period	30.3	88,692	180,291
Cash at end of period	30.3	66,082	88,692

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)

Consolidated 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*	*Non-controlling interests*	*Total equity*
As at January 1st 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,675)**	**588,815**	**8,520**	**597,335**
Adjustment to opening balance following implementation of IFRS 16	–	–	–	–	319	319	–	319
As at January 1st 2019	**254,864**	**165,119**	**191,580**	**(73)**	**(22,356)**	**589,134**	**8,520**	**597,654**
Profit/(loss) from continuing operations	–	–	–	–	(473,121)	(473,121)	(4,465)	(477,586)
Other comprehensive income	–	–	–	(199)	(5,570)	(5,769)	(36)	(5,805)
Distribution of retained earnings	–	–	23,639	–	(23,639)	–	–	–
As at December 31st 2019	**254,864**	**165,119**	**215,219**	**(272)**	**(524,686)**	**110,244**	**4,019**	**114,263**
As at January 1st 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(8,756)**	**601,625**	**8,628**	**610,253**
Adjustment to opening balance following changes in accounting policies for warranty repair provisions	–	–	–	–	(9,959)	(9,959)	–	(9,959)
Adjustment to opening balance following implementation of new IFRS	–	–	–	–	(33,335)	(33,335)	–	(33,335)
As at January 1st 2018	**254,864**	**173,708**	**182,242**	**(433)**	**(52,050)**	**558,331**	**8,628**	**566,959**
Profit/(loss) from continuing operations	–	–	–	–	33,585	33,585	(117)	33,468
Other comprehensive income	–	–	–	360	(3,461)	(3,101)	9	(3,092)
Distribution of retained earnings	–	(8,589)	9,338	–	(749)	–	–	–
As at December 31st 2018	**254,864**	**165,119**	**191,580**	**(73)**	**(22,675)**	**588,815**	**8,520**	**597,335**

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

The RAFAKO Group (the “Group”) comprises RAFAKO S.A. (the “parent”) and its subsidiaries presented in Note 2.

RAFAKO S.A. (the “Company” or the “parent”) 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 34143. The parent’s Industry Identification Number (REGON) is 270217865. The parent’s shares are listed on the Warsaw Stock Exchange.

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

The Group companies have been established for an indefinite term.

The Group’s consolidated financial statements cover the year ended December 31st 2019 and include comparative data as at and for the year ended on December 31st 2018.

The RAFAKO Group’s parent 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.

2. The Group

The RAFAKO Group is part of another group, whose ultimate parent is PBG S.A. of Poznań.

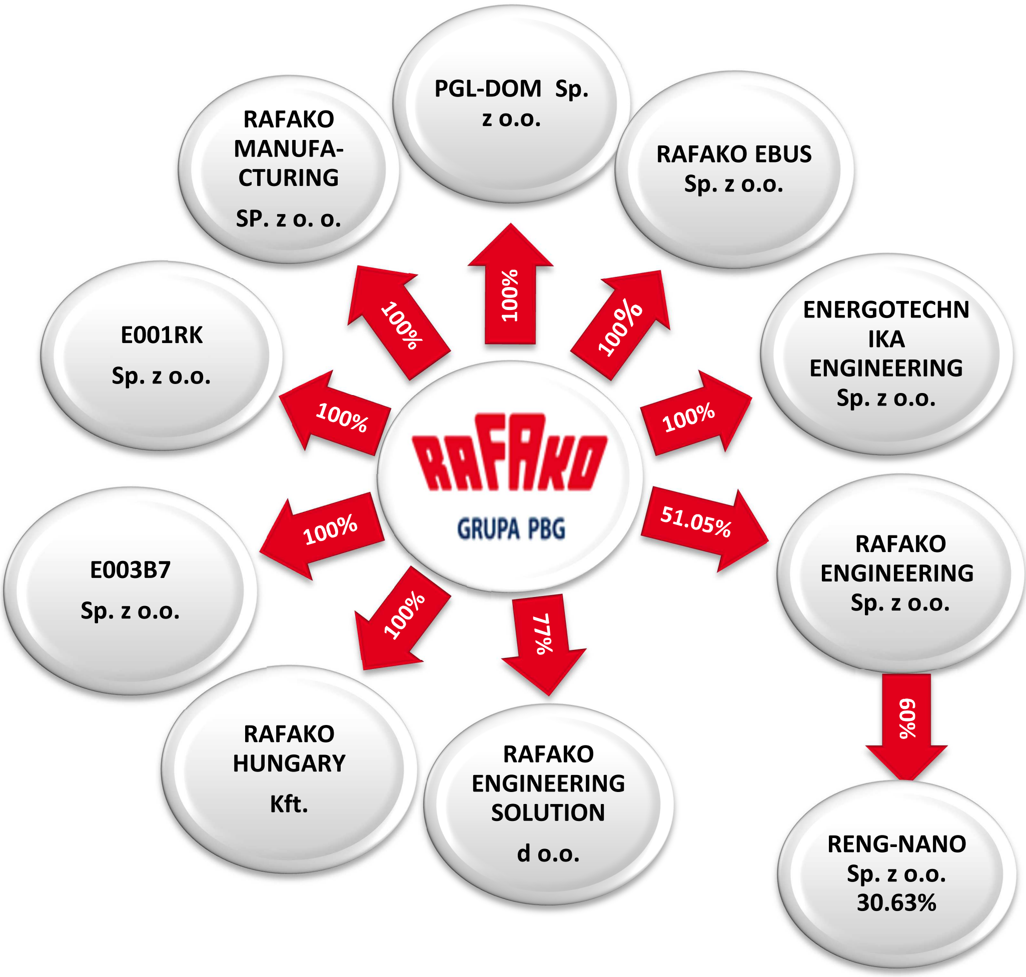
These consolidated financial statements comprise the financial statements of RAFAKO and financial statements of its subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, using uniform accounting policies.

As at December 31st 2019, the RAFAKO Group comprised the parent and ten subsidiaries operating in the power construction, services and trade sectors.

As at December 31st 2019, the following subsidiaries were consolidated in the Group’s consolidated financial statements:

As at December 31st 2019, the following subsidiaries („Companies", "Group Companies") were included in the Group's consolidated financial statements:



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

Name and principal place of business	*Principal business activity (according to the Polish Classification of Business Activities)*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
RAFAKO S.A. Racibórz	Production of steam generators, excluding hot water central heating boilers	District Court of Gliwice KRS 34143	-
PGL – DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court of Gliwice KRS 58201	full
RAFAKO ENGINEERING Sp. z o.o. of Racibórz	Engineering activities and related technical consultancy	District Court of Gliwice KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice	Engineering activities and related technical consultancy	District Court of Gliwice KRS 417946	full
RAFAKO ENGINEERING SOLUTION d.o.o. Belgrade	Process design, including construction, industry, and environmental protection consultancy and supervision	Commercial Register Agency of the Republic of Serbia 20320524	full
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industries	Registry Court of the Capital City of Budapest	full

(PLN '000)

Name and principal place of business	*Principal business activity (according to the Polish Classification of Business Activities)*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method*
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	District Court of Gliwice KRS 479758	full
E003B7 Sp. z o.o. Racibórz	Development of building projects, business consultancy and construction design , engineering and technology	District Court of Gliwice KRS 486911	full
RENG-NANO Sp. z o.o.* Racibórz	Manufacture of metal structures and components, repair and maintenance of finished metal goods	District Court of Gliwice KRS 663393	full
RAFAKO MANUFACTURING Sp. z o.o. Racibórz	Production of steam generators, excluding hot water central heating boilers	District Court of Gliwice KRS 739782	full
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	District Court of Gliwice KRS 798943	full

* 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 Group's share in total voting rights in the subsidiaries was equal to the parent's holdings in the share capital of those entities.

In the 12 months ended December 31st 2019, a number of changes occurred in the Group's structure.

On April 4th 2019, RAFAKO EBUS Sp. z o.o. was established under a notarial deed. The company's share capital amounts to 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.

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

In the 12 months ended December 31st 2019 and until the date of these consolidated financial statements, there were changes in the composition of the parent's 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 of RAFAKO S.A. made the following changes to the Management Board of the parent:

- Jarosław Dusiło was removed from the position of Vice President of the Management Board,
- Jerzy Ciechanowski was appointed Vice President of the Management Board,
- 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 parent's Management Board.

On November 25th 2019, PBG S.A., in the exercise of its special shareholder rights under the parent's 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.:

- appointed Paweł Jarczewski as President of the Management Board, and
- 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 RAFAKO 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:

- 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 Radosław Domagalski-Łabędzki as Vice President of the Management Board.

As at the date of these consolidated financial statements, the composition of the parent’s 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 consolidated financial statements, there were changes in the composition of the parent's Supervisory Board.

On November 25th 2019, PBG S.A., 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 consolidated financial statements, the composition of the parent's 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.

4. Authorisation of the financial statements

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

5. Significant judgements and assumptions

5.1. Professional judgement

The preparation of the Group's consolidated 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 of the parent made the following judgements which most significantly affect the presented carrying amounts of assets and liabilities.

Classification of leases where the Group is the lessee

Group companies are parties to lease contracts. They classify leases as either finance leases or operating leases based on the assessment of the extent to which risks and benefits incidental to ownership have been transferred from the lessor to the lessee. Such assessment is in each case based on the economic substance of the transaction.

Embedded derivatives

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

Consortium agreements

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

5.2. 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 Group 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 may change in the future due to market developments or factors beyond the Group'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 Group 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 Group'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 19, 24, 25, 26, 27.1, 28.130.130.1 to these consolidated 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 34.1 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 Group 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 consolidated financial statements.

The Group 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 14.

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 Group 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 Group companies review the useful lives of their 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 19, 20 and 22.

Recognition of income, cost and profit or loss

The Group 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 Group allocates the transaction price to each performance obligation on the basis of the relative standalone selling price.

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

The Group 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 Group recognises revenue over time because:

a) the Group'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 Group assesses whether the contract includes a significant financing component. The Group 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 the customer and when the customer pays for that good or service will be one year or less.

The Group 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 Group 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 7.28.

Provision for expected losses under ongoing contracts

At the end of each reporting period the Company remeasures total estimated revenue and costs of ongoing contracts accounted for using the percentage of completion method. The Group 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 contract revenue and costs in the reporting period are presented in Note 10 to these consolidated financial statements.

Provision for costs due to late contract completion

The Group recognises a provision for liquidated damages arising from late completion if the probability of being charged for late contract completion is significant and the delay is due to the fault of the Group companies as contractors. 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 10.3 to these consolidated financial statements.

Provision for warranty repairs

The warranties provided by the Group represent exclusively the assurance that the products or services provided will operate in accordance with the agreed specification and the parties' intentions. Therefore, the Group 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 reporting date, the Group 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 Group 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. For a detailed description of the methods used to determine impairment losses, see Note 7.16.

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 Group companies' budgets approved by the parent's Management Board. If financial forecasts indicate that the Group companies will generate sufficient taxable income, deferred tax assets are recognised at full amount. The Group 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 Group's assets.

Lease term

In determining the amount of a lease liability, the Group 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 Group will exercise an option to extend the lease or not to exercise the termination option, the Group takes into account all relevant facts and circumstances that create an economic incentive for the Group 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 Group's business,
- terms of exercising the options.

The lease liability presented in the consolidated 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 Note 20.1.

6. Basis of preparation of the financial statements

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

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

As at the date of these consolidated financial statements, the Management Board of the parent, 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 Group 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 Group's liquidity, and enabled the Group 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 consolidated 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 Group 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 of the parent 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 consolidated financial statements the parent’s 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 Group’s ability to continue as a going concern and win new contracts is access to external financing. In June 2019, the parent 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 parent until the end of June 2020. The parent 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 pursue its growth strategy and to structure credit facilities so that they better meet the parent’s needs. As at the date of preparation of these consolidated financial statements, the parent received a decision from the credit committee and was at the final stage of negotiating the terms of extending the PKO BP credit facility. The proposed terms of renewal of the PKO BP multi-purpose credit facility agreement of February 7th 2012, as amended, include extension of the facility’s term until November 10th 2020, and reduction of the limit 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 the parent 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 Group's financial liquidity.

As of the day of preparation of these full-year consolidated financial statements, the parent 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 parent 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 Group’s liquidity position.

As at the end of December 2019, the value of the Group's order book was PLN 2,559m (compared with PLN 2,817m as at the end of December 2018). In pursuit of its strategy, from the beginning of 2019 to the issue date for these financial statements, the Group won new contracts worth PLN 1,245m, including PLN 931m in the power sector, PLN 192m in the oil and gas sector (the new strategic business area) and PLN 122m 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 Group’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 Group makes every effort to ensure that the value of contracts in the order book enables it to secure revenue necessary to cover its operating expenses and generate profit in the long term, also after the completion of the contract to construct the 910 MW power generation unit in Jaworzno. In line with the adopted growth directions, the Group is actively involved in tender procedures and expects to win new major contracts.

The parent 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 Group'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 of the parent 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 Group makes every effort to ensure that the value of contracts in the order book enables it to secure revenue necessary to cover its operating expenses and generate profit in the long term, also after the completion of the contract to construct the 910 MW power generation unit in Jaworzno. In line with the adopted growth directions, the Group is actively involved in tender procedures and expects to win new major contracts.

A significant increase in the cost of performance of key contracts, as estimated by the Group, poses a material threat to the Group’s ability to continue as a going concern. The Management Board of the parent believes that negotiations with the Group’s key customers to increase contract prices will allow it to mitigate the risk. By at the date of issue of these full-year consolidated financial statements, the Group 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 Group, has identified a material uncertainty as to the effect of potentially adverse outcome of the discussions on the Group's liquidity.

Taking into account all the circumstances described above, which the Management Board of the parent identifies as material risks to the Group's ability to continue as a going concern within 12 months from the reporting date, the Management Board of RAFAKO S.A. takes all the steps described above to ensure that these risks do not materialise and present the full-year consolidated financial statements for 2019 prepared on the assumption that the Group will continue as a going concern.

6.1. Statement of compliance

These consolidated 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 Group’s activities, within the scope of the accounting policies applied by the Group there is a difference between IFRSs and the EU IFRSs.

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

6.2. Functional currency and presentation currency

The currency of these consolidated financial statements is the Polish złoty (“PLN”), and all amounts are stated in thousands of złotys unless otherwise indicated.

The operational currency of the parent and the subsidiaries, except for RAFAKO Engineering Solution doo. and RAFAKO Hungary Kft., is the Polish złoty. The functional currencies of RAFAKO Engineering Solution doo. and RAFAKO Hungary Kft. are the Serbian dinar and the Hungarian forint, respectively. The items of financial statements prepared by the foreign subsidiaries are translated into the Group’s presentation currency at relevant exchange rates.

The Group uses the direct consolidation method and accounts for translation differences in a manner consistent with the method.

7. Significant accounting policies

7.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of RAFAKO and its controlled entities (subsidiaries) prepared as at December 31st 2019.

Subject to adjustments made to ensure compliance with IFRS, the financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, using uniform accounting policies, and with accounting policies consistently applied to economic events and transactions of a similar nature. Adjustments are made in order to eliminate any discrepancies in the application of accounting principles.

All significant balances and transactions between Group companies, including unrealised gains from intra-Group transactions, have been fully eliminated. Unrealised losses are eliminated unless they are indicative of impairment.

Subsidiaries are consolidated from the date when the Group obtains control of them and cease to be consolidated when the control is lost. The parent controls an investee if it has:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee,
- the ability to use its power over the investee to affect the amount of its returns.

The parent determines whether it has control of investees if there is an indication of change in one or more elements of control referred to above.

If the Company holds less than majority of voting rights at an investee but the voting rights held are sufficient to direct the relevant activities of the investee unilaterally, this means that the Company has control of the investee. At present, when assessing whether the Group's voting rights at an investee are sufficient to give it power, the Group considers all material circumstances, including:

- the size of its holding of voting rights relative to the size and dispersion of other holders of voting rights;
- potential voting rights held by the Company, other shareholders and other parties;
- rights arising from other contractual arrangements; and
- any additional circumstances that may indicate that the parent has, or does not have, the ability to direct the relevant activities when decisions need to be made, including voting patterns at previous general meetings.

Changes in the parent's ownership interest that do not result in loss of control of a subsidiary are accounted for as equity transactions. In order to reflect such changes in ownership, the Group makes adjustments to the carrying amounts of controlling and non-controlling interests. Any differences between the amount of an adjustment to non-controlling interests and the fair value of the consideration paid or received are charged to equity and attributed to owners of the parent.

7.2. Investments in associates and joint ventures

Associates are those entities over which the parent has significant influence, either directly or indirectly through its subsidiaries, but which are neither its subsidiaries nor joint ventures.

Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control

Financial year of associates, joint ventures, and the parent is the same. Associates and joint ventures apply the accounting policies set forth in the Polish Accounting Act. Before calculating the interest in net assets of associates and joint ventures, relevant adjustments are made to ensure compliance of the associates' and joint ventures' financial information with IFRSs applied by the Group.

In the reporting periods covered by these consolidated financial statements, the Group did not participate in any joint ventures with other business entities.

7.3. Interests in joint operations

A joint operation is a form of a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an economic activity, which exists when strategic financial and operating decisions about the activity require unanimous consent of the parties sharing control.

If a Group entity carries out activities under a joint operation, the Group as the party to a joint operation recognises the following items in relation to its interest in a joint operation:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output of the joint operation;
- Share of the revenue from the sale of the output by the joint operation;
- Expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant IFRSs applicable to individual items of assets, liabilities, revenue and expenses.

If a Group entity executes a transaction with a joint operation whose joint operator is a non-Group entity, the Group is deemed to have executed the transaction with the remaining joint operators and any gains and losses from such transaction are recognised in the consolidated financial statements of the Group only to the extent of that other party's interest in a joint operation.

If a Group entity executes a transaction with a joint operation whose joint operator is another Group entity, the Group does not account for its interest in relevant gains and losses until its interest in a joint operation is sold to a third party.

7.4. 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 Group.

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 Group 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 Group 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).

Summary of significant accounting policies concerning fair value measurement

The Management Board of the parent 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 Group 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.

7.5. Business combinations under common control

Assuming that a transaction has an economic substance, business combinations under common control are accounted for with the acquisition method in accordance with IFRS 3.

7.6. Foreign currency translation

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

(PLN ’000)

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

The functional currencies of the foreign subsidiaries are the Serbian dinar (RSD) and the Hungarian forint (HUF). At the reporting date, assets and liabilities of the foreign subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the reporting date, and their statements of comprehensive income are translated at the weighted average exchange rate for a given reporting period. Foreign currency differences on such translation are recognised in other comprehensive income and accumulated in a separate item of equity. Upon disposal of a foreign operation, accumulated deferred foreign exchange differences attributable to that operation and disclosed under equity are recognised in profit or loss.

The weighted average exchange rates for the respective financial periods were as follows:

	December 31st 2019	*December 31st 2018*
RSD	0.0362	0.0360
HUF	0.0129	0.0134

7.7. 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.

(PLN '000)

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

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 Group 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 0.

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 Group 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 an asset which meets the capitalisation criteria is recognised as an item of property, plant and equipment.

7.8. 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 Group 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.

Except for the development costs, internally generated intangible assets are not recognised in the statement of financial position; all expenditure incurred on internally generated intangible assets is recognised in the statement of profit or loss for the year in which it was incurred.

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. For the remaining intangible assets, the Company annually assesses if there are any impairment indicators. Useful lives are also reviewed each year, and, if required, they are adjusted with effect as of the beginning of the financial year.

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 Group's intangible assets is present 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.

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

7.9. Goodwill

Goodwill arising on acquisition of an entity is initially recognised at cost being the excess of:

- the aggregate 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 22.

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.

7.10. Investment property

Investment property is initially measured at cost, including transaction costs. The carrying amount of investment property includes the cost of replacement of component parts of the investment property at the moment it is incurred if the recognition criteria are met, and does not include day-to-day maintenance costs of the property.

After initial recognition, investment property is recognised at fair value. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss for the period in which they arise.

Investment property is derecognised on disposal or when the property is permanently withdrawn from use and no future economic benefits from its disposal are expected. Any gains or losses arising from the elimination of investment property from the statement of financial position are recognised in profit or loss in the period of the elimination.

Assets are reclassified as investment property only when there is a change in use, evidenced by the end of owner-occupation or execution of an operating lease agreement. If owner-occupied property (where the owner is the Company) becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

For a transfer from investment property to owner-occupied property or inventories, the property's deemed cost for subsequent accounting for under a different category is its fair value at the date of change in use.

7.11. Leasing (from 2019)

The Group as the lessee

For each contract concluded on or after January 1st 2019, the Group 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 Group,
- whether the Group 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 Group has the right to direct the use of an identified asset throughout the period of use.

As at the commencement date, the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group as a lessor

As a lessor, the Group 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.

7.12. 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 Group 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 Group 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.

7.13. 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 Group 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.

The Group assesses at the reporting date whether there is an indication that previously recognised impairment losses on a given asset no longer exist or should be reduced. If such indication exists, the Group estimates the asset's 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 consolidated financial statements. For the assumptions used in the impairment testing of assets, see Note 23.

7.14. 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.

7.15. 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 Group 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.

7.16. Financial assets

On acquisition, the Group 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 Group 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 Group 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 Group’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 IRSR 9 does not apply),
- 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 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 Group 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 Group 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 Group 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 Group 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,
- shares in companies other than its 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 Group 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’.

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 Group makes this election individually and separately for individual equity instruments.

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 Group 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 Group uses a provisioning matrix estimated based on historical repayment levels and recoveries from trade receivables. The Group operates in several market segments 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 Group does not apply customer grouping.
- As at December 31st 2019, the parent'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;
  - past due receivables which are disputed by debtors (disputed receivables) 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 Group 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 Group 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, major financial difficulties of the debtor, occurrence of a material adverse change in 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 Group 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 Group 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 Group has assumed that a default occurs when the number of days past due has reached 180 days or when the debtor has declared bankruptcy.

7.17. Financial liabilities

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

- borrowings and other debt instruments,
- 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.

7.18. Non-current assets 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.

If following an intended transaction the Group loses control of its subsidiary, all of the subsidiary's assets and liabilities should be classified as held for sale, irrespective of whether the Group retains a non-controlling interest after the transaction.

If the Group is obliged to implement a sales plan providing for the sale of an investment in a joint venture or associate, or a part of such investment, than such investment or a part thereof to be sold is classified as held for sale, the above criteria having been met, and the Group ceases to apply the equity method for accounting for that part of the investment which has been classified as held for sale. The remaining part of the investment in an associate or joint venture, not classified as held for sale, continues to be equity-accounted. The Group ceases to apply the equity method upon disposal if the disposal transaction results in the Group's losing significant influence on the associate or joint venture.

Following the disposal transaction, the Group accounts for the retained interest in accordance with IFRS 9, unless the interest justifies continued classification of the entity as an associate or joint venture, in which case the Group continues to apply the equity method.

Net non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Net 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 or disposal group is available for immediate sale in its present condition, and its sale is highly probable. The management has to be obliged to complete the sale within one year from the change of the classification.

In the statement of comprehensive income, income and expenses on discontinued operations are recognised separately from income and expenses on continuing operations at the level of profit after tax, even if the Group has retained a non-controlling interest in a subsidiary. Profit or loss (after tax) relating to discontinued operations is recognised separately in a single amount in the statement of comprehensive income.

Property, plant and equipment as well as intangible assets classified as held for sale are not depreciated/amortised.

7.19. Derivative financial instruments and hedges

The Group 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 Group holds no hedging financial instruments.

7.20. 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.

7.21. 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.

7.22. 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.

7.23. Provisions

The Group recognises a provision if the Group 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.

7.24. 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, recognition of impairment loss, or accounting for a liability using the effective interest rate method, gains or losses are recognised in the statement of comprehensive income.

7.25. 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.

7.26. Employee benefits

In accordance with internal remuneration systems, Group 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 Group companies also make transfers to the Social Fund in respect of their retired employees and recognise 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 Group 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 – 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.

7.27. 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.

7.28. Revenue

Revenue comprises solely revenue from contracts with customers that fall within the scope of IFRS 15. Recognition of revenue in the Group'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 Group 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 Group can identify each party's rights regarding the goods or services to be transferred;
- The Group 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 Group's future cash flows can be expected to change as a result of the contract); and
- it is probable that the Group 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 Group 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 Group'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 Group considers the contract terms and its customary business practices. Transaction price is the amount to which the Group 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 Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. The Group 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 Group 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 Group monitors market data affecting e.g. the level of price indexation. The Company verifies transaction price 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 Group 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 Group 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 Group does not recognise the refund liability.

Guarantees provided by the Group 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 Group will be in accordance with the agreed-upon specifications.

Allocation of the transaction price to performance obligations

The Group 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 Group 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 Group 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 Group recognises revenue over time because:

a) the Group'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 to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group assesses whether the contract includes a significant financing component. The Group 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 the customer and when the customer pays for that good or service will be one year or less.

The Group 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.

7.29. Taxes

7.29.1. 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 Group 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.

7.29.1.1. 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.

7.29.1.2. 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 Group 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.

7.29.2. 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.

7.29.3. Assessment of tax uncertainties

If in the opinion of a Group 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.

7.30. Earnings/(loss) per share:

Earnings per share for each reporting period are calculated as the quotient of net profit for the reporting period and the weighted average number of the Parent shares outstanding in the reporting period. The Group does not present diluted earnings/loss per share as there are no potential ordinary shares with dilutive effect.

8. Changes in accounting policies (significant accounting policies)

8.1. New IFRS 16 *Leases*

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

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

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

The new standard had a material effect on the Group’s financial statements. As at the date of initial application of the standard, the Group was a lessee under 56 operating lease and rental contracts concluded for periods from one to two years, under which the Group has the right to use land, properties, vehicles and technical facilities.

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

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

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

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

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

Following the application of IFRS 16, the Group recognised, as at the date of its initial application, a right-of-use asset of PLN 14,258 thousand. Right-of-use assets were presented in the statement of financial position under ‘Right-of-use assets’, while lease liabilities under ‘Lease liabilities’, broken down into current and non-current.

The 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.

8.2. Amendments to other standards and interpretations, effective and applied by the Group 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 consolidated 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. The Group 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 Group's consolidated financial statements, as the Group 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 consolidated financial statements because the Group 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 consolidated financial statements as:

- The Group is not a party to any transactions contemplated by the amendments to IAS 12,
- all adjustments to an asset of material value are financed by the Group from external sources used specifically for this purpose, (or) the Group has already applied the principles described in the amendment,
- The Group 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 consolidated financial statements because the Group 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.

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

9.1. Early application of standards or interpretations

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

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

As at the date of issue of these consolidated 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 Group estimates that the new standard will not affect its consolidated 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 Group estimates that the new standard will not affect its consolidated 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

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- 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 Group's existing consolidated financial statements. At this point in time, the Group 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 Group, 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 Group does not apply hedge accounting, the uncertainty related to interest rate derivatives will not affect its consolidated 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 Group already applies principles consistent with the amended standard, the changes will not affect its consolidated financial statements.

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

10. 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	271,202	383,200
Impairment of contract assets (-)	(1,415)	(1,848)
Contract assets	269,787	381,352
Contract liabilities	251,625	173,499

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

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

(PLN ’000)

	December 31st 2019	*December 31st 2018*
Revenue initially agreed in contract	7,971,771	7,084,490
Change in contract revenue	42,339	90,726
Aggregate contract revenue	**8,014,110**	**7,175,216**
Contract costs incurred as at reporting date	5,673,184	4,280,233
Costs expected to be incurred by contract completion date	2,125,054	2,284,677
Estimated aggregate contract costs	**7,798,238**	**6,564,910**
Estimated aggregate profit/(loss) on contracts, including:	**215,872**	**610,306**
profit	431,683	665,896
loss (-)	(215,810)	(55,590)

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

	December 31st 2019	*December 31st 2018*
Advance payments received as at reporting date	177,222	137,246
Advance payments that can be set off against amounts due from customers for contract work	29,987	25,264
Contract costs incurred as at reporting date	5,712,182	4,284,312
Cumulative profit as at reporting date (+)	303,598	440,034
Cumulative loss as at reporting date (+)	(215,810)	(55,591)
Cumulative contract revenue as at reporting date	5,799,970	4,668,755
Amounts invoiced as at reporting date (progress billings)	5,605,335	4,321,807
Settlement of contracts (balance) as at the reporting date, including:	**194,635**	**346,948**
Contract assets less advance payments that can be offset	271,202	383,200
Contract liabilities	106,554	61,517

The Group 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 Group's key contracts, see the Directors' Report on the Group'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	381,352	251,283
Revenue charged in the reporting period to contract assets	121,220	93,237
Total revenue restatements charged to contract assets	50,298	(515)
Changes in impairment losses on contract assets	325	97,367
Reclassification to trade receivables (-)	(283,407)	(60,020)
Contract assets at end of period	**269,788**	**381,352**

(PLN ’000)

Contract liabilities:

	December 31st 2019	*December 31st 2018*
Contract liabilities at beginning of period	173,499	42,823
Performance obligations recognised in the reporting period as contract liabilities	59,286	54,464
Change in advance payments	42,656	97,852
Total revenue restatements charged to contract liabilities	1,917	1,725
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(25,733)	(23,365)
Contract liabilities at end of period	**251,625**	**173,499**

Disclosures concerning capitalised costs of obtaining and performing contracts are presented by the Company under ‘Short-term prepayments and accrued income’ (Note 29).

10.1. Key contracts executed by the Group

10.1.1. Jaworzno Project

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The final division of work within the consortium was agreed on August 4th 2013 based on the amendments made to the consortium agreement, which related to RAFAKO S.A. taking over 99.99% of the project deliveries (with 0.01% remaining for Mostostal Warszawa) and changing the distribution of consideration due to the consortium members to reflect the members’ actual shares in the project. The contract for the construction of the Jaworzno III power generation unit was concluded on April 17th 2014. The current contract price (following the execution of Annex 8) is PLN 4,547,681,345.64 (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 Group's liquidity, and enabled the Group to pay its subcontractors for the additional work under the contract.

Accounting for the Jaworzno Project:

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

For the purposes of the project, RAFAKO S.A. and E003B7 Sp. z o.o. signed agreements with financial institutions, under which the companies secured bank guarantees and insurance bonds required to deliver the project. The total value of the bonds and guarantees is PLN 587.5m. At the same time, RAFAKO S.A.'s and E003B7 Sp. z o.o.'s assets were pledged as security for these instruments. Given the arrangements with the guarantee providers, RAFAKO S.A. does not plan for E003B7 sp. z o.o. to pay any dividend before the expiry of the guarantee agreements as this could result in an adverse response from the guarantee providers.

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

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

Change in estimates for the Jaworzno Project

In the 12 months ended December 31st 2019, the parent and the subsidiary updated the estimated costs of the contract of April 17th 2014 with Nowe Jaworzno Grupa Tauron sp. z o.o. of Jaworzno for the construction of the supercritical 910 MW power generation unit at Jaworzno III Power Plant – Power Plant II, including the steam generator, turbine generator set, main building, electrical and I&C systems.

The change in the overall result on the contract for the 12 months ended December 31st 2019 was PLN -196.3m, reflecting change in the contract's total estimated revenue and costs , while the effect of the contract performance on the Group's consolidated result for the 12 months ended December 31st 2019 was PLN -154.8m. The deterioration in results is directly attributable to the extension of the contract completion deadline, as formalised in Annex 7 to the contract. In the course of negotiations, the parent obtained only just over 30% of the amount it requested to cover the costs of extending the completion date of the contract.

Work and analyses are under way to reduce the estimated adverse impact on the results. These efforts will mainly involve the enforcement of claims for extraordinary price increases against Nowe Jaworzno Grupa TAURON spółka z ograniczoną odpowiedzialnością of Jaworzno, of no less than PLN 67.8m, estimation and enforcement of claims against subcontractors, and a number of optimisation processes designed to reduce contract completion costs.

The result does not take into account the costs of the failure which occurred during the last phase of the tests before the unit is placed in service. Taking into account all circumstances associated with these events, the Management Board of the parent is of the view that both the 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.

10.1.2. Opole Project

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

The subsidiary E001RK Sp. z o.o. ("SPV-Rafako") was appointed by RAFAKO S.A. as its subcontractor 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 No. 5 and No. 6 were changed to June 15th 2019 and September 30th 2019, respectively. The Parent confirms that the commissioning deadline for the units has 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 Group's consolidated statement of comprehensive income.

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

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

10.1.3. Vilnius Project

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

The additional contract costs estimated by RAFAKO S.A. 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 parent's opinion, go beyond the project's scope, and longer than assumed execution of the project (through no fault of RAFAKO S.A.), due in particular to delays in the employer's performance under the contract resulting in delayed orders for deliveries and services, whose prices increased dramatically owing to the expiry of relevant bids. The parent also estimated additional costs related to changes in the contract's scope introduced by the employer, resulting in the need to perform some additional work.

The parent 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 December 31st 2019 was PLN (-)57.9m.

(PLN '000)

10.1.4. Kozienice Project

In the 12 months ended December 31st 2019, the Group 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 Group, amount to PLN 64,4m, 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 parent 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 performance on the Group's consolidated net profit or loss for the 12 months ended December 31st 2019 was PLN (-)64.5m.

10.2. Provision for contract losses

The Group 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 service contracts. Any change in provisions for expected losses increases or reduces the cost of sales under the contract to which the provision relates.

	December 31st 2019	*December 31st 2018*
Opening balance	3,678	15,461
Adjustment to opening balance	–	(1,754)
Opening balance after adjustment	3,678	13,707
Provision for the obligation	52,574	5,439
Reversal of provision for the obligation	–	–
Utilisation of provision for liability	(16,558)	(15,468)
Closing balance	**39,694**	**3,678**
Short-term as at	39,694	3,678
Long-term as at	–	–
	39,694	**3,678**

(PLN '000)

10.3. Provision for costs due to late contract completion

The Group 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 Group 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.

In the 12 months ended December 31st 2018, the Group utilised a provision of PLN 3,404 thousand for costs of late contract completion.

	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	–	–
	–	–

11. Revenue and operating segments

11.1. 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	73,788	44,086
Net revenue from sale of services	1,167,379	1,216,255
including: from related entities	2,328	4,847
Net revenue from sale of other goods	3,822	5,588
Other income	–	317
Exchange differences on trade receivables	(1,084)	154
Net revenue from sale of goods and services, total	**1,243,905**	**1,266,400**
including: from related entities	2,328	4,847

*For a detailed description of the provision for liquidated damages, affecting the Company's revenue, see Note 10.3.

In the 12 months ended December 31st 2019, the Group reported revenue of PLN 1,243,905 thousand , i.e. PLN 23,914 thousand less year on year.

The decrease was due mainly to the lower revenue from the Jaworzno 910 MW Project, which fell from PLN 649.2m in the 12 months ended December 31st 2018 to PLN 285.3m in 2019. At the same time, the parent's revenue increased PLN 643.3m to PLN 947.1m., the increase driven mainly by sales under the contract to construct a biofuel-fired co-generation unit for Lithuania's UAB VILNIAUS KOGENERACINĖ JĖGAINĖ, the contract to construct two steam generating units on the Lombok Island in Indonesia, and the commencement of work under significant contracts in the new oil and gas segment.

(PLN '000)

11.2. Revenue from sale of materials

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Revenue from sale of materials	999	2,418
including: from related entities	–	–
Net revenue from sale of merchandise and materials, total	**999**	**2,418**
including: from related entities	–	–

11.3. Revenue by geography

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Revenue from sales to domestic customers	784,006	987,689
including: from related entities	2,328	4,847
Revenue from sales to foreign customers	460,898	281,129
including: from related entities	–	–
Net sales revenue, total	**1,244,904**	**1,268,818**
including: from related entities	2,328	4,847

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

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*
Nowe Jaworzno Grupa TAURON Sp. z o.o.	23%	285,272
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	13%	163,803
UAB VILNIAUS KOGENERACINE JEGAINE	16%	205,268
Other	48%	590,561
Total	**100%**	**1,244,904**

Revenue from sales to related entities is presented in detail in Note 38.1 to these consolidated financial statements.

(PLN '000)

The Group's principal 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	348,137	163,261
Revenue under the Jaworzno 910 MW project	285,272	649,235
Air pollution control systems	252,639	270,191
Power equipment, machinery and components, and related services	207,301	139,146
Services and products for oil and gas sector	117,825	44,234
Other revenue	33,730	2,751
Total	**1,244,904**	**1,268,818**

11.4. Operating segments

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

The Group identifies the following operating segments:

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

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

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

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

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

(PLN '000)

12 months ended December 31st 2019 or as at December 31st 2019	*Power and environmental protection facilities*	*Products for oil and gas sector*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue						
Sales to external customers	1,105,544	131,503	15,291	1,252,338	(7,434)	1,244,904
Inter-segment sales	764	–	52,397	53,161	(53,161)	–
Total segment revenue	1,106,308	131,503	67,688	1,305,499	(60,595)	1,244,904
Cost of products and materials sold	(1,390,410)	(150,273)	(54,155)	(1,594,838)	62,635	(1,532,203)
Total						
Gross profit/(loss)	(284,102)	(18,770)	13,533	(289,339)	2,040	(287,299)
Other income/(expenses)	(114,696)	(16,257)	(15,397)	(146,350)	(3,912)	(150,262)
Operating profit/(loss)	(398,798)	(35,027)	(1,864)	(435,689)	(1,872)	(437,561)
Finance income/(costs)	(32,855)	13	(10,923)	(43,765)	5,652	(38,113)
Profit/(loss) before tax	(431,653)	(35,014)	(12,787)	(479,454)	3,780	(475,674)
Income tax	(5,368)	–	3,085	(2,283)	371	(1,912)
Segment's net profit/(loss)	(437,021)	(35,014)	(9,702)	(481,737)	4,151	(477,586)
Results						
Depreciation and amortisation	14,290	215	2,974	17,479	120	17,599
Share of profit of associates and joint ventures	–		–	–	–	–
Assets and liabilities as at December 31st 2019						
Segment assets	1,240,988	78,875	87,182	1,407,045	(104,614)	1,302,431
Segment liabilities	1,150,168	63,397	45,961	1,259,526	(71,358)	1,188,168
Other information						
Investments in associates and joint ventures	–	–	–	–	–	–
Capital expenditure	2,515	275	2,978	5,768	–	5,768

(PLN ’000)

12 months ended December 31st 2018 or as at December 31st 2018	*Power and environmental protection facilities*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Revenue					
Sales to external customers	1,228,677	45,538	1,274,215	(5,397)	1,268,818
Inter-segment sales	1,242	33,546	34,788	(34,788)	–
Total segment revenue	1,229,919	79,084	1,309,003	(40,185)	1,268,818
Cost of products and materials sold	(1,124,262)	(71,129)	(1,195,391)	45,288	(1,150,103)
Total					
Gross profit/(loss)	105,657	7,955	113,612	5,103	118,715
Other income/(expenses)	(65,279)	(8,208)	(73,487)	(4,697)	(78,184)
Operating profit/(loss)	40,378	(253)	40,125	406	40,531
Finance income/(costs)	3,821	229	4,050	(1,405)	2,645
Profit/(loss) before tax	44,199	(24)	44,175	(999)	43,176
Income tax	(9,805)	(92)	(9,897)	190	(9,707)
Segment's net profit/(loss)	34,394	(116)	34,278	(809)	33,469
Results					
Depreciation and amortisation	12,947	2,024	14,971	(146)	14,825
Share of profit of associates and joint ventures	–	–	–	–	–
Assets and liabilities as at December 31st 2018					
Segment assets	1,357,525	89,481	1,447,006	(89,485)	1,357,521
Segment liabilities	780,860	31,408	812,268	(52,082)	760,186
Other information					
Investments in associates and joint ventures	–	–	–	–	–
Capital expenditure	2,892	2,402	5,294	–	5,294

(PLN ’000)

12 months ended December 31st 2019	*Power and environmental protection facilities*	*Products for oil and gas sector*	*Other segments*	*Segments – total*	*Eliminations and unallocated items*	*Total*
Region						
Poland	655,657	128,949	60,153	844,759	(59,960)	784,799
European Union	333,343	2,554	6,130	342,027	–	342,027
Other countries	117,308	–	1,405	118,713	(635)	118,078
Total segment revenue	1,106,308	131,503	67,688	1,305,499	(60,595)	1,244,904
Term of the contract						
Short-term contracts	661,429	88,887	63,499	813,815	(60,595)	753,220
Long-term contracts	444,879	42,616	4,189	491,684	–	491,684
Total segment revenue	1,106,308	131,503	67,688	1,305,499	(60,595)	1,244,904

(PLN '000)

12. Operating income and expenses

12.1. Expenses by nature

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Depreciation and amortisation	17,599	14,825
Raw materials and consumables used	230,873	166,008
Services	1,052,373	847,121
Taxes and duties	8,757	6,929
Salaries and wages	158,813	152,387
Social security and other employee benefits	32,613	30,662
Business travel expenses	3,389	4,055
Advertising expenses	1,336	1,825
Foreign exchange differences	(1,292)	970
Cost of insurance	761	559
Other expenses	5,503	3,775
Total expenses by nature	**1,510,725**	**1,229,116**
Change in inventories, provisions, accruals and deferrals (including adjustment under IAS 11)	102,529	3,455
Cost of merchandise and materials sold	3,556	1,867
Work performed by entity and capitalised	(686)	(1,868)
	1,616,124	**1,232,570**
Selling expenses (negative value)	(22,884)	(24,414)
Administrative expenses (negative value)	(49,702)	(51,903)
Research and development costs (negative value)*	(11,335)	(6,151)
Cost of products and materials sold	**1,532,203**	**1,150,103**

The main reason behind the 2019 loss posted by the Group were the expenses already incurred and budgeted under the Jaworzno Project. The increase in those expenses was mainly attributable to the prolonged commissioning process, entailing postponed completion of the assembly, finishing work and supervision contracts. Also included were the expenses under new contracts to perform additional work for the project owner, beyond the scope of the master contract (the companies are in the process of negotiating an annex that would expand the scope of work under the contract). The increase in costs of products and materials sold was also attributable to an adjustment to the measurement of key long-term contracts, as described in detail in Note 10.1.

Selling expenses mainly comprise contract acquisition costs, including salaries and wages as well as promotion and advertising costs. The selling expenses recognised in the Group's comprehensive income for the 12 months ended December 31st 2019 (PLN 22,884 thousand) were primarily attributable to bid preparation costs.

The amount of administrative expenses in 2019 was PLN 49,702 thousand, i.e. PLN 2,201 thousand less year on year.

(PLN '000)

12.2. 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 materials sold)		
Depreciation of property, plant and equipment	11,784	10,297
Amortisation of intangible assets	1,237	1,238
Warranty provisions	2,598	(407)
Net foreign exchange gains/(losses)	(1,292)	970
Inventory write-downs	1,687	(818)
	16,014	**11,280**
Items recognised as selling expenses		
Depreciation of property, plant and equipment	428	445
Amortisation of intangible assets	75	90
	503	**535**
Items recognised as administrative expenses		
Depreciation of property, plant and equipment	2,457	2,467
Amortisation of intangible assets	241	288
	2,698	**2,755**
Items recognised as cost of technical progress		
Depreciation of property, plant and equipment	1,345	2,467
Amortisation of intangible assets	–	288
	1,345	**2,755**

12.3. Employee benefits expense

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Salaries and wages	158,813	152,386
Social security	31,808	30,324
Provision for retirement severance payments	1,663	704
Provision for long-service benefits	1,765	1,768
Accrued employees holiday provision	(73)	(1,226)
Provision for Voluntary Redundancy Programme	(145)	(1,452)
Provision for bonuses	(4,967)	(2,191)
Other costs related to employee benefits	2,831	431
	191,695	**180,744**
Items recognised as cost of sales (cost of merchandise and finished goods sold)	58,822	139,097
Items recognised as selling expenses	25,593	10,447
Items recognised as administrative expenses	107,280	31,201
	191,695	**180,744**

(PLN '000)

12.4. Other income

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Income from liquidated damages	359	260
Gain on sale of property, plant and equipment	680	914
Grants	1,366	1,291
Compensation received	531	474
Reversal of provision for other costs	298	2 813*
Reversal of restructuring provision and Voluntary Redundancy Programme provision	–	5,857
Impairment loss on assets, including:	1,128	–
- property, plant and equipment and intangible assets	163	–
- trade receivables	337	–
- other receivables	628	–
Other	1,507	1,123
	5,869	**12,732**

*In 2018, the parent reversed the provision for other costs as the statute of limitations had passed on a trading partner's claims.

12.5. Other expenses

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Loss on scraping of tangible assets	421	124
Donations and grants	1,648	339
Impairment loss on assets, including:	50,911	3,919
- property, plant and equipment and intangible assets	2,496	223
- trade receivables	12,300	3,189
- other receivables*	36,115	507
Repairs of property, plant and equipment	–	726
Scrapping of materials	658	569
Legal costs	204	17
Recognition of provision for future costs**	14,398	535
Other	3,970	2,220
	72,210	**8,449**

* In the 12 months ended December 31st 2019, the Group companies 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 parent 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 RAFAKO S.A.'s subcontractor, RAFAKO S.A. recognised a PLN 8,040 thousand provision towards claims of PBG S.A.'s subcontractors under joint and several liability.

(PLN '000)

13. Finance income and expenses

13.1. 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	8,627	6,871
Interest on security deposits provided	554	350
Net foreign exchange gains	–	1,054
Other revenue	113	195
	9,294	**8,470**

13.2. Finance costs

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Interest on financial instruments, including interest on bank loans and other borrowings, leases, and past due liabilities, measurement of long-term settlements	6,028	4,387
Interest on employee benefits	730	741
Other interest	6	9
Net foreign exchange losses	1,012	–
Recognition of provision for interest expense	6	64
Recognition of impairment losses on loans and accrued interest	11,541	460
Recognition of impairment losses on bonds	27,823	–
Other finance costs	261	164
	47,407	**5,825**

In the 12 months ended December 31st 2019, the parent 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 26.1

Subsidiaries also recognised impairment losses on loans (including accrued interest) to PBG S.A. w restrukturyzacji.

(PLN '000)

14. Income tax

14.1. Income tax expense

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

Continuing operations	*12 months ended December 31st 2019*	*12 months ended December 31st 2018*
Tax expense relating to continuing operations:		
Current tax	(1,423)	(8,273)
Current income tax expense	(1,423)	(8,590)
Adjustments to current income tax from previous years	–	317
Deferred tax	(489)	(1,434)
Related to recognition and reversal of temporary differences	20,944	(1,434)
Adjustments to deferred tax from previous years	–	–
Impairment loss on deferred tax assets	(21,433)	–
Income tax expense in the consolidated statement of profit or loss	**(1,912)**	**(9,707)**

Continuing operations	*12 months ended December 31st 2019*	*12 months ended December 31st 2018*
Deferred tax on other comprehensive income	1,307	812
Related to recognition and reversal of temporary differences	1,307	812
Income tax expense recognised in other comprehensive income	**1,307**	**812**

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

14.2. 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	(475,674)	43,176
Tax rate applied by the Group	19%	19%
Income tax calculated at the Group's tax rate	**(90,378)**	**8,203**
Reconciliation of income tax on account of:		
Non-taxable income (-)	(343)	(2,086)
Expenses which are permanently non-tax-deductible (+)	20,701	1,973
Unrecognised deferred tax asset on tax losses (+)	22,138	1,870
Unrecognised deferred tax asset on negative temporary differences (+)	29,807	–
Adjustment to tax expense for previous periods (+/-)	8,433	(323)
Impairment loss on deferred tax	13,000	–
Other items	(1,446)	70
Income tax	**(1,912)**	**9,707**
Average tax rate applied	0%	22%

(PLN '000)

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

Deferred income tax calculated as at December 31st 2019 and December 31st 2018 follows from the following items of the financial statements:

	Statement of financial position		*Statement of comprehensive income*	
	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	(14,183)	(14,661)	477	1,634
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,031	2,113	(1,082)	(872)
- difference between tax base and carrying amount of loans and receivables	6,610	4,779	1,829	695
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(41,302)	(69,638)	28,336	(2,408)
- difference between tax base and carrying amount of inventories	2,275	1,954	321	(156)
- provisions	22,752	15,162	7,591	(45,121)
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	74,208	76,200	(1,992)	45,287
- tax asset related to tax loss	223	16,625	(16,402)	(845)
- adjustment to costs of unpaid invoices	3,535	3,856	(321)	(712)
- other	8,957	5,466	3,493	1,876
Deferred tax expense/benefit disclosed in the statement of profit or loss			20,944	(1,434)
Deferred tax expense/benefit disclosed in other comprehensive income			1,307	812
Impairment loss on deferred tax	(21,433)	–	(21,433)	–
Net deferred tax asset/(liability) including:			**818**	**(622)**
Net deferred tax asset/(liability), including:	**42,672**	**41,854**		
Deferred tax assets	42,672	42,070		
Deferred tax liability	–	152		

In the 12 months ended December 31st 2019, the parent wrote off a tax loss asset of PLN 16,178 thousand. The total amount of tax loss for 2015–2018 and 2019 which was not recognised in deferred tax is PLN 307,440 thousand.

In the 12 months ended December 31st 2019, the Group analysed the recoverable amount of the deferred tax asset based on forecasts and budgets prepared for subsequent years and recognised a PLN 21,433 thousand impairment loss on deferred tax assets.

15. Recommendation of profit distribution for 2019

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

(PLN '000)

16. Earnings /(loss) per share

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

To calculate basic and diluted earnings/(loss) per share, the Group 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).

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	(477,586)	33,469
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(477,586)	33,469
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings per share	**(473,121)**	**33,585**
Weighted average number of outstanding ordinary shares used to calculate basic earnings 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 per share	127,431,998	127,431,998
Earnings/(loss) per share, PLN		
– basic earnings from profit attributable to holders of ordinary shares for period	(3.75)	0.26
– diluted earnings from profit attributable to holders of ordinary shares for period	(3.75)	0.26

The Group 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.

17. Significant items disclosed in the statement of cash flows

The PLN 113,100 thousand increase in receivables disclosed in the statement of cash flows for the 12 months ended December 31st 2019 resulted mainly from:

- PLN (187,588) thousand increase in trade receivables,
- PLN (776) thousand increase in receivables from the state budget (including VAT),
- PLN 19,699 thousand decrease in advance payments made,
- PLN 20,755 thousand decrease in security deposits receivable,
- PLN 34,840 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 28.

(PLN '000)

The PLN 288,916 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

- PLN 272,490 thousand increase in trade payables,
- PLN 2,699 thousand decrease in taxes and other duties payable,
- PLN 13,727 thousand increase in other liabilities.

The PLN 187,527 thousand change in gross amounts due to and from customers for contract work disclosed in the statement of cash flows resulted primarily from:

- PLN 111,565 thousand increase in amounts due from customers for contract work,
- PLN 78,126 thousand increase in gross amounts due to customers for contract work,

The PLN 37,908 thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN 2517 thousand increase in the provision for warranty repairs,
- PLN 36,016 thousand increase in the provision for expected contract losses,
- PLN (625) thousand change in accruals and deferrals,

The cash flows of PLN 3,235 thousand relating to purchase of property, plant and equipment and intangible assets included PLN 2,893 thousand incurred to purchase property, plant and equipment, and PLN 342 thousand incurred to purchase intangible assets.

18. Assets and liabilities of the Company Social Benefits Fund

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

	December 31st 2019	*December 31st 2018*
Assets of Social Benefits Funds at Group companies	1,073	2,087
Cash	617	1,639
Loans advanced to employees	456	448
Liabilities to Social Benefits Funds	(1,356)	(1,770)
Net balance	**(283)**	**317**

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
Contributions to the Social Benefits Fund during the reporting period	2,088	944
	2,088	**944**

(PLN '000)

19. Property, plant and equipment

December 31st 2019	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under constructio n*	*Total*
Net carrying amount as at January 1st 2019	**23,703**	**84,743**	**44,595**	**7,220**	**793**	**196**	**161,250**
Adjustment to opening balance following implementation of IFRS 16	–	–	(1,340)	(5,134)	(324)	–	(6,798)
Net carrying amount as at January 1st 2019	**23,703**	**84,743**	**43,255**	**2,086**	**469**	**196**	**154,452**
Transfers from property, plant and equipment under construction	–	96	246	–	–	(342)	–
Acquisitions	–	–	80	98	528	2,123	2,829
Lease agreements	–	–	–	–	–	–	–
Liquidation/sale	(65)	(695)	(177)	(98)	(69)	–	(1,104)
Exchange differences on translating foreign operations	–	–	–	–	(10)	–	(10)
Depreciation for period	–	(2,990)	(6,216)	(1,073)	(271)	–	(10,550)
Impairment loss for period	–	–	33	96	–	–	129
Other, including reclassification of property, plant and equipment to/from assets held for sale	(2)	(58)	53	1,623	–	–	1,616
Net carrying amount as at December 31st 2019	**23,636**	**81,096**	**37,274**	**2,732**	**647**	**1,977**	**147,362**
As at January 1st 2019							
Gross carrying amount	23,703	119,812	122,128	15,843	4,369	250	286,105
Accumulated depreciation and impairment**	–	(35,069)	(77,533)	(8,623)	(3,576)	(54)	(124,855)
Net carrying amount	**23,703**	**84,743**	**44,595**	**7,220**	**793**	**196**	**161,250**
As at December 31st 2019							
Gross carrying amount	23,636	118,525	119,947	10,802	4,075	2,031	279,016
Accumulated amortisation and impairment	–	(37,429)	(82,673)	(8,070)	(3,428)	(54)	(131,654)
Net carrying amount	**23,636**	**81,096**	**37,274**	**2,732**	**647**	**1,977**	**147,362**

*Tangible assets pledged as security for the Group's liabilities as at the reporting date are presented in Note 31.1

** 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*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under constructio n*	*Total*
Net carrying amount as at January 1st 2018	**23,759**	**87,741**	**50,059**	**8,160**	**961**	**254**	**170,934**
Transfers from property, plant and equipment under construction	–	57	627	–	–	(684)	–
Acquisitions	–	–	1,047	–	106	669	1,822
Lease agreements	–	–	179	2,392	187	–	2,758
Liquidation/sale	(52)	(33)	(316)	(403)	–	(43)	(847)
Exchange differences on translating foreign operations	–	–	(10)	2	(1)	–	(9)
Depreciation for period	–	(2,955)	(6,897)	(2,897)	(460)	–	(13,209)
Impairment loss for period	–	–	(51)	(114)	–	–	(165)
Other, including reclassification of property, plant and equipment to/from assets held for sale	(4)	(67)	(43)	80	–	–	(34)
Net carrying amount as at December 31st 2018	**23,703**	**84,743**	**44,595**	**7,220**	**793**	**196**	**161,250**
As at January 1st 2018							
Gross carrying amount	23,759	119,883	122,555	14,950	4,184	254	285,585
Accumulated amortisation and impairment	–	(32,142)	(72,496)	(6,790)	(3,223)	–	(114,651)
Net carrying amount	**23,759**	**87,741**	**50,059**	**8,160**	**961**	**254**	**170,934**
As at December 31st 2018							
Gross carrying amount	23,703	119,812	122,128	15,843	4,369	250	286,105
Accumulated amortisation and impairment	–	(35,069)	(77,533)	(8,623)	(3,576)	(54)	(124,855)
Net carrying amount	**23,703**	**84,743**	**44,595**	**7,220**	**793**	**196**	**161,250**

(PLN '000)

20. Leases

20.1. The Group 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	6,442	1,751	1,779
Plant and equipment	4,995	2,385	2,081
Vehicles	4,007	2,623	1,304
Other	107	511	217
Intangible assets	108	6	6
Total	**15,793**	**7,391**	**5,502**

In 2019, the most significant lease contracts were:

- 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 concluded on March 8th 2018 for a period of two years, and the Group as an option to purchase the asset upon contract expiry; the Group is required to insure the lease asset and maintain it in the working condition described in the contract.
- Lease of office space with social amenities, parking space, production hall and storage site, with a carrying amount of PLN 6,488 thousand as at the reporting date; the lease contract was concluded on March 30th 2018 for a period of 10 years, with no purchase option; the Group 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	16	0.1	8.25	1.1	15	–	–	13
Plant and equipment	19	0.2	4.8	1.3	2	17	4	5
Vehicles	77	0.1	3.75	2.2	2	76	–	51
Other	4	0.33	1.33	1	–	4	–	–
Intangible assets	1	4.8	4.8	4.8	1	–	–	1

In 2019, the Group 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 10 years. The Group 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	5,945	5,490
from 1 to 5 years	6,146	5,187
Over 5 years	2,604	2,402
Total minimum lease payments	**14,695**	**13,079**
Less finance costs	(1,616)	–
Present value of minimum lease payments, including:	**13,079**	**13,079**
short-term	5,490	5,490
long-term	7,589	7,589

In the 12 months ended December 31st 2019, interest expense related to leases was PLN 584 thousand.

The Group 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	5,972
Leases of low-value assets	–
Total	**5,972**

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 Group.

20.2. Finance leases (until 2018)

As a lessee, the Group 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	990	9,257	10,247
Accumulated amortisation and impairment	(252)	(3,473)	(3,725)
Net carrying amount	**738**	**5,784**	**6,522**
As at December 31st 2018			
Gross carrying amount	1,356	8,669	10,025
Accumulated amortisation and impairment	(582)	(3,881)	(4,463)
Net carrying amount	**774**	**4,788**	**5,562**

(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	2,723	2,306
from 1 to 5 years	2,738	2,546
Total minimum lease payments	**5,460**	**4,852**
Less finance costs	(609)	–
Present value of minimum lease payments, including:	**4,852**	**4,852**
short-term	2,306	2,306
long-term	2,546	2,546

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 Group.

21. Assets held for sale, unrelated to discontinued operations

As at December 31st 2019, the Group companies classified non-current assets worth PLN 123 thousand (December 31st 2018: PLN 175 thousand) as assets held for sale, unrelated to discontinued operations.

	December 31st 2019	*December 31st 2018*
Non-current assets held for sale, including:		
land	1	1
buildings and structures	19	11
plant and equipment	45	99
vehicles	58	64
	123	**175**

Most of the assets held for sale were sold in 2019. The Group companies expect to sell the remaining assets in 2020.

(PLN '000)

22. Intangible assets

December 31st 2019	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2019	**9,165**	**7,871**	**109**	**28**	**17,173**
Transfers from intangible assets under development	–	136	–	(136)	–
Acquisitions	–	76	–	304	380
Amortisation for the year	–	(1,491)	(57)	–	(1,548)
Impairment loss for period	(2,461)	–	–	–	(2,461)
As at December 31st 2019	**6,704**	**6,592**	**52**	**196**	**13,544**
As at January 1st 2019					
Gross carrying amount	9,207	28,209	374	28	37,818
Accumulated amortisation and impairment	(42)	(20,338)	(265)	–	(20,645)
Net carrying amount	**9,165**	**7,871**	**109**	**28**	**17,173**
As at December 31st 2019					
Gross carrying amount	9,208	28,424	374	196	38,202
Accumulated depreciation and impairment**	(2,504)	(21,832)	(322)	–	(24,658)
Net carrying amount	**6,704**	**6,592**	**52**	**196**	**13,544**

* Intangible assets pledged as security for the Group's liabilities as at the reporting date are presented in Note 31.2
** Impairment losses on intangible assets as at December 31st 2019 were PLN 2,462 thousand (December 31st 2018: nil), as described below in 'Test for goodwill impairment'.

December 31st 2018	*Goodwill*	*Patents and licences*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2018	**9,165**	**8,041**	**168**	**697**	**18,071**
Transfers from intangible assets under development	–	1,033	–	(1,033)	–
Acquisitions	–	354	–	364	718
Amortisation for the year	–	(1,557)	(59)	–	(1,616)
As at December 31st 2018	**9,165**	**7,871**	**109**	**28**	**17,173**
As at January 1st 2018					
Gross carrying amount	9,207	26,389	917	697	37,210
Accumulated amortisation and impairment	(42)	(18,348)	(749)	–	(19,139)
Net carrying amount	**9,165**	**8,041**	**168**	**697**	**18,071**
As at December 31st 2018					
Gross carrying amount	9,207	28,209	374	28	37,818
Accumulated amortisation and impairment	(42)	(20,338)	(265)	–	(20,645)
Net carrying amount	**9,165**	**7,871**	**109**	**28**	**17,173**

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

In 2019, goodwill changed and as at December 31st 2019 was PLN 6,704 thousand.

In 2018, goodwill did not change and as at December 31st 2018 amounted to PLN 9,165 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.

At the reporting date, an independent expert carried out an impairment test on goodwill from the acquisition of control over an organized part of the company by the subsidiary RAFAKO Engineering Sp. z o.o. The test was carried out using the income method based on the current value of estimated cash flows based on four-year forecasts and estimated residual value. Based on the results of the tests, an impairment loss of PLN 2,462 thousand on goodwill arising from the acquisition of the organised parts of the business was required.

Development work

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

23. 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 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%, and the recoverable amount of assets – 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 parent's assets.

(PLN '000)

Business combinations

No business combinations took place in the 12 months ended December 31st 2019 and December 31st 2018.

24. Shares

	December 31st 2019	*December 31st 2018*
Shares in listed companies	120	161
Shares in non-listed companies	1,376	1,227
	1,496	**1,388**

* Shares pledged as security for the Group's liabilities as at the reporting date are presented in Note 31.3

In the 12 months ended December 31st 2019, the parent purchased one share in InnoEnergy Central Europe Sp. z o.o. for PLN 147 thousand.

24.1. 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	(47)	(92)
- write-down reversed	–	61
- write-down used	–	29
At end of period	**(5,022)**	**(4,975)**

(PLN '000)

25. Other long-term receivables

	December 31st 2019	*December 31st 2018*
Financial receivables		
Security deposits	503	332
Other financial receivables	77,246	39,737
Impairment losses on financial receivables (-)	(107)	(123)
Total long-term receivables, net	**77,642**	**39,946**
Non-financial receivables		
Other non-financial receivables	138	450
Total non-financial receivables, net	**138**	**450**
Total long-term receivables, net	**77,780**	**40,396**

26. Other non-current financial assets

	December 31st 2019	*December 31st 2018*
Long-term bonds	–	14,066
	–	**14,066**

26.1. Bonds

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

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

On February 9th 2017, the Bonds were allotted to RAFAKO S.A. By the end of 2019, PBG S.A. redeemed Series B1, C1, D1, E1 and F1 bonds for a total amount of PLN 11,026,800.

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

(PLN '000)

As at the date of these consolidated 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
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 consolidated 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 of the parent 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 of the parent with respect to the collectability of the receivables, as at December 31st 2019 the parent 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%	

(PLN '000)

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

27. Inventories

	December 31st 2019	*December 31st 2018*
Materials (at net realisable value)	31,872	30,985
At cost	43,847	41,272
At net realisable value	31,872	30,985
Finished goods	1,155	3,168
At cost	1,155	3,168
At net realisable value	1,155	3,168
Total inventories, at the lower of cost and net realisable value	**33,027**	**34,153**

*Inventories pledged as security for the Group's liabilities as at the reporting date are presented in Note 31.4

27.1. Inventory write-downs

	12 months ended December 31st 2019	*12 months ended December 31st 2018*
At beginning of period	(10,287)	(11,105)
Recognition of impairment loss	(2,096)	(463)
Write-down reversed	90	383
Write-down used	318	898
At end of period	**(11,975)**	**(10,287)**

28. Short-term trade and other receivables

	December 31st 2019	*December 31st 2018*
Financial receivables		
Trade receivables	452,764	313,117
Impairment losses on trade receivables (-)	(13,674)	(24,090)
Net trade receivables	**439,090**	**289,027**
Receivables on sale of property, plant and equipment and intangible assets	8	303
Security deposits	67,710	88,636
Disputed receivables in litigation **	31,896	25,869
Other financial receivables	11,072	10,837
Impairment loss on financial receivables (-)	(33,648)	(24,189)
Total financial receivables, net	**516,128**	**390,483**

*Trade receivables pledged as security for the Group's liabilities as at the reporting date are presented in Note 31.5.

**The Group 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 38 to these consolidated financial statements.

(PLN '000)

	December 31st 2019	*December 31st 2018*
Non-financial receivables		
Receivables under prepayments and advance payments	105,919	125,618
Receivables from the state budget	13,498	12,722
Other non-financial receivables	11,849	6,820
Impairment loss on non-financial receivables (-)	(39,430)	(3,100)
Total non-financial receivables, net	**91,836**	**142,060**
Total short-term receivables, net	**607,964**	**532,543**

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

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

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

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

Short-term trade receivables of PLN 439,090 thousand recognised in the consolidated statement of financial position as at December 31st 2019 relate to trading contracts with domestic and foreign trading partners.

The security deposits of PLN 67,710 thousand disclosed in the consolidated 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 105,919 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.

(PLN '000)

28.1. Impairment losses on trade and other receivables

The Group tested receivables for impairment in accordance with the accounting policies applied, as described in Note 7.16 to these consolidated 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 10,432 thousand (2018: recognition of impairment losses for a total amount of PLN 2,446 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 recognised).

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 Group 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	(24,213)	(18,539)
Adjustment to opening balance	–	(3,228)
At beginning of period after adjustment	(24,213)	(21,767)
Allowances recognised as expense in period	(6,262)	(3,821)
Allowances reversed and recognised as income in period (-)	3,124	109
Allowances used (-)	13,570	1,266
At end of period	**(13,781)**	**(24,213)**

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
- impaired assets	–	593
At end of period	**(73,078)**	**(27,289)**

*In the 12 months ended December 31st 2019, the parent 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 parent also recognised an impairment loss of PLN 9,545 thousand on disputed receivables from a foreign trading partner.

(PLN '000)

29. Short-term accrued expenses and deferred income

	December 31st 2019	*December 31st 2018*
Accrued expenses and deferred income		
Costs of bank and insurance guarantees	6,333	8,452
Costs of obtaining contracts with customers	–	2,938
Expenditure on development work – eBus	13,436	6,174
Other costs	1,561	1,877
Accrued expenses and deferred income	**21,330**	**19,441**

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 IV.5. of the Directors' Report on the Group's operations in 2019.

30. Current financial assets

30.1. 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 26.1

(PLN ’000)

30.2. Loans

In the 12 months ended December 31st 2019, the RAFAKO Group recognised impairment losses on loans advanced to PBG S.A. (formerly PBG oil & gas Sp. z o.o.). The reason for recognition of impairment losses is PBG S.A.'s financial condition.

Loans	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Receivables under advanced loans*	
						December 31st 2019	*December 31st 2018*
Short-term loans							
PBG S.A. *	Blank promissory note with a promissory note declaration	PLN 10.5m cash loan to finance day-to-day operations	PLN	1M WIBOR + margin	31-12-2019	–	10,302
PBG S.A. *	Blank promissory note	PLN 1m cash loan to finance day-to-day operations	PLN	1M WIBOR + margin	31-12-2019	–	1,049
						–	**11,351**

* former PBG oil & gas Sp. z o.o.

(PLN '000)

30.3. Cash and cash equivalents

	December 31st 2019	*December 31st 2018*
Cash at bank and in hand	62,625	88,090
Short-term deposits for up to 3 months, including:	3,457	602
- deposits pledged as security for contingent liabilities		
	66,082	**88,692**

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 Group's immediate cash requirement, and earn interest at rates agreed with the bank.

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

As at December 31st 2019, cash included restricted cash of PLN 40.1m (December 31st 2018: PLN 79.5m), which comprised cash held by the subsidiary E003B7 Sp. z o.o. and earmarked for the Jaworzno contract, which from the RAFAKO Group's perspective is restricted due to formal arrangements with the institutions which provide financing for the Jaworzno project.

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

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

31.1. Property, plant and equipment pledged as security

As at December 31st 2019, property, plant and equipment pledged as security for liabilities amounted to PLN 123,565 thousand. The parent's property, plant and equipment of PLN 122,376 thousand are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, 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).A subsidiary's buildings and structures worth PLN 1,184 thousand, as well as IT equipment and office containers worth PLN 5 thousand are also pledged as security for liabilities under the credit facility agreements.

(PLN '000)

	December 31st 2019	*December 31st 2018*
Mortgaged property, plant and equipment, including:	84,278	89,469
land	9,162	9,162
buildings and structures	75,116	80,307
Property, plant and equipment encumbered with registered pledge, including:	39,287	43,940
plant and equipment	36,885	42,740
vehicles	2,402	1,200
	123 565*	**133 409***

* The disclosed amounts include PLN 123 thousand of property, plant and equipment classified as held for sale (December 31st 2018: PLN 163 thousand), presented in Note 21.

31.2. Intangible items pledged as security

As at December 31st 2019, intangible assets worth PLN 8,097 thousand were pledged as security for the parent's liabilities (December 31st 2018: PLN 9,339 thousand). The intangible assets 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 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).

31.3. Shares pledged as security

As at December 31st 2019, shares with a total 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. (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 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).

The year-on-year decrease in the carrying amount of shares in the 12 months ended December 31st 2019 was attributable to the recognition by the parent of impairment losses on shares in a subsidiary, as discussed in more detail in Note 25.1 to the full-year financial statements of RAFAKO S.A. for 2019.

31.4. 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 29,390 thousand). The inventories 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 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).

31.5. 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).

32. Equity

32.1. Share capital

In the 12 months ended December 31st 2019, there were no changes in the parent’s share capital, and as at December 31st 2019 its amount 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 parent’s main shareholder, a registered pledge was created over RAFAKO S.A. shares held directly by PBG S.A. (7,665,999 shares) and indirectly through Multaros Trading Company Limited, a subsidiary of PBG S.A. w restrukturyzacji (34,800,001 shares) for the benefit of bondholders.

32.2. Par value per share

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

32.3. Shareholders’ rights

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

32.4. 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.

In the 12 months ended December 31st 2018, the share premium changed due to the coverage of loss brought forward, and as at December 31st 2019 stood at PLN 165,119 thousand.

32.5. Dividends paid

No dividends were paid by the Group companies in the 12 months ended December 31st 2019 and December 31st 2018.

(PLN '000)

32.6. Capital management

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

	December 31st 2019	*December 31st 2018*
Debt to equity		
Equity	114,263	597,399
Borrowed funds (bank and non-bank borrowings)	113,075	103,568
Total equity and liabilities	1,302,431	1,357,585
Capitalisation ratio (equity / total assets)	**0.09**	**0.44**
Total financing sources		
Equity	114,263	597,399
Borrowed funds (bank and non-bank borrowings)	113,075	103,568
Leases	13,079	4,852
Capital-to-total financing sources ratio	**0.91**	**5.51**
EBITDA		
Operating profit/(loss)	(437,561)	40,531
Depreciation and amortisation	17,599	14,825
EBITDA	**(419,962)**	**55,356**
Debt		
Borrowings and other debt instruments	113,075	103,568
Leases	13,079	4,852
Debt to EBITDA	**(0.30)**	**1.96**

32.7. Non-controlling interests

	December 31st 2019	*December 31st 2018*
Opening balance	8,520	8,628
Profit/loss for reporting period	(4,465)	(117)
Other comprehensive income for period	(36)	9
Changes of equity structure at subsidiaries	–	–
Closing balance	**4,019**	**8,520**

(PLN '000)

32.8. Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO (the parent) 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)

33. Bank and other borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*December 31st 2019*	*December 31st 2018*
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	current account overdraft facility of up to PLN 70m***	PLN	1M WIBOR + margin	June 30th 2020****	69,569	60,081
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility of up to PLN 80m***	PLN	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*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility to cover liabilities related to payments made under bank guarantees	PLN	1M WIBOR + margin	June 30th 2020****	8,303	–

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

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

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

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

(PLN ’000)

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*December 31st 2019*	*December 31st 2018*
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, mortgages, assignment of claims under insurance policy	PLN 1m overdraft facility	PLN	1M WIBOR + margin	September 4th 2020	936	892
Podkarpacki Bank Spółdzielczy	blank promissory note, power of attorney over bank account, statements on submission to enforcement, mortgages, assignment of claims under insurance policy	PLN 2m working capital facility agreement	PLN	1M WIBOR + margin	November 10th 2020	56	1,750
Siemens Finance Sp. z o.o.	blank promissory note	Loan agreement	PLN	1M WIBOR + margin	July 15th 2021	38	35
						113,051	**103,507**

The parent plans to extend the credit facility agreement for subsequent periods. The Group's credit standing should be analysed taking into account the information presented in Note 6.

34. Employee benefit obligations

34.1. Post-employment and other benefits

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

	December 31st 2019	*December 31st 2018*
As at January 1st	26,207	23,304
Interest expense	729	741
Current service costs	692	531
Actuarial (gains)/losses	6,877	4,275
Cost of benefits paid	(2,564)	(2,644)
Adjustment to the provision, related to the Voluntary Redundancy Programme	–	–
Closing balance	**31,941**	**26,207**
Long-term provisions	29,475	23,590
Short-term provisions	2,466	2,617

The main assumptions adopted by the actuary as at December 31st 2019 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)

34.2. Long-term employee benefit obligations and provisions

	December 31st 2019	*December 31st 2018*
Obligations under voluntary redundancy programme	–	–
Unpaid bonus accrual	5	13
Provisions for retirement severance payments	8,716	6,946
Provision for long-service benefits	13,944	12,198
Provision for other employee benefits	6,815	4,447
	29,480	**23,604**

34.3. Short-term employee benefit obligations and provisions

	December 31st 2019	*December 31st 2018*
Social security	9,494	9,036
Salaries and wages payable	9,118	8,491
Obligations under Employee Capital Plans	226	–
Obligations under voluntary redundancy programme	–	145
Accrued holiday entitlements	4,129	4,202
Unpaid bonus accrual	883	5,712
Provisions for retirement severance payments	433	541
Provision for long-service benefits	1,771	1,754
Provision for other employee benefits	270	328
	26,324	**30,209**

35. Trade and other payables

35.1. Other non-current liabilities

	December 31st 2019	*December 31st 2018*
Financial liabilities		
Amounts payable for tangible and intangible assets	–	–
Retentions (security deposits)	43	19
Other liabilities	20,552	12,921
Total financial liabilities	**20,595**	**12,940**

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

35.2. Other long-term provisions

	December 31st 2019	*December 31st 2018*
Provision for warranty repairs	36,357	30,228
	36,357	**30,228**

(PLN '000)

35.3. Short-term provisions, trade and other payables

	December 31st 2019	*December 31st 2018*
Financial liabilities		
Trade payables	571,365	306,511
Amounts payable for tangible and intangible assets	169	704
Retentions (security deposits)	261	271
Other financial liabilities		199
Total financial liabilities	**571,795**	**307,685**
Non-financial liabilities		
Taxes and other duties payable	23,924	21,225
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	3,968	3,742
Total non-financial liabilities	**56,860**	**34,823**
	628,655	**342,508**

As at December 31st 2019, the Group estimated the provision for surety at PLN 7,344 thousand.
The parent entered into a contract for the construction of a gas pipeline, where PBG S.A. w restrukturyzacji acted as the parent's subcontractor. Under joint and several liability, the parent recognised a PLN 8,040 thousand liability on account of claims of PBG S.A.'s subcontractors.

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

35.4. Other short-term provisions

	December 31st 2019	*December 31st 2018*
Provision for warranty repairs	6,714	10,326
Provision for expected contract losses	39,695	3,678
Other provisions	713	1,147
	47,121	**15,151**

35.5. Liabilities under financial derivatives

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

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

As at December 31st 2019, the Group companies had commitments to purchase property, plant and equipment of PLN 169 thousand (December 31st 2018: PLN 1,024 thousand).

(PLN '000)

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

35.7.1. 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	4,202	5,428
Provision for the obligation	748	1,134
Cost of benefits paid	(821)	(2,360)
Reversal of provision for the obligation	–	–
Closing balance	**4,129**	**4,202**
Short-term as at	4,129	4,202
Long-term as at	–	–
	4,129	**4,202**

35.7.2. Unpaid bonus accrual

The parent 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 full-year financial statements of the Group, the Management Board, upon consultation with the Trade Unions, makes a decision as to the payment of a discretionary bonus to the Group employees. During the financial year, the Group recognises an accrual for the annual bonus in the amount provided for in the CBA, unless management boards of individual Group companies decide not to recognise the accrual. The parent also recognises an accrual for bonuses to project managers, which are paid upon completion of contracts.

	December 31st 2019	*December 31st 2018*
Opening balance	5,725	7,916
Provision for the obligation	415	8,855
Cost of benefits paid	(4,931)	(379)
Reversal of provision for the obligation	(321)	(10,667)
Closing balance	**888**	**5,725**
Short-term as at	5	5,712
Long-term as at	883	13
	888	**5,725**

(PLN ’000)

35.7.3. Provision for warranty repairs

Provisions for warranty repairs are recognised based on probability-weighted costs of running contracts assessed by the Management Boards of Group Companies. 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	40,554	15,848
Adjustment to opening balance		25,112
Opening balance after adjustment	40,554	40,960
Provision for the obligation	15,464	17,550
Costs of warranty repairs incurred	(9,484)	(12,158)
Reversal of provision for the obligation	(3,463)	(5,798)
Closing balance	**43,071**	**40,554**
Short-term as at	6,714	10,326
Long-term as at	36,357	30,228
	43,071	**40,554**

35.7.4. 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 parent’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 in the programme. 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)

35.7.5. Restructuring provision

In 2017, the parent's Management Board decided to commence the next stage of RAFAKO S.A.'s organisational restructuring. The restructuring is in particular designed to reduce the parent'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. The parent recognised a restructuring provision of PLN 8,368 thousand, including severance payments, compensations for lost length-of-service awards, 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	–	–
	–	–

35.8. Income tax payable

	December 31st 2019	*December 31st 2018*
Corporate income tax	156	1,365
	156	**1,365**

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 Group.

In 2019, no tax inspections were carried out at the subsidiaries.

In the 12 months ended December 31st 2018, a customs and tax inspection commenced at the parent 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 consolidated financial statements, the audit had not been completed.

In the 12 months ended December 31st 2018, VAT inspections were carried out at one of the subsidiaries with respect to intra-community transactions – the subsidiary submitted a detailed list of intra-community acquisitions. The discrepancies in the manner of presenting and VAT taxation of the transactions were explained and the inspections were closed.

(PLN '000)

In the 12 months ended December 31st 2018, a customs and tax inspection was carried out at one of the subsidiaries regarding corporate income tax for 2016. Following the inspection, a report dated September 27th 2018 was issued requiring the subsidiary to adjust the CIT tax base for 2016 and 2017 as a result of understated revenue in 2016.

36. 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.
- 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**

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

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

38. Litigation and disputes

38.1. Court proceedings against Mostostal Warszawa S.A.

On October 11th 2016, the parent 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.

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

On March 20th 2017, the parent 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 RAFAKO 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 S.A. considers the claim to be well-founded and, to support it, the parent 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 parent'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 parent 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 RAFAKO S.A. 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 RAFAKO S.A., in the opinion of the parent's Management Board as at the date of these consolidated financial statements the risk of non-recovery of the above receivables in the disclosed net amount is marginal.

38.3. Dispute with Wärtsilä Finland Oy (Customer)

On March 29th 2018, the parent 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 parent about it having exercised the right of substitute performance with respect to the construction of the steel part of the LNG storage tank, citing failure by RAFAKO S.A. 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 parent 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 of RAFAKO S.A. with any technical documentation related to the above scope of work, thus preventing the parent 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 parent 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 of the parent 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.

38.4. 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 parent demanded payment of PLN 2,429 thousand in interest, citing incorrect invoices issued by the respondent that prevented the parent 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 parent.

38.5. 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 4,664,377.56 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 consolidated financial statements, no hearing date was set.

38.6. 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 S.A. 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 parent, and therefore RAFAKO S.A. maintains that the claim is without merit. As at the date of preparation of these consolidated financial statements, no hearing date was set.

38.7. 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.

(PLN ’000)

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

As at the date of preparation of these consolidated financial statements, the parent 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. At present, the parent is preparing an action to challenge the validity of the claim for damages.

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 parent 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.

39. Changes in off-balance sheet items

	December 31st 2019	*December 31st 2018*
Off-balance sheet items under bank guarantees obtained mainly as security for performance of contracts, including:	701,105	721,149
- from related entities	–	–
Receivables under sureties received, including:	–	566
- from related entities	–	566
Promissory notes received as security, including:	65,997	57,198
- from related entities	48,625	55,605
Letters of credit	5,643	–
	772,745	**778,913**

	December 31st 2019	*December 31st 2018*
Off-balance sheet items under bank guarantees issued mainly as security for performance of contracts, including:	515,074	419,849
- to related entities	–	–
Liabilities under sureties, including:	1,175,587	1,237,935
- to related entities	–	–
Promissory notes issued as security, including:	117,868	38,136
- to related entities	576	–
Letters of credit	–	–
	1,808,529	**1,695,920**

In the 12 months of 2019, the RAFAKO Group’s contingent liabilities grew by PLN 112,609 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 of 2019, the Group's contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 6,168 thousand, including a PLN 20,044 thousand decrease in receivables under bank and insurance guarantees, a PLN 5,643 thousand increase in letters of credit, and a PLN 8,799 thousand increase 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.

40. Guarantees provided by the Group

As at December 31st 2019, the Group carried contingent liabilities under bank and insurance guarantees with a total amount of PLN 515,074 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	77,756	performance bond, warranty bond, advance payment guarantee
7.	HSBC	50,726	performance bond, warranty bond, advance payment guarantee, bid bond
8.	InterRisk	32,020	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	75,978	performance bond, warranty bond, advance payment guarantee, payment guarantee
13.	TUW PZUW	2,107	advance payment guarantee
14.	UNIQA	5,816	performance bond, warranty bond, advance payment guarantee
15.	WARTA	2,120	performance bond, warranty bond
	TOTAL	**515,074**	

In most cases, the insurers' claims under the provided guarantees are secured by blank promissory notes with promissory note declarations, while the banks' claims are secured mainly with the security provided under the multi-purpose credit facility agreement, voluntary submissions to enforcement, blank promissory notes with promissory note declarations, and cash security deposits.

41. Group's parent

RAFAKO is the parent of the RAFAKO Group.

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

As at December 31st 2019, PBG S.A. w restrukturyzacji of Wysogotowo held 33.33% of ordinary shares in the parent (6.02% of shares held directly, and 27.31% of shares held indirectly).

(PLN '000)

42. Joint ventures

The Group is not engaged in any joint ventures.

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 boards of Group companies. The Group's other key related parties include PBG S.A. w restrukturyzacji.

Outstanding balances of receivables and liabilities are usually settled in cash. For information on contingent liabilities associated with related parties, see Note 39.

In the 12 months ended December 31st 2019, the parent and its subsidiaries did not enter into any material transactions with related parties on non-arm's length terms. All transactions with related parties are executed on terms applied by the Group in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are applied. A related party must ensure that a contract is performed in accordance with the relevant documentation, give a warranty for a specified period, and provide security in the form of a performance bond. Related parties are also required to accept standard liquidated damages clauses, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

The following amounts of revenue and receivables from related parties were recognised in the period covered by these consolidated 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:	2,221	4,859
Entities related through personal links:	225	128
TOTAL	**2,446**	**4,987**

	Receivables	
	December 31st 2019	*December 31st 2018*
Sales to:		
Entities related through equity links:	39,126	62,447
Entities related through personal links:	127	511
TOTAL	**39,253**	**62,958**

* Including bonds from PBG S.A. described in Note 26.1

(PLN '000)

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

	Purchases (costs, assets)	
	from January 1st 2019 to December 31st 2019	*from January 1st 2018 to December 31st 2018*
Purchases from:		
Entities related through equity links:	61,536	39,827
Entities related through personal links:	22,235	24,681
TOTAL	**83,771**	**64,508**

	Liabilities	
	December 31st 2019	*December 31st 2018*
Purchases from:		
Entities related through equity links:	241	415
Entities related through personal links:	6,506	3,738
TOTAL	**6,747**	**4,153**

43.1. 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 management or supervisory boards of the Group companies.

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

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

The Group does not operate any employee stock option programme.

43.3. Transactions with key management personnel of the Group

The Group'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)*	8,018	7,632
Long-service benefits	–	67
Termination benefits	104	82
Other employee benefits	–	–
Other remuneration	246	67
Total cost of the remuneration paid to key management staff	**8,368**	**7,848**

* In 2018, under this item the parent 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, parent changed the presentation of this item which now includes short-term employee benefits paid to members of the Management Board and Supervisory Board only.

(PLN ’000)

For detailed information on remuneration paid to members of the parent's Management Board and Supervisory Board, see Notes 43.5 and 43.6.

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

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

43.4. Shares held by members of management and supervisory bodies

The table below presents the number of shares in the parent or parent’s related parties held by the management and supervisory staff 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

43.5. Remuneration of members of the parent’s Management Board

Total amount of remuneration and other benefits paid to members of the parent’s Management Board:

	at the parent		*at subsidiaries*		*TOTAL*
	Remuneration	*Other benefits*	*Remuneration*	*Other benefits*	
January 1st–December 31st 2019					
Jarosław Dusiło	400	18	555	345	1,318
Agnieszka Wasilewska-Semail	710	57	307	180	1,254
Jerzy Wiśniewski	420	–	236	360	1,016
Helena Fic	164	2	52	–	218
Ciechanowski Jerzy	200	17	70	–	287
Karney Jerzy	40	–	–	–	40
Jarczewski Paweł	66	–	18	–	84
Drozd Jacek	15	–	–	–	15
TOTAL	**2,015**	**94**	**1,238**	**885**	**4,232**

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	at the parent		at subsidiaries		
	Remuneration	Other benefits	Remuneration	Other benefits	TOTAL
January 1st–December 31st 2018					
Krzysztof Burek	85	24	246	120	475
Jarosław Dusiło	600	26	588	356	1,570
Edward Kasprzak	466	69	596	379	1,510
Tomasz Tomczak	498	27	246	120	891
Agnieszka Wasilewska-Semail	720	128	327	157	1,332
Karol Sawicki	415	15	34	–	464
Jerzy Wiśniewski	123	–	360	360	843
TOTAL	**2,907**	**289**	**2,397**	**1,492**	**7,085**

43.6. Remuneration of the parent's Supervisory Board members

Total amount of remuneration and other benefits paid to members of the parent's Supervisory Board:

	at the parent		at subsidiaries		
	Remuneration	Other benefits	Remuneration	Other benefits	TOTAL
January 1st–December 31st 2019					
Krzysztof Gerula	108	–	–	–	108
Przemysław Schmidt	144	108	–	–	252
Szyszka Adam	108	162	–	–	270
Michał Sikorski	–	–	–	–	–
Karney Jerzy	9	–	–	–	9
Maćkowiak Michał	21	–	–	–	21
Małgorzata Wiśniewska	229	243	176	75	723
Dariusz Szymański	97	98	–	–	195
Helena Fic	160	–	–	–	160
TOTAL	**876**	**611**	**176**	**75**	**1,738**

	at the parent		at subsidiaries		
	Remuneration	Other benefits	Remuneration	Other benefits	TOTAL
January 1st–December 31st 2018					
Małgorzata Wiśniewska	128	241	73	63	504
Jerzy Wiśniewski	199	500	–	–	699
Dariusz Szymański	108	9	–	–	117
Krzysztof Gerula	108	–	–	–	108
Przemysław Schmidt	144	9	–	–	153
Adam Szyszka	108	14	–	–	122
Michał Sikorski	–	–	–	–	–
Helena Fic	41	–	–	–	41
TOTAL	**836**	**773**	**73**	**63**	**1,744**

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

The Group has not published any forecasts for 2019.

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

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

The Group's key financial risk is liquidity risk; see Note 6

In 2019, the parent was party to a PLN 70m overdraft facility agreement and a PLN 1m credit facility agreement with PKO BP S.A. Additionally, one of the subsidiaries was party to a PLN 1,396 thousand overdraft facility agreement with Podkarpacki Bank Spółdzielczy. Therefore, the Group is exposed to interest rate risk that will impact the amount of finance costs paid by the Group in subsequent periods. However, the exposure to interest rate risk decreased as the nominal amount of the credit facility contracted by the parent was reduced. Moreover, the credit facility's reference interest rate remained relatively low and constant.

Other types of financial risks to which the Group was exposed in the reporting period and continues to be exposed to currently are currency risk and interest rate risk. An overview of the risks is presented in Notes 46.1 and46.2.

The accounting policies applied by the Group with respect to derivative instruments are discussed in Note 7.15

46.1. Currency risk

Currency risk is a significant financial risk for the Group. The source of the risk are exchange rate movements, causing uncertainty as to the level of future cash flows denominated in foreign currencies. The Group'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 35.4% of the Group's invoiced revenue was denominated in foreign currencies, primarily the euro.

The Group's currency risk management strategy provides for the use of natural hedging to the largest possible extent. The Group 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 Group did not have any open hedging positions.

In view of the choices made by employers in material tenders and the expectation that the Group will evolve from net exporter to net importer in terms of its currency exposure, the Group did not enter into any new foreign currency sale contracts under its currency risk hedging policy. Once the final tender awards are known, the Group will review its currency positions and decide whether to enter into any hedging transactions.

	Amount in foreign currency ('000)									*Translated amount*
	EUR	*USD*	*GBP*	*CHF*	*SEK*	*TRY*	*HUF*	*RSD*	*SGD*	
December 31st 2019										
Financial assets (+):										
Loans	–	–	–	–	–	–	–	–	–	–
Trade receivables and other financial receivables	32,728	–	2	–	–	–	65,523	8,114	–	140,216
Other financial assets	–	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	2,718	1		–	1	–	42,029	6,809	–	12,368
Financial liabilities (-):										
Borrowings and other debt instruments	–	–	–	–	–	–	–	–	–	–
Leases	–	–	–	–	–	–	–	–	–	–
Trade payables and other financial liabilities	(27,791)	(155)	(3)	(16)	–	–	(47,437)	(762)	(54)	(119,895)
Total exposure to currency risk	**7,655**	**(154)**	**(1)**	**(16)**	**1**	–	**60,115**	**14,161**	**(54)**	**32,689**
December 31st 2018										
Financial assets (+):										
Loans	–	–	–	–	–	–	–	–	–	–
Trade receivables and other financial receivables	17,911	1	174	–	–	–	36,060	18,384	–	78,898
Other financial assets	–	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	546	20	1	–	1	–	125,005	19,834	–	4,825
Financial liabilities (-):										
Borrowings and other debt instruments	–	–	–	–	–	–	–	–	–	–
Leases	–	–	–	–	–	–	–	–	–	–
Trade payables and other financial liabilities	(9,322)	(198)	(1)	(8)	–	–	(267,066)	(248)	(148)	(44,574)
Total exposure to currency risk	**9,135**	**(177)**	**174**	**(8)**	**1**	–	**(106,001)**	**37,970**	**(148)**	**39,149**

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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, USD, HUF, TRY and SGD exchange rates, ceteris paribus.

	Increase/ /decrease in exchange rate	*Effect on profit/(loss) before tax*	*Effect on net profit/loss*
December 31st 2019 – EUR	+10%	766	620
	-10%	(766)	(620)
December 31st 2019 – SGD	+10%	(5)	(4)
	-10%	5	4
December 31st 2019 – USD	+10%	(15)	(12)
	-10%	15	12
December 31st 2019 – HUF	+10%	60	49
	-10%	(60)	(49)
December 31st 2018 – EUR	+10%	914	740
	-10%	(914)	(740)
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%	(18)	(15)
	-10%	18	15
December 31st 2018 – HUF	+10%	(106)	(86)
	-10%	106	86

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 Group’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 Group companies were parties to credit facility agreements, 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 Group on its deposits.

Sensitivities to such changes are analysed in the table below.

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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, lease payments). The effect on the Group's equity is not presented.

	Increase/ decrease (percentage points)	**Effect on profit/(loss) before tax**
Period ended December 31st 2019		
PLN	+ 1%	4,331
EUR	+ 1%	233
HUF	+ 1%	8
PLN	- 1%	(4,331)
EUR	- 1%	(233)
HUF	- 1%	(8)
Period ended December 31st 2018		
PLN	+ 1%	2,455
EUR	+ 1%	732
HUF	+ 1%	5
GBP	+ 1%	8
PLN	- 1%	(2,455)
EUR	- 1%	(732)
HUF	- 1%	(5)
GBP	- 1%	(8)

46.3. Commodity price risk

The Group 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 Group 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 Group's supplier base was highly fragmented as none of the suppliers represented more than 10% of the total value of purchases.

The Group 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 Group purchases goods and services both from domestic suppliers (75% of total purchases) and foreign suppliers (25%), and therefore the Group is exposed to currency risk, as described in more detail in Note 46.1

46.4. Credit risk

The RAFAKO Group's exposure to credit risk is closely related to the principal business activities of the Group companies. 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 Group's business. However, the Group 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 Group − 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 Notes 38 and 26.

The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 7.16 7.16 to these consolidated financial statements. Items in respect of which the debtor is in default as described above are treated by the Group as credit impaired financial assets.

The Group applies a general model to receivables under loans and bonds. In the general model, the Group 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 Group 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 Group used ratings provided by BISNODE Polska sp. z o.o. (since 2002, the strategic partner of Dun & Bradstreet, a global business information provider).

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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 Group in respect of performance of contracts for the Group 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 Group is exposed to credit risk related to a single major counterparty. As the contracts have been secured through public procurement, the Group 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 Group 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 Group 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 Group recognises allowances for the full amount of expected credit losses.

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

		Trade receivables						
	Contract assets	Current	0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
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	271,203	301,429	3,249	11,488	8,675	1,046	7,552	604,642
Impairment loss	(1,415)	(1,097)	(395)	(159)	(2,171)	(861)	(7,493)	(13,591)
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	**(1,415)**	**(1,706)**	**(425)**	**(260)**	**(2,379)**	**(1,178)**	**(7,726)**	**(15,089)**

(PLN '000)

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

As at December 31st 2019, an impairment loss of PLN 110,686 thousand was recognised on other financial receivables with a gross carrying amount of PLN 33,648 thousand (December 31st 2018: a PLN 125,645 thousand impairment loss on other receivables with a gross carrying amount of PLN 24,189 thousand).

46.5. Liquidity risk

The Group is exposed to liquidity risk, i.e. the risk of losing ability to timely meet its financial liabilities. The Group 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 Group's financial liquidity in 2019 is discussed at length (in the context of the going concern uncertainties) in Note 6 to these consolidated financial statements.

(PLN '000)

The table below presents the Group'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	–	–	113,051	24	–	113,075	113,075
Lease liabilities	–	1,495	4,415	5,859	2,604	14,373	13,079
Trade and other payables	137,330	285,845	119,427	48,970	2,028	593,600	592,391
	137,330	**287,340**	**236,893**	**54,853**	**4,632**	**721,048**	**718,545**

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	–	–	103,507	61	–	103,568	103,568
Lease liabilities	–	674	1,632	2,546	–	4,852	4,852
Trade and other payables	52,017	226,118	6,158	35,224	2,028	321,545	320,625
	52,017	**226,792**	**111,297**	**37,831**	**2,028**	**429,965**	**429,045**

(PLN ’000)

47. Derivative instruments

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

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

48. Financial instruments

48.1. Carrying amounts of various classes and categories of financial instruments

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

The amount of financial assets presented in the consolidated 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).

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

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	**659,854**	**552,148**
Bonds	–	21,675
Trade receivables	516,230	328,642
Receivables on sale of property, plant and equipment and intangible assets	8	303
Other financial receivables*	77,534	101,485
Loans advanced	–	11,351
Cash and cash equivalents	66,082	88,692
	661,350	**552,309**

* 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 amortised cost	**705,466**	**424,193**
Borrowings	113,075	103,568
Trade payables (including capital commitments)	592,086	320,131
Other financial liabilities	305	494
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**13,079**	**4,852**
Liabilities under leases and rental contracts with purchase option	13,079	4,852
	718,545	**429,045**

As at December 31st 2019 and December 31st 2018, the Group 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 Group'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*
Borrowings	38	24	–	–	–	–	62
Liabilities under leases and rental contracts with purchase option	339	163	–	–	–	–	502

Variable interest rate	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	66,082	–	–	–	–	–	66,082
Loans advanced	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–
Liabilities under leases and rental contracts with purchase option	5,290	1,861	1,407	952	665	2,402	12,577
Borrowings	113,013		–	–	–	–	113,013

(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*
Borrowings	35	38	23	–	–	–	96
Liabilities under finance leases and rental contracts with purchase option	393	111	–	–	–	–	504

Variable interest rate	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	88,692	–	–	–	–	–	88,692
Loans advanced	11,351	–	–	–	–	–	11,351
Bonds	7,608	14,066	–	–	–	–	21,674
Liabilities under finance leases and rental contracts with purchase option	1,913	1,239	810	386	–	–	4,348
Borrowings	103,472	–	–	–	–	–	103,472

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 Group which are not included in the above tables do not bear interest and are therefore not subject to interest rate risk.

49. Employment

The average employment at the Group by employee groups and staff turnover are presented below:

	Year ended December 31st 2019	*Year ended December 31st 2018*
Production employees	735	781
Engineering design and technology offices staff	406	406
Quality control staff	93	93
Maintenance staff	50	71
Other employees (financial and accounting, sales and procurement staff)	653	607
Total	**1,937**	**1,958**

	Year ended December 31st 2019	*Year ended December 31st 2018*
New hires	120	134
Terminations	(187)	(355)
Total	**(67)**	**(221)**

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

50. Key items of the financial statements translated into the euro

The financial highlights for the periods covered by these consolidated 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: 4.2617 PLN/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	1,302,431	1,357,521	305,843	315,703
Non-current liabilities	94,045	69,531	22,084	16,170
Current liabilities	1,094,123	690,655	256,927	160,617
Equity	114,263	597,335	26,832	138,915
PLN/EUR exchange rate at end of period			4.2585	4.3000

The table below sets forth the key items of the consolidated 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	1,244,904	1,268,818	289,593	297,724
Operating profit/(loss)	(437,561)	40,531	(101,787)	9,510
Profit/(loss) before tax	(475,674)	43,176	(110,653)	10,131
Net profit/(loss) attributable to owners of the parent	(473,121)	33,585	(110,059)	7,881
Earnings per share (PLN)	(3.71)	0.26	(0.86)	0.06
Average PLN/EUR exchange rate in the period			4.2988	4.2617
Statement of cash flows				
Net cash from operating activities	(19,147)	(91,180)	(4,454)	(21,395)
Net cash from investing activities	(151)	1,896	(35)	445
Net cash from financing activities	(3,283)	(2,609)	(764)	(612)
Net increase/(decrease) in cash and cash equivalents	(22,581)	(91,893)	(5,253)	(21,562)
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 Group's financial results and would not be recognised in the Group's financial results for 2019.

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

In the memorandum, RAFAKO granted ARP exclusive rights to negotiate and carry out the Transaction until 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 parent. According to the information received by the Management Board of RAFAKO S.A., E003B7 Sp. z o.o., the special purpose vehicle responsible for the performance of the contract, is expected to complete the tests and technical work necessary to hand over the project to the Employer by February 4th 2020. During the final testing of the unit, a number of objective events occurred which affected the date of delivery of the unit to the Employer.

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

In March 2020, the parent, 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 10.1 these consolidated 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. The countermeasures taken by the state administration have caused significant disturbances in the economic, legal and administrative system in Poland. Following the introduction in mid-March 2020 of the state of epidemic in Poland, the Group adapted to the new situation to the extent possible. In order to ensure that the highest safety standards are met, the parent has established a Crisis Management Team, which monitors the situation on an ongoing basis, takes decisions and prepares operating guidelines related to the risk of coronavirus infection. Based on the guidelines from the Ministry of Health and Chief Sanitary Inspector, the sanitary rules have been tightened both at all Group companies and at contract performance sites, where additional sanitary procedures have been implemented by the employers.

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

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 consolidated financial statements of the RAFAKO Group were authorised for issue by RAFAKO S.A. 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	....