RAFAKO S.A.
w restrukturyzacji

PBG GROUP

INTERIM CONDENSED FINANCIAL STATEMENTS

for the six months ended June 30th 2020

September 30th 2020

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(PLN thousand)

Interim condensed statement of comprehensive income

for the six months ended June 30th 2020

	Note	*Six months ended June 30th 2020*	*Six months ended June 30th 2019*	*3 months ended June 30th 2020*	*3 months ended June 30th 2019*
Continuing operations					
Revenue	10.1	**435,734**	**421,003**	**198,833**	**204,307**
Revenue from sale of goods and services		434,652	420,226	198,458	203,972
Revenue from sale of materials		1,082	777	375	335
Cost of products and services sold	10.2	(547,271)	(495,690)	(326,204)	(296,260)
Cost of materials sold		(718)	(551)	(308)	(253)
Gross profit/(loss)		**(112,255)**	**(75,238)**	**(127,679)**	**(92,206)**
Other income	10.2	6,405	3,580	(1,169)	779
Selling expenses		(8,214)	(12,148)	(4,069)	(6,688)
Administrative expenses		(19,483)	(18,657)	(10,063)	(9,687)
Other expenses	10.2	(53,917)	(3,477)	(51,074)	(1,437)
Research costs		(3,916)	(5,278)	(2,725)	(2,973)
Operating profit/(loss)		**(191,380)**	**(111,218)**	**(196,779)**	**(112,212)**
Finance income	10.2	2,290	2,865	(605)	1,367
Finance costs	10.2	(7,337)	(3,920)	(5,235)	(2,264)
Profit/(loss) before tax		**(196,427)**	**(112,273)**	**(202,619)**	**(113,109)**
Income tax	10.3	(13,293)	(4,457)	(13,172)	(3,911)
Net profit/(loss) from continuing operations		**(209,720)**	**(116,730)**	**(215,791)**	**(117,020)**

(PLN thousand)

Interim condensed statement of comprehensive income

for the six months ended June 30th 2020

	Note	*Six months ended June 30th 2020*	*Six months ended June 30th 2019*	*3 months ended June 30th 2020*	*3 months ended June 30th 2019*
Other comprehensive income for period		**(743)**	**(410)**	**(225)**	**(162)**
Items that will not be reclassified to profit or loss in subsequent reporting periods					
Other comprehensive income due to actuarial gains/(losses)		(918)	(506)	(279)	(201)
Tax on other comprehensive income	10.3	175	96	54	39
Other net comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(743)**	**(410)**	**(225)**	**(162)**
Comprehensive income for reporting period		**(210,463)**	**(117,140)**	**(216,016)**	**(117,182)**
Weighted average number of shares		127,431,998	127,431,998	127,431,998	127,431,998
Basic earnings/(loss) per share, PLN		(1.65)	(0.92)	(1.69)	(0.92)
Diluted earnings/(loss) per share, PLN		(1.65)	(0.92)	(1.69)	(0.92)

Racibórz, September 30th 2020

Mariusz Zawisza	Radosław Domagalski-Łabędzki	Jarosław Pietrzyk	Ewa Porzucek	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN thousand)

Interim condensed statement of financial position

as at June 30th 2020

	Note	June 30th 2020	December 31st 2019	June 30th 2019
ASSETS				
Non-current assets				
Property, plant and equipment	10.6	117,266	122,381	125,638
Goodwill		1,398	1,774	1,774
Intangible assets		6,003	6,519	7,014
Right-of-use assets	10.8	7,424	8,524	9,688
Other long-term receivables	10.9	113,714	42,716	3,967
Shares	10.10	28,938	31,310	36,643
Other non-current financial assets	10.11	–	28,148	25,177
Deferred tax assets	10.3	24,108	37,226	31,943
Long-term prepayments and accrued income		2,953	4,795	5,510
		301,804	**283,393**	**247,354**
Current assets				
Inventories	10.12	27,859	27,205	28,882
Short-term trade and other receivables	10.16	316,039	363,827	303,983
Contract assets	9	154,229	213,552	342,018
Other current financial assets	10.13	–	–	23,673
Cash and cash equivalents	10.15	28,657	23,917	29,270
Short-term prepayments and accrued income	10.17	22,451	20,591	17,389
		549,235	**649,092**	**745,215**
Non-current assets held for sale		362	103	87
TOTAL ASSETS		**851,401**	**932,588**	**992,656**

(PLN thousand)

Interim condensed statement of financial position
as at June 30th 2020

	Note	*June 30th 2020*	*December 31st 2019*	*June 30th 2019*
EQUITY AND LIABILITIES				
Equity				
Share capital	10.20	254,864	254,864	254,864
Share premium	10.23	165,119	165,119	165,119
Statutory reserve funds		15,902	15,902	15,902
Retained earnings/accumulated losses, including:		(541,820)	(331,356)	(158,281)
Profit/(loss) brought forward		(332,100)	(46,712)	(41,551)
Net profit/(loss) for period		(209,720)	(284,644)	(116,730)
		(105,935)	**104,529**	**277,604**
Non-current liabilities				
Finance lease liabilities		1,259	1,704	3,811
Employee benefit obligations and provisions	10.26	30,278	29,334	23,807
Other non-current liabilities	10.25	16,196	18,556	9,627
Other long-term provisions	10.28	24,411	18,430	15,850
		72,144	**68,024**	**53,095**
Current liabilities				
Bank and other borrowings	14	79,831	112,021	113,218
Finance lease liabilities		4,156	4,037	2,562
Short-term trade and other payables	10.29	395,834	370,096	263,210
Employee benefit obligations and provisions	10.30	29,455	19,228	20,951
Contract liabilities	9	300,012	208,444	231,842
Other short-term provisions	10.31	74,649	45,840	29,709
Short-term accrued expenses and deferred income		186	139	142
Grants		1,069	230	323
		885,192	**760,035**	**661,957**
Total liabilities		**957,336**	**828,059**	**715,052**
TOTAL EQUITY AND LIABILITIES		**851,401**	**932,588**	**992,656**

Racibórz, September 30th 2020

Mariusz Zawisza	Radosław Domagalski-Łabędzki	Jarosław Pietrzyk	Ewa Porzucek	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN thousand)

Interim condensed statement of cash flows
for the six months ended June 30th 2020

	Note	*Six months ended June 30th 2020*	*12 months ended December 31st 2019*	*Six months ended June 30th 2019*
Cash flows from operating activities				
Profit/(loss) before tax		**(196,427)**	**(284,260)**	**(112,273)**
Adjustments for:		**236,565**	**301,695**	**129,041**
Depreciation and amortisation		6,202	12,659	6,443
Foreign exchange gains/(losses)		–	–	–
Interest and dividends, net		2,183	4,813	2,381
(Gain)/loss from investing activities		4,417	26,988	(2,031)
(Increase)/decrease in receivables	10.4	4,938	(14,900)	86,667
(Increase)/decrease in inventories		(654)	2,186	509
Increase/(decrease) in liabilities and provisions, excluding borrowings	10.4	33,686	171,729	58,397
Change in provisions, accruals and deferrals	10.4	34,819	30,583	14,363
Change in contract assets and liabilities	10.4	150,891	67,385	(37,683)
Income tax (paid)/received		–	–	–
Other		83	252	(5)
Net cash from operating activities		**40,138**	**17,435**	**16,768**
Cash flows from investing activities				
Sale of property, plant and equipment and intangible assets		291	477	415
Purchase of property, plant and equipment and intangible assets	10.4	(716)	(701)	(321)
Purchase of financial assets		–	(153)	(157)
Other		–	–	–
Net cash from investing activities		**(425)**	**(377)**	**(63)**
Cash flows from financing activities				
Payment of finance lease liabilities		(1,510)	(4,386)	(2,292)
Proceeds from borrowings		–	11,197	12,880
Repayment of borrowings	10.4	(32,609)	–	–
Interest paid		(1,300)	(3,533)	(1,696)
Bank fees		(399)	(1,015)	(1,011)
Other		845	(808)	(720)
Net cash from financing activities		**(34,973)**	**1,455**	**7,161**
Net increase/(decrease) in cash and cash equivalents		4,740	18,513	23,866
Net foreign exchange gains/(losses)		–	–	–
Cash at beginning of period	10.15	23,917	5,404	5,404
Cash at end of period	10.15	28,657	23,917	29,270

Racibórz, September 30th 2020

Mariusz Zawisza	Radosław Domagalski-Łabędzki	Jarosław Pietrzyk	Ewa Porzucek	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(PLN thousand)

Interim condensed statement of changes in equity

for the six months ended June 30th 2020

	Share capital	*Share premium*	*Statutory reserve funds*	*Retained earnings/ accumulated losses*	*Equity total*
As at January 1st 2020	**254,864**	**165,119**	**15,902**	**(331,356)**	**104,529**
Profit/(loss) from continuing operations	–	–	–	(209,720)	(209,720)
Other comprehensive income	–	–	–	(744)	(744)
Distribution of retained earnings	–	–	–	–	–
As at June 30th 2020	**254,864**	**165,119**	**15,902**	**(541,820)**	**(105,935)**
As at January 1st 2019	**254,864**	**165,119**	**11,600**	**(37,157)**	**394,426**
Adjustment to opening balance following implementation of new IFRS	–	–	–	318	318
As at January 1st 2019	**254,864**	**165,119**	**11,600**	**(36,839)**	**394,744**
Profit/(loss) from continuing operations	–	–	–	(116,730)	(116,730)
Other comprehensive income	–	–	–	(410)	(410)
Distribution of retained earnings	–	–	4,302	(4,302)	–
As at June 30th 2019	**254,864**	**165,119**	**15,902**	**(158,281)**	**277,604**

(PLN thousand)

Interim condensed statement of changes in equity
for the six months ended June 30th 2020

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

Racibórz, September 30th 2020

Mariusz Zawisza	Radosław Domagalski-Łabędzki	Jarosław Pietrzyk	Ewa Porzucek	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

NOTES

1. General information

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

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

The Company was established for an indefinite term.

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

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

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

These interim condensed financial statements for the six months ended June 30th 2020 were authorised for issue by the Company's Management Board on September 30th 2020.

The Company has also prepared interim condensed consolidated financial statements for the six months ended June 30th 2020, which were authorised for issue by the Company's Management Board on September 30th 2020.

2. Basis of preparation of the interim condensed financial statements

These interim condensed financial statements of the Company for the six months ended June 30th 2020 have been prepared in accordance with EU-endorsed International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

In order to provide a better understanding of the financial position and assets of the Company, the comparative data additionally includes the statement of financial position as at June 30th 2019 and statement of comprehensive income, statement of changes in equity, and statement of cash flows for 2019, despite the absence of such requirements in IAS 34.

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

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

These interim condensed financial statements have been prepared on a going concern basis despite the fact that the Management Board is aware of a number of uncertainties that pose a material threat to the Company's ability to continue trading.

The Management Board of RAFAKO S.A decided to submit, on September 2nd 2020, an application to the *Monitor Sądowy i Gospodarczy* official gazette to announce the opening of the procedure to approve arrangement with creditors under the Restructuring Law of May 15th 2015 as amended by the Act of June 19th 2020 on subsidies for interest payments on bank loans granted to entrepreneurs affected by the COVID-19 situation and on simplified procedure to approve arrangements.

As part of the procedure, the Company is required to prepare a list of claims and a restructuring plan, to present arrangement proposals, to organise and carry out voting on such proposals by the Meeting of Creditors, and to file a motion for approval of the arrangement within four months from the date of the announcement in *Monitor Sądowy i Gospodarczy*, i.e. until January 7th 2021.

As at the date of preparation of these interim condensed financial statements, the Company was in the process of compiling the list of creditors, including a list of disputed claims, and drafting arrangement proposals.

The Management Board has thoroughly analysed the indications of the threat to the Company's ability to continue trading and the validity of this assumption. Opening of the restructuring proceedings does not preclude an assumption that an entity will continue to trade as a going concern. The intention of the Management Board is for the Company to continue trading, while the purpose of the restructuring proceedings is to avoid bankruptcy by allowing the debtor to restructure its debt through arrangement with creditors.

However, it is impossible to ignore the fact that the Company's financial condition is deteriorating, which was the main reason for the decision of the Management Board of September 2nd 2020. The adverse changes included a significant increase in the amount of the Company's liabilities, including short-term liabilities, decisions by many suppliers to suspend trade credit and demand cash payments instead, deterioration of the key financial indicators, large operating losses and lack of debt capacity.

The purpose of the restructuring procedure is to take remedial actions to eliminate the risk of the Company ceasing to trade, and the decision to file for bankruptcy protection was a significant part of the restructuring plan which offers RAFAKO S.A. a chance to recover, continue its running contracts and resume normal operations in the foreseeable future.

However, despite the financial considerations, there were no direct operating circumstances that may have a material and direct adverse effect on the Company's ability to continue as a going concern. An important criterion for adopting the going concern assumption is the absence of the management's intention to cease trading or to put an entity to liquidation. The Company does not experience personnel shortages, has not lost any key management staff or specialist engineering personnel or workforce. There are no shortages of important raw materials or threat from a serious competitor. The Company has not lost its core markets, licenses or key suppliers, although the Company’s ability to win new contracts has been seriously and adversely affected by the lack of debt capacity.

The Management Board has taken a number of steps and has carried out a number of economic and financial analyses to determine whether the Company is able to continue as a going concern.

It was determined that the Company has the potential to win new contracts in its core business where it has both technical, technological and specialist personnel and know-how. The revenue-generating potential is concentrated primarily in the Steam Generator Plant and in the Power and Environmental Protection Division. The order book will be reviewed on an ongoing basis, while in its efforts to win new contracts the Company will focus on its key competencies and competitive advantages in selected markets. Please note that the market in which the Company operates has changed significantly. Changes in the commercial and industrial energy market and the shrinking volume of capital spending on energy sources based on solid fuels have significantly affected the Company's position and determine its future revenue-generating potential. This aspect has also been taken into account in the assessment of the Company’s ability to continue trading and to generate revenue in the future.

In the Management Board's opinion, unprofitable long-term contracts and excessive operating costs have been the cause of the current financial problems. The restructuring measures intended to be implemented by the Management Board will therefore involve extensive efforts to, reduce operating expenses, and implement comprehensive organisational improvements at the Company. These areas have already been identified and cost savings potential allocated to them. A number of these measures have already been implemented. Prompt efforts were taken to withdraw from bidding in unprofitable segments, the current contract portfolio was reviewed, and on that basis risks associated with contract continuation were identified and provisions for those risks were recognised in line with the prudence principle.

On September 21st 2020, the Company approved the collective redundancy rules, setting the maximum number of employees affected by the redundancies at 400, with the redundancies scheme due to run until March 31st 2021. These measures are necessary and are designed to optimise workforce and adapt it to the new scale of the organisation and new organisational schemes and structures.

Measures have also been taken to liquidate selected companies and plants, including the sale of E-Bus Sp. z o.o. with an organised part of business for a price of PLN 31m on September 28th 2020, and the planned sale of property in Tychy Wyry. For the remaining properties, further optimisation of the space used is planned.

In its efforts to build a new business and financial model, the Management Board is supported by a professional firm. In-depth analyses and financial simulations demonstrated that the restructuring measures are sound and may lead to a successful turnaround of the business. The plan for the Company covers the period until December 31st 2025.

Approval of arrangement proposals by the Company's creditors will be an important step towards successful restructuring of the Group. Execution of an arrangement with the creditors will be a prerequisite for further remedial efforts.

Another important element of the process will be the completion of the Jaworzno project. Discussions with the employer are pending although as at the date of this report no final agreement was signed by the parties.

The ability to secure debt financing will be crucial for the Group to be able to bid for and win new contracts. In the opinion of the Management Board, successful completion of the arrangement process will be the key factor in this respect.

The Management Board believes that the actions taken will be successful, however it emphasises the uncertainty and risk of their failure.

3. Significant accounting policies

These interim condensed financial statements have been prepared in accordance with the accounting policies presented in the Company's most recent full-year financial statements for the year ended December 31st 2019, except for changes resulting from the application of the following standards.

- Amendments to IFRS 3 *Business Combinations*

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

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

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

- Amendments to IFRS 9, IFRS 16, IAS 39 and IFRS 7

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

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

- Amendment to IFRS 16 *Leases*

In connection with the COVID-19 pandemic, the IASB has introduced a practical expedient, whereby a lessee may elect not to assess whether a rent concession that meets the conditions set out in the standard is a 'lease modification' within the meaning of IFRS 16. The practical expedient is available for financial statements for annual periods beginning on or after June 1st 2020, but it is permitted to apply it earlier. The Company did not apply any the practical expedient to any of its leases as it did not receive any concessions from lessors.

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

4.1. Early application of standards or interpretations

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

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

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

- New IFRS 17 *Insurance Contracts*

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

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

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

- Amendment to IAS 1 *Presentation of Financial Statements*

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

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

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

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

5. Significant judgements and assumptions

5.1. Professional judgement

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

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

Classification of leases where the Company is the lessee

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

Embedded derivatives

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

Consortium agreements

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

5.2. Uncertainty and changes in estimates

The Company made the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these interim financial statements. The assumptions and estimates presented in these financial statements may change in the future due to market developments or factors beyond the Company's control. In the six months ended June 30th 2020 and as at June 30th 2020, there were changes in estimates in significant areas of the Company's business.

In addition, the Company is currently preparing a new business and financial model. The model's assumptions are based on a selective and conservative approach to bidding for contracts. The cost side of the model takes into account the planned restructuring measures in many areas of the Group's business.

A reputable adviser will assist the Management Board in its work on the financial model and the restructuring plan.

Impairment of assets

The Company estimated the recoverable amount of non-financial non-current assets on the basis of cash flow projections. However, given the significant uncertainty as to the Company's ability to implement the plans described in Note 2 to these interim condensed financial statements, which may be key to future forecasts, the recoverable amount may change.

Deferred tax asset

The Company prepared financial projections and used them to assess the recoverable amount of deferred tax assets. The amount of deferred tax assets was determined at PLN 24,108 thousand. For details, see Note 10.3 these interim condensed financial statements.

Provision for expected contract losses

The Company reviewed the order book and identified its key competencies and competitive advantages on selected markets. As a result of the review, immediate steps were taken to suspend bidding for new contracts in unprofitable segments, and possible risks associated with the continued presence in those segments have been identified. The Group estimated the amount of provisions for the identified risks.

Details of accounting for contract revenue and expenses in the reporting period are presented in Notes 9 and 10.31 to these interim condensed financial statements.

Provision for costs due to late contract completion

The Company recognises a provision for liquidated damages due to late contract completion if the probability of being charged for late completion is significant and the delay is due to the fault of the Company as a contractor. The amount of the provision reflects the amount of liquidated damages that may be charged for the delay. The Company estimated the amount of provisions, presented in Note 9 to these interim condensed financial statements.

In these interim condensed consolidated financial statements, the Company also disclosed the effect of the Management Board's assumptions on the estimates of impairment losses (see Note 10.18), revenue from contracts with customers (see 9) and provisions (see Note 16).

(PLN thousand)

6. Functional currency and presentation currency

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

Exchange rates used to determine carrying amounts:

	June 30th 2020	*December 31st 2019*	*June 30th 2019*
USD	3.9806	3.7977	3.7336
EUR	4.4660	4.2585	4.2520
GBP	4.8851	4.9971	4.7331
CHF	4.1818	3.9213	3.8322
SEK	0.4249	0.4073	0.4030
TRY	0.5807	0.6380	0.6481

7. Changes in the structure of the Company

In the six months ended June 30th 2020, there were no changes in the Company's structure.

On August 27th 2020, the Management Board of the Company passed a resolution to commence restructuring of the RAFAKO S.A.'s workforce; for details, see Note 2. Furthermore, on September 28th 2020 RAFAKO S.A. w restrukturyzacji executed agreements for the sale of an organised part of business, operating as a branch of the Company, and for the sale of 100% of shares in EBUS Sp. z o.o., as described in Note 29 to these interim condensed financial statements.

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

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

9. Contract assets and liabilities

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

	June 30th 2020	*December 31st 2019*
Gross contract assets	155,146	214,763
Impairment of contract assets (-)	(917)	(1,211)
Contract assets	154,229	213,552
Contract liabilities, including prepayments	300,012	208,444

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

The table below presents the effects of accounting for contracts, including revenue and costs of running contracts recognised in accordance with IFSR 15 as at June 30th 2020 and as at December 31st 2019, as well as gross amount due to customers for contract work and gross amount due from customers for contract work.

	June 30th 2020	*December 31st 2019*
Revenue initially agreed in contract	4,063,907	3,912,289
Change in contract revenue	(14,051)	(40,485)
Aggregate contract revenue	**4,049,856**	**3,871,804**
Contract costs incurred as at reporting date	2,511,510	2,052,801
Costs expected to be incurred by contract completion date	1,572,234	1,736,097
Estimated aggregate contract costs	**4,083,744**	**3,788,898**
Estimated aggregate profit/(loss) on contracts, including:	**(33,888)**	**82,906**
profit	290,824	292,742
loss (-)	(324,712)	(209,836)

(PLN thousand)

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

	June 30th 2020	*December 31st 2019*
Advance payments received as at reporting date	90,943	127,665
Advance payments that can be set off against amounts due from customers for construction contract work	19,828	22,305
Contract costs incurred as at reporting date	2,582,295	2,091,798
Cumulative profit as at reporting date (+)	198,888	188,866
Cumulative loss as at reporting date (+)	(324,712)	(209,836)
Cumulative contract revenue as at reporting date	2,456,471	2,070,828
Amounts invoiced as at reporting date (progress billings)	2,510,393	1,936,844
Settlement of contracts (balance) as at the reporting date, including:	**(53,922)**	**133,984**
Contract assets less advance payments that can be offset	155,146	214,763
Contract liabilities	228,897	103,084

The Company analysed changes in contract assets and liabilities and their main causes reasons in the first six months of 2020 and in the 12 months ended December 31st 2019.

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

Contract assets:

	June 30th 2020	*December 31st 2019*
Contract assets at beginning of period	213,552	205,149
Revenue charged in the reporting period to contract assets	47,386	122,695
Total revenue restatements charged to contract assets	35,718	50,298
Changes in impairment losses on contract assets	294	637
Reclassification to trade receivables (-)	(142,721)	(165,227)
Contract assets at end of period	**154,229**	**213,552**

Contract liabilities:

	June 30th 2020	*December 31st 2019*
Contract liabilities at beginning of period	208,444	132,656
Performance obligations recognised in the reporting period as contract liabilities	110,578	57,675
Change in advance payments	(34,246)	40,271
Total revenue restatements charged to contract liabilities	25,186	1,917
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(9,950)	(24,075)
Contract liabilities at end of period	**300,012**	**208,444**

Significant changes in the amount of contract assets and liabilities resulted mainly from changes in estimates of contract revenue and costs, driven chiefly by changes in cost estimates for the CHP contract in Vilnius; for details, see Note 9.1.2 to these interim condensed financial statements. The decrease in the amount of contract assets was also attributable to invoiced contract sales, mainly under the contract for delivery and installation of a catalytic flue gas denitrification unit at APs–1650 steam generators No. 9 and No. 10 and upgrade of electrostatic precipitators at ENEA Wytwarzanie Sp. z o.o. in Kozienice, and the Jaworzno contract for construction of a 910 MW supercritical power generation unit. The increase in the amount of contract liabilities was attributable to invoiced sales under the contract for the construction of two steam generators on the Lombok Island in Indonesia.

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

9.1 Key contracts executed by the Company

9.1.1. Jaworzno Project

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The final division of work within the consortium was agreed on August 4th 2013 based on the amendments made to the consortium agreement, which related to RAFAKO S.A. taking over 99.99% of the project deliveries (with 0.01% remaining for Mostostal Warszawa) and changing the distribution of consideration due to the consortium members to reflect the members' actual shares in the project. The contract for the construction of the Jaworzno III power generation unit was concluded on April 17th 2014. The current contract price (after execution of Annex 8) is PLN 4,547m (VAT exclusive). It is the largest contract executed by RAFAKO S.A. to date. Currently, work is being performed on the last phase of the Jaworzno project, i.e. start-up and commissioning, which will be continued until Unit is placed in service. After the completion of the milestone relating to placement of the unit in service, the warranty period under the contract will commence, during which the final measurements of guaranteed technical parameters are to be performed within 12 months from placing the unit in service.

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

If the contract is not completed by the prescribed deadline, i.e. the placement-in-service report is not signed, the employer may charge penalties for delayed performance of the contract, which could have a material adverse effect on the performance and financial position of both RAFAKO S.A. w restrukturyzacji and the project's SPV.

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

During the final testing of the Unit, a number of objective events occurred which affected the date of delivery of the Unit to the Employer. Following the Unit's being taken offline due to extreme weather conditions, it was found that an unforeseeable event had occurred, involving damage to a component of the steam generator. On May 4th 2020, RAFAKO S.A., E003B7 Sp. z o.o. and the employer entered into an agreement to work together to identify the causes and remove the consequences of the Event to enable continuation of work to deliver the Unit to the Employer.

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

The new payment schedule improved the Company's liquidity, and enabled the Company to pay its subcontractors for the additional work under the contract.

E003B7 Sp. z o.o. is gradually completing further milestones to put the unit into service by November 15th 2020, thus effectively mitigating the technical risks of the project. The technical work is running smoothly and ahead of schedule. On August 19th 2020, the unit started to generate electricity and was successfully synchronised with the power grid, and at the beginning of September the unit reached its nameplate output of 910 MW for the first time in the project's history. This confirmed the correct delivery of the key objectives of the project, so vital for Poland's energy security.

The Management Board is taking steps to raise additional funds necessary to secure financial liquidity of E003B7 Sp. z o.o. by the end of 2021, i.e. the planned date of completion of warranty measurements when the guarantee amounts are to be reduced (12 months from the date of the Provisional Acceptance Certificate (PAC)).

To this end, RAFAKO S.A. w restrukturyzacji/E003B7 Sp. z o.o. holds negotiations with the TAURON Group as part of the mediation proceedings before the Court of Arbitration at the General Prosecutor's Office in order to settle mutual claims resulting from the costs of construction of the 910 MW unit.

At the same time, in line with its declaration to cooperate with the employer, E003B7 Sp. z o.o., as part of the indemnification and complaint procedure, is taking steps to recover the compensation from the insurer for the costs incurred as a result of the failure on the steam generator components in February 2020.

E003B7 Sp. z o.o. also holds discussions with the Consortium of Financial Institutions which provide guarantee security for the Jaworzno Project. The institutions have declared their readiness to continue further work in this respect. If reached, the agreement will allow the parties to sign the Provisional Acceptance Certificate by by November 15th 2020.

Accounting for the Jaworzno Project:

For the purposes of the Project, a special purpose vehicle (E003B7 Sp. z o.o.) was established, to which RAFAKO S.A. subcontracted approximately 88.7% of the Project's scope of work; the remaining 11.3% is performed by RAFAKO S.A. itself (approximately PLN 510.7m), including the design of the boiler island and delivery of boiler pressure components and a particle removal unit, which was planned mainly for 2015-2017.

For the purposes of the project, RAFAKO S.A. w restrukturyzacji and E003B7 Sp. z o.o. signed agreements with financial institutions, under which the companies secured bank guarantees and insurance bonds required to deliver the project. The current value of the bonds and guarantees is PLN 587.5m. RAFAKO S.A.'s and E003B7 Sp. z o.o.'s assets were pledged as security for these instruments.

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

RAFAKO S.A. w restrukturyzacji, 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. w restrukturyzacji are made by the special purpose vehicle.

Change in estimates for the Jaworzno Project

Change in the overall result on a part of the contract performed by RAFAKO S.A. was a result of changes in the estimates of total income and expenses for the six months ended June 30th 2020, which was negative at PLN -6m.

Due to the ongoing mediation between the Company/E003B7 Sp. z o.o. and the TAURON Group, as described above, the financial result of the contract may change and as at the date of issue of these interim condensed financial statements the Company is not able to determine its final amount.

9.1.2. Vilnius Project

The Company performs the contract of September 29th 2016 with JSC VILNIAUS KOGENERACINÇ JÇGAIN for the construction of a biomass-fired co-generation unit comprising fluidised bed boilers, biomass storage and feeding systems, and a flue gas treatment system. The price of the contract and annexes thereto is EUR 149m (exclusive of VAT). The Company estimated the amount of its claims for extraordinary price increases during the Vilnius Project, works performed which, in the Company's opinion, were beyond the original scope of the project, and the delay in project completion not attributable to the parent.

On July 10th 2020, the Company filed a request for arbitration with the Stockholm Chamber of Commerce concerning recognition by the employer of the Company's claims for additional time and reimbursement of additional costs. The employer submitted a preliminary response to the request. The parties expect to continue to process the matter.

For details, see note 21 to these interim condensed financial statements.

On September 24th 2020, following the identification of contract risks and the possible need to incur additional costs under the Vilnius project, the Management Board decided to recognise a PLN 95.8m provision.

The potential additional contract costs estimated by the Company result primarily from the project's time and cost overruns caused by the contracting of additional works as well as claims of subcontractors which were all beyond the Company's control.

The risk of potential decrease in contract revenue was estimated taking into account exclusion from the scope of deliveries of the unit for unloading biomass from rail cars.

The effect of the Vilnius contract on RAFAKO S.A. w restrukturyzacji's profit or loss for the six months ended June 30th 2020 was negative at PLN -104.8m. In the six months ended June 30th 2020, total comprehensive income increased mainly due to exchange differences by approximately PLN 13m, and total costs and provisions for warranty repairs increased by approximately PLN 117.8m.

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

10.1 Revenue and operating segments

In the six months ended June 30th 2020, there were no changes in the Company's accounting policies with respect to the identification of operating segments and the rules of measuring revenue, profit or loss, and assets of the segments which were presented in the Company's most recent full-year financial statements.

(PLN thousand)

10.1.1. Revenue from sale of goods and services

	Six months ended June 30th 2020	*12 months ended December 31st 2019*	*Six months ended June 30th 2019*
Net revenue from sale of products	53,835	74,061	41,441
including: from related entities	–	350	350
Net revenue from sale of services	371,451	869,174	377,230
including: from related entities	3,001	3,376	1,886
Revenue from sale of other goods	2,192	3,822	1,833
Other income	–	–	–
Exchange differences on trade receivables	7,174	(1,084)	(278)
Net revenue from sale of goods and services, total	**434,652**	**945,973**	**420,226**
including: from related entities	3,001	3,726	2,236

*For a detailed description of the provision for liquidated damages, affecting the Company's revenue, see Note 16.

In the six months ended June 30th 2020, the Company generated revenue of PLN 434,652 thousand , i.e. PLN 14,426 thousand more year on year, mainly due to increased involvement in the ongoing projects, including mainly the contract for the construction of two steam generating units on the Lombok Island in Indonesia.

10.1.2. Revenue from sale of materials

	Six months ended June 30th 2020	*12 months ended December 31st 2019*	*Six months ended June 30th 2019*
Revenue from sale of materials	1,082	1,088	777
including: from related entities	–	–	–
Net revenue from sale of merchandise and materials, total	**1,082**	**1,088**	**777**
including: from related entities	–	–	–

10.1.3. Revenue by geography

	Six months ended June 30th 2020	*12 months ended December 31st 2019*	*Six months ended June 30th 2019*
Revenue from sales to domestic customers	219,191	493,858	206,201
including: from related entities	3,001	3,726	2,237
Revenue from sales to foreign customers	216,543	453,203	214,802
including: from related entities	–	–	–
Net sales revenue, total	**435,734**	**947,061**	**421,003**
including: from related entities	3,001	3,726	2,237

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

(PLN thousand)

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

Trading partner	*% of total sales*	*Six months ended June 30th 2020*
PT PLN (PERSERO)	24.1%	104,848
Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	16.7%	72,431
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	13.2%	57,181
UAB VILNIAUS KOGENERACINE JEGAINE	12.0%	52,130
Other	34.0%	149,144
Total	**100%**	**435,734**

10.1.4. Operating segments

As at June 30th 2020 and June 30th 2019, the Company identified two operating segments, i.e. 'Power and environmental protection facilities' and 'Products for the oil and gas sector'. The Management Board assesses the Company's performance based on its financial statements.

For the six months ended June 30th 2020 or as at June 30th 2020	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Revenue			
Sales to external customers	74,532	361,202	435,734
Inter-segment sales	–	–	–
Total segment revenue	74,532	361,202	435,734
Cost of products and materials sold	(82,800)	(465,189)	(547,989)
Total			
Gross profit/(loss)	(8,268)	(103,987)	(112,255)
Other income/(expenses)	(2,121)	(77,004)	(79,125)
Operating profit/(loss)	(10,389)	(180,991)	(191,380)
Finance income/(costs)	9	(5,056)	(5,047)
Profit/(loss) before tax	(10,380)	(186,047)	(196,427)
Income tax	–	(13,293)	(13,293)
Segment's net profit/(loss)	(10,380)	(199,340)	(209,720)
Results			
Depreciation and amortisation	(199)	(6,003)	(6,202)
Assets and liabilities as at June 30th 2020			
Segment assets	103,922	747,479	851,401
Segment liabilities	70,833	886,503	957,336
Other information			
Investments in associates and joint ventures	–	–	–
Capital expenditure	230	961	1,191

(PLN thousand)

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

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

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

For the six months ended June 30th 2020	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Region			
Poland	74,353	144,837	219,190
European Union	179	93,025	93,204
Other countries	–	123,340	123,340
Total segment revenue	74,532	361,202	435,734
Term of the contract			
Short-term contracts	74,532	199,306	273,838
Long-term contracts	–	161,896	161,896
Total segment revenue	74,532	361,202	435,734

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

(PLN thousand)

Product group name	*Six months ended June 30th 2020*	*Six months ended June 30th 2019*
Power generation units and steam generators	166,764	159,543
Revenue under the Jaworzno 910 MW project	362	4,576
Air pollution control systems	100,410	88,407
Power equipment, machinery and components, and related services	76,688	98,975
Services and products for oil and gas sector	74,532	63,177
Construction	13,910	–
Other revenue	3,068	6,325
Total	**435,734**	**421,003**

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

In the six months ended June 30th 2020, cost of sales was PLN 547,989 thousand. As a combined effect of the Company's revenue and cost of sales, gross loss was PLN 112,255 thousand.

In the current reporting period, selling expenses of PLN 8,214 thousand disclosed in the statement of comprehensive income comprised costs of bid preparation and costs of PR and marketing activities.

The largest component of other income was PLN 4,120 thousand income from liquidated damages received and PLN 1,540 thousand income from compensation received.

Other expenses chiefly included impairment losses on assets of PLN 48,179 thousand, including:

- an impairment loss on receivables under a surety granted to a subsidiary of PLN 31,668 thousand (for details see Note 10.11);
- an impairment loss on other receivables, including advance payments of PLN 14,269 thousand;
- impairment losses on property, plant and equipment and intangible assets of PLN 1,569 thousand.

Other expenses also included a PLN 3,343 thousand provision for joint and several liability.

In the six months ended June 30th 2020, the Company's finance income included mainly foreign exchange gains of PLN 2,036 thousand and interest earned on financial instruments of PLN 161 thousand (June 30th 2019: PLN 386 thousand).

Finance costs in the period included mainly interest expense on financial instruments of PLN 2,635 thousand (June 30th 2019: PLN 2,467 thousand), an impairment loss on shares in a subsidiary of PLN 2,425 thousand (for details, see Note 10.10), and a discount on long-term receivables of PLN 1,574 thousand.

(PLN thousand)

10.3Income tax

Income tax expense

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

	Six months ended June 30th 2020	*Six months ended June 30th 2019*
Statement of profit or loss		
Current tax	–	–
Current income tax expense	–	–
Adjustments to current income tax from previous years	–	–
Deferred tax	(13,293)	(4,457)
Related to recognition and reversal of temporary differences	23,062	(4,457)
Impairment loss on deferred tax assets	(36,355)	–
Income tax expense in the statement of profit or loss	**(13,293)**	**(4,457)**

	Six months ended June 30th 2020	*Six months ended June 30th 2019*
Deferred tax on other comprehensive income	175	96
Related to recognition and reversal of temporary differences	175	96
Income tax expense disclosed in other comprehensive income	**175**	**96**

As at June 30th 2020, the Company analysed the recoverable amount of the deferred tax asset based on forecasts and budgets prepared for subsequent years and recognised a PLN 24108 thousand impairment loss on deferred tax assets.

(PLN thousand)

Deferred income tax calculated as at June 30th 2020

Deferred income tax calculated as at June 30th 2020 relates to the following:

	Statement of financial position		*Statement of comprehensive income for the six months ended*	
	June 30th 2020	*December 31st 2019*	*June 30th 2020*	*June 30th 2019*
– investment reliefs	(1)	(1)	–	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(13,054)	(14,156)	1,102	(766)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,403	953	450	(373)
- difference between tax base and carrying amount of loans and receivables	4,724	4,831	(107)	160
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	10,420	(25,228)	35,648	(22,493)
- difference between tax base and carrying amount of inventories	2,241	2,275	(34)	(9)
- provisions	20,786	18,978	1,808	3,746
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	11	27	(16)	1
- difference between tax base and carrying amount of payables, provisions, and accruals and deferrals relating to accounting for construction contracts	42,132	58,353	(16,221)	29,977
- tax loss	–	–	–	(16,178)
- adjustment to costs of unpaid invoices	3,216	3,536	(320)	(204)
- other	1,584	657	927	1,777
Deferred tax expense/benefit disclosed in the statement of profit or loss			28,272	(4,457)
Deferred tax expense/benefit disclosed in other comprehensive income			175	96
Impairment loss on deferred tax	(49,354)	(13,000)	(36,355)	–
			(13,118)	(4,361)
Net deferred tax asset/(liability) including:	**24,108**	**37,226**		
Deferred tax assets	24,108	37,226		
Deferred tax liability	–	–		

10.4 Significant items disclosed in the statement of cash flows

The PLN 4,938 thousand decrease in receivables disclosed in the statement of cash flows for the six months ended June 30th 2020 resulted mainly from:

- PLN (34,389) thousand increase in trade receivables,
- PLN (4,687) thousand increase in receivables from the state budget (including VAT),
- PLN 1,904 thousand decrease in advance payments made,
- PLN 11,313 thousand decrease in security deposits receivable,
- PLN 28,148 thousand decrease in sureties receivable,
- PLN 2,649 thousand decrease in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the six months ended June 30th 2020, see Note 10.16.

The PLN 33,686 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

- PLN 38,361 thousand increase in trade payables,
- PLN (3,934) thousand decrease in taxes and other duties payable,
- PLN 11,171 thousand increase in employee benefit obligations and provisions (net of actuarial gains/(losses)),
- PLN (11,912) thousand increase in other liabilities.

The PLN 150,891 thousand change in gross amounts due to and from customers for contract work disclosed in the statement of cash flows resulted primarily from:

- PLN (59,323) thousand decrease in amounts due from customers for contract work,
- PLN 91,568 thousand increase in gross amounts due for contract work,

The PLN 34,819 thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN 3271 thousand increase in the provision for warranty repairs,
- PLN 31,788 thousand increase in the provision for expected contract losses,
- PLN 29 thousand change in accruals and deferrals,
- PLN (269) thousand change in other provisions.

The cash flows of PLN 716 thousand relating to purchase of property, plant and equipment and intangible assets included PLN 214 thousand incurred to purchase property, plant and equipment, and PLN 502 thousand incurred to purchase intangible assets.

Cash flows from financing activities were mainly affected by a PLN 32,609 thousand decrease in debt outstanding under the overdraft facility and working capital facility advanced by PKO BP S.A..

(PLN thousand)

10.5Goodwill and intangible assets

June 30th 2020	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2020	**1,774**	**6,323**	**196**	**8,293**
Acquisitions	–	–	88	88
Transfers from intangible assets under development	–	81	(81)	–
Amortisation for the year	–	(604)	–	(604)
Impairment of intangible assets in the reporting period	(376)	–	–	(376)
As at June 30th 2020	**1,398**	**5,800**	**203**	**7,401**

*Intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 10.19.2.

December 31st 2019	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2019	**1,774**	**7,565**	**29**	**9,368**
Acquisitions	–	–	304	304
Transfers from intangible assets under development	–	137	(137)	–
Amortisation for the year	–	(1,379)	–	(1,379)
As at December 31st 2019	**1,774**	**6,323**	**196**	**8,293**

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

(PLN thousand)

10.6Property, plant and equipment

For the six months ended June 30th 2020	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 2020	**9,184**	**74,160**	**36,682**	**2,355**	**–**	**122,381**
Adjustment to opening balance following implementation of IFRS 16	–	–	–	–	–	–
Net carrying amount as at January 1st 2020	**9,184**	**74,160**	**36,682**	**2,355**	**–**	**122,381**
Acquisitions	–	–	–	–	39	39
Liquidation/sale	(9)	(118)	(26)	(55)	–	(208)
Transfers from property, plant and equipment under construction	–	–	39	–	(39)	–
Depreciation for period	–	(1,345)	(2,107)	(385)	–	(3,837)
Impairment of property, plant and equipment in period	(197)	(987)	(9)	–	–	(1,193)
Other, including reclassification to/from other asset category	–	–	1	83	–	84
Net carrying amount as at June 30th 2020	**8,978**	**71,710**	**34,580**	**1,998**	**–**	**117,266**

* Property, plant and equipment pledged as security for the Company's liabilities as at the reporting date are presented in Note 10.19.1.

For the 12 months ended December 31st 2019	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 2019	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**132,814**
Adjustment to opening balance following implementation of IFRS 16	–	–	(476)	(4,156)	–	(4,632)
Net carrying amount as at January 1st 2019	**9,184**	**76,752**	**41,227**	**1,019**	**–**	**128,182**
Acquisitions	–	–	–	–	342	342
Lease agreements	–	–	–	–	–	–
Liquidation/sale	–	–	(129)	(95)	–	(224)
Transfers from property, plant and equipment under construction	–	98	244	–	(342)	–
Exchange differences on translating foreign operations	–	–	–	–	–	–
Depreciation for period	–	(2,690)	(4,747)	(290)	–	(7,727)
Impairment of property, plant and equipment in period	–	–	33	96	–	129

(PLN thousand)

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

(PLN thousand)

For the six months ended June 30th 2020	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 2019	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**132,814**
Adjustment to opening balance following implementation of IFRS 16	–	–	(476)	(4,156)	–	(4,632)
Net carrying amount as at January 1st 2019	**9,184**	**76,752**	**41,227**	**1,019**	**–**	**128,182**
Acquisitions	–	–	–	–	241	241
Liquidation/sale	–	–	(115)	(21)	–	(136)
Transfers from property, plant and equipment under construction	–	96	145	–	(241)	
Depreciation for period	–	(1,345)	(2,433)	(192)	–	(3,970)
Impairment loss for period	–	–	63	1	–	64
Other, including reclassification to/from other asset category	–	–	69	1,188	–	1,257
Net carrying amount as at June 30th 2019	**9,184**	**75,503**	**38,956**	**1,995**	**–**	**125,638**

(PLN thousand)

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

	Six months ended June 30th 2020	*Six months ended June 30th 2019*
Purchase of property, plant and equipment and intangible assets*	1,241	1,248
Proceeds from sale of property, plant and equipment	95	163

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

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

10.8 **Right-of-use** assets

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*	*Depreciation of right-of-use assets (cumulative)*	*Depreciation in the reporting period*
	June 30th 2020	*June 30th 2020*	*January 1st–June 30th 2020*
Land	79	174	59
Buildings and structures	598	1,322	554
Plant and equipment	3,969	3,172	1,041
Vehicles	2,681	1,190	111
Intangible assets	97	17	11
Total	**7,424**	**5,875**	**1,776**

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

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

(PLN thousand)

The Company's leasing activities are summarised below.

Class of underlying assets	*Number of rights of use*	*Remaining lease term (years) from*	*to*	*Average remaining lease term (years)*	*Number of contracts with extension option*	*Number of contracts with purchase option*	*Number of contracts with variable rate-indexed payments*	*Number of contracts with early termination option*
Land	1	0.8	0.8	0.8	1	–	–	1
Buildings and structures	17	0.2	1.4	0.6	16	–	–	17
Plant and equipment	7	0.1	4.3	1.4	2	3	–	5
Vehicles	42	0.1	3.1	1.9	–	40	–	42
Intangible assets	1	4.3	4.3	4.3	1	–	–	1

In 2020, the Company changed its estimates of the duration of active lease contracts for the lease of residential units. The Company estimated that it would exercise the extension options, which it had not previously foreseen. As a result of the change, the amount of lease liabilities and right-of-use assets increased by PLN 643 thousand. In the 6 months ended June 30th 2020, interest expense on the lease contracts was PLN 65 thousand. The economic useful lives of those assets are consistent with the lease terms, ranging from 12 months to 60 years. The Company depreciates leased assets with the straight-line method.

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

	June 30th 2020		*December 31st 2019*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	4,126	4,156	4,167	4,037
from 1 to 5 years	1,503	1,259	1,893	1,704
Total minimum lease payments	**5,629**	**5,415**	**6,060**	**5,741**
Less finance costs	(214)	–	(319)	–
Present value of minimum lease payments, including:	**5,415**	**5,415**	**5,741**	**5,741**
short-term	4,156	4,156	4,037	4,037
long-term	1,259	1,259	1,704	1,704

The Company does not recognise liabilities under short-term leases or leases of low-value underlying assets. Contingent lease payments are not recognised in lease liabilities. In the 6 months ended December 31st 2020, the related costs were as follows:

	June 30th 2020
Short-term leases	2,342
Leases of low-value assets	–
Total	**2,342**

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

(PLN thousand)

10.9Other long-term receivables

	June 30th 2020	December 31st 2019
Financial receivables		
Security deposits/retentions	174	380
Other long-term receivables	113,540	42,336
Other long-term financial receivables (net)	**113,714**	**42,716**
Total other long-term receivables (net)	**113,714**	**42,716**

10.10 Shares in subsidiaries and other entities

	June 30th 2020	December 31st 2019
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	27,389	29,814
Shares in other listed companies	173	120
Shares in other non-listed companies	1,376	1,376
	28,938	**31,310**

* Shares pledged as security for the Company's liabilities as at the reporting date are presented in Note 10.19.3.

In the six months ended June 30th 2020, the Company recognised an impairment loss of PLN 2,425 thousand on shares in ENERGOTECHNIKA Engineering Sp. z o.o. The impairment loss was recognised following a decrease in the fair value of the subsidiary's net assets.

10.11 Other non-current financial assets

	June 30th 2020	December 31st 2019
Receivables under sureties provided to related entities	–	28,148
	–	**28,148**

In the six months ended June 30th 2020, the Company recognised an impairment loss of PLN 31,668 thousand on receivables under a surety provided to E003B7 Sp. z o.o.

10.12 Inventories

	June 30th 2020	December 31st 2019
Materials (at net realisable value)	27,859	27,205
At cost	39,658	39,179
At net realisable value	27,859	27,205
Total inventories, at the lower of cost and net realisable value	**27,859**	**27,205**

*Inventories pledged as security for the Company's liabilities as at the reporting date are presented in Note 10.19.4.

(PLN thousand)

10.13 Other current financial assets

	June 30th 2020	*December 31st 2019*
Other current financial assets, including:	–	–
Advance payment to acquire the right to a loan	10,400	10,400
Impairment loss on advance payment to acquire the right to a loan	(10,400)	(10,400)
Short-term bonds*	27,822	27,822
Impairment of short-term bonds	(27,822)	(27,822)
Receivables under sureties provided to related entities	31,668	–
Impairment loss on receivables under sureties provided to related entities	(31,668)	–
	–	–

*For a detailed description of bonds, see Note 10.14

10.14 Bonds

As at June 30th 2020, RAFAKO S.A. w restrukturyzacji recognised impairment losses on all bonds held by the Company.

For a detailed description of the bonds, see Note 27.2. to the Company's full-year financial statements for 2019.

10.15 Cash and cash equivalents

	June 30th 2020	*December 31st 2019*	*June 30th 2019*
Cash at bank and cash in hand, including:	28,597	21,089	29,244
Short-term deposits for up to 3 months, including:	60	2,828	26
- deposits pledged as security for contingent liabilities	–	–	–
	28,657	**23,917**	**29,270**

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

The Company holds restricted cash, including cash from grants (held in separate bank accounts), which may be used to pay amounts due under running projects. As at June 30th 2020, the amount was PLN 3,499 thousand.

In addition, a hold may be put on cash in bank accounts secured by assignment of receivables under the contract if the Company’s financial condition deteriorates. As at the reporting date, no cash was restricted.

(PLN thousand)

10.16 Short-term trade and other receivables

	June 30th 2020	*December 31st 2019*
Financial receivables		
Trade receivables	174,427	207,730
Impairment loss on trade receivables (-)	(9,191)	(5,679)
Net trade receivables	**165,236**	**202,051**
Receivables on sale of property, plant and equipment and intangible assets	–	–
Security deposits	55,629	66,736
Receivables under court proceedings*	41,677	31,896
Other financial receivables	10,591	10,489
Impairment loss on financial receivables (-)	(33,786)	(33,648)
Total financial receivables, net	**239,347**	**277,524**
Non-financial receivables		
Receivables under prepayments and advance payments	101,491	103,395
Receivables from the state budget	15,745	11,058
Other non-financial receivables	20,729	11,280
Impairment loss on non-financial receivables (-)	(61,273)	(39,430)
Total non-financial receivables, net	**76,692**	**86,303**
Total short-term receivables, net	**316,039**	**363,827**

*The Company recognised an impairment loss on the receivables in an amount corresponding to the estimated risk of their non-recoverability. For a detailed description of disputed receivables, see Note 21 to these interim condensed financial statements.

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

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

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

Short-term trade receivables of PLN 165,236 thousand recognised in the statement of financial position as at June 30th 2020 related to contracts with domestic and foreign trading partners.

The short-term security deposits of PLN 55,629 thousand disclosed in the statement of financial position as at June 30th 2020 relate mainly to:

- Construction of a coal-fired steam unit – PLN 18,083 thousand;
- construction of a coke gas-fired power generation unit − PLN 7,113 thousand;
- Manufacture of high-pressure parts of a boiler for an incineration plant – PLN 5,998 thousand.
- construction of a compressor station of PLN 3,120 thousand.

The change in the amount of security deposits in the six months ended June 30th 2020 was primarily attributable to the refund of a PLN 3,500 thousand cash security deposit provided in connection with the performance of contracts for the upgrade of FGD units and the refund of a PLN 8,788 thousand cash security deposit provided in connection with the performance of a contract for delivery of a catalytic flue gas NOx reduction unit.

(PLN thousand)

A significant item of other receivables were advance payments, which amounted to PLN 101,491 thousand as at June 30th 2020 and included:

- Advance payment of PLN 44,740 thousand towards a contract to construct fuel storage tanks;
- advance payment of PLN 14,650 thousand under a contract to construct a biomass boiler island;
- advance payment of PLN 11,119 thousand under a contract to construct a gas pipeline;
- Advance payment of PLN 6,450 thousand under a contract to construct an LNG storage tank.

10.17 Short-term accrued expenses and deferred income

	June 30th 2020	*December 31st 2019*
Accrued expenses and deferred income		
Costs of bank and insurance guarantees	4,529	4,778
Costs of obtaining contracts with customers	–	–
Expenditure on development work – eBus	15,611	13,436
Other costs	2,311	2,377
Accrued expenses and deferred income	**22,451**	**20,591**

In 2017, RAFAKO S.A. commenced the construction of a prototype of the first Polish zero-emission electric bus with a battery under the chassis. On September 28th 2020, the Company entered into an agreement to sell its development expenditure on eBus as part of the sale of an organised part of business. For detailed information on the eBus project, see Section IV.3. of the Directors' Report on the Group's operations in the six months ended June 30th 2020 and Note 29 to these interim condensed financial statements.

(PLN thousand)

10.18 Impairment of assets

	Property, plant, equipment and intangible assets	*Shares**	*Other financial assets*** **	*Other non-financial assets*** **	*Inventories***	*Contract assets*	*Receivables****
January 1st 2020	**(104)**	**(10,336)**	**(10,400)**	**(5,676)**	**(11,974)**	**(1,211)**	**(78,757)**
Recognised	(1,569)	(2,465)	(31,668)	–	(1,489)	–	(26,201)
Utilised	–	–	–	–	1,137	–	–
Reversed		91	–	–	527	294	709
June 30th 2020	**(1,673)**	**(12,710)**	**(42,068)**	**(5,676)**	**(11,799)**	**(917)**	**(104,249)**
January 1st 2019	**(233)**	**(4,973)**	**(10,400)**	**(5,676)**	**(10,287)**	**(1,848)**	**(46,020)**
Recognised	–	(37)	–	–	–	(1,448)	(1,868)
Utilised	63	–	–	–	231	–	13,290
Reversed	–	–	–	–	–	–	1,722
June 30th 2019	**(170)**	**(5,010)**	**(10,400)**	**(5,676)**	**(10,056)**	**(3,296)**	**(32,876)**

* Impairment losses on shares are allowances recognised for shares in companies declared bankrupt as well as allowances arising from remeasurement of shares.
** Inventory write-downs and write-down reversals are charged to cost of products and services sold.
*** Impairment losses on long- and short-term trade and other receivables, including liquidated damages, advance payments, disputed receivables and security deposits.
**** The Management Board of the Company estimates that financial assets covered by the agreement executed in 2012 are exposed to a significant default risk and has upheld its decision to recognise an impairment loss for the entire amount of the investment.

In the six months ended June 30th 2020, the Company recognised a PLN 31,668 thousand impairment loss on receivables under the surety granted to E003B7 Sp. z o.o., as described in more detail in Note 10.11.

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

(PLN thousand)

As at June 30th 2020 and the comparative date, the gross amounts of individual groups and impairment losses were as follows:

			Trade receivables					
	Assets assets	Current	0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	Total
June 30th 2020								
Location: Poland								
Impairment loss rate	0.54%	0.54%	0.54%	22.23%	44.03%	64.48%	93.30%	–
Gross carrying amount	155,146	106,540	324	7,480	728	1,778	2,056	274,052
Impairment loss	(917)	(579)	(2)	(1,663)	(321)	(1,146)	(2,001)	(6,629)
Location: outside Poland								
Impairment loss rate	–	0.54%	0.54%	22.23%	44.03%	64.48%	93.30%	–
Gross carrying amount	–	184,681	5,163	545	–	497	588	191,474
Impairment loss	–	(2,461)	(28)	(121)	–	(320)	(549)	(3,479)
Total impairment losses	**(917)**	**(3,040)**	**(30)**	**(1,784)**	**(321)**	**(1,466)**	**(2,550)**	**(10,108)**

			Trade receivables					
	Assets 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	214,763	122,381	2,813	26	3,487	62	1,972	345,504
Impairment loss	(1,211)	(671)	(15)	(6)	(1,536)	(40)	(1,913)	(5,392)
Location: outside Poland								
Impairment loss rate	–	0.54%	0.54%	22.23%	44.03%	64.48%	93.30%	–
Gross carrying amount	–	112,099	5,562	453	471	491	249	119,325
Impairment loss	–	(609)	(30)	(101)	(208)	(317)	(233)	(1,498)
Total impairment losses	**(1,211)**	**(1,280)**	**(45)**	**(107)**	**(1,744)**	**(357)**	**(2,146)**	**(6,890)**

As at June 30th 2020, an impairment loss of PLN 33,786 thousand was recognised on other short-term financial receivables with a gross carrying amount of PLN 107,897 thousand (December 31st 2019: PLN 109,121 thousand; impairment loss on other receivables: PLN 33,648 thousand).

(PLN thousand)

10.19 Assets pledged as security for the Company's liabilities

10.19.1 Property, plant and equipment pledged as security

As at June 30th 2020, property, plant and equipment pledged as security for the Company's liabilities amounted to PLN 118,717 thousand. The assets were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO S.A. w restrukturyzacji is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, PKO BP's, mBank's and PZU's claims against RAFAKO S.A. w restrukturyzacji under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno TAURON Sp. z o.o. in connection with the execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

	June 30th 2020	*December 31st 2019*
Mortgaged property, plant and equipment, including:	81,394	83,094
land	9,162	9,162
buildings and structures	72,232	73,932
Property, plant and equipment encumbered with registered pledge, including:	37,323	39,282
plant and equipment	35,016	36,880
vehicles	2,307	2,402
	118 717*	**122 376***

*The disclosed amounts include PLN 362 thousand of property, plant and equipment classified as held for sale (December 31st 2019: PLN 103 thousand).

10.19.2 Intangible items pledged as security

As at June 30th 2020, intangible assets worth PLN 7,478 thousand were pledged as security for the Company's liabilities (December 31st 2019: PLN 8,097 thousand). The assets were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO S.A. w restrukturyzacji under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno TAURON Sp. z o.o. in connection with execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

10.19.3 Shares pledged as security

As at June 30th 2020, PLN 28,938 thousand (December 31st 2019: PLN 31,310 thousand) worth of the Company's equity interests in subsidiaries and other entities were pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A.'s, PKO BP S.A.'s, mBank S.A.'s and PZU S.A.'s claims towards RAFAKO S.A. w restrukturyzacji under the surety agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW Project (a second-ranking registered pledge over a set of movables and rights, a registered and financial pledge over the shares held in E003B7 Sp. z o.o.).

10.19.4 Inventories pledged as security

As at June 30th 2020, inventories worth PLN 27,859 thousand were pledged as security for the Company's liabilities (December 31st 2019: PLN 27,205 thousand). The inventories were pledged as security for liabilities under the Multi-Purpose Credit Facility Agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK S.A. 's, PKO BP S.A.' s, mBank S.A. 's and PZU S.A. 's claims towards RAFAKO S.A. w restrukturyzacji under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o. (formerly TAURON Wytwarzanie S.A.) in connection with the implementation of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights, a financial pledge and a registered pledge over shares in E003B7 Sp. z o.o).

10.19.5 Trade receivables pledged as security

As at June 30th 2020, trade receivables of PLN 52,043 thousand were pledged as security for guarantees and borrowings received by the Group (December 31st 2019: PLN 21,499 thousand).

10.20 Share capital

In the six months ended June 30th 2020, RAFAKO S.A. w restrukturyzacji's share capital remained unchanged and as at June 30th 2020 amounted to PLN 254,864 thousand.

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

In connection with the 2016 bond issue carried out by PGB S.A. restrukturyzacji, the Company's main shareholder, a registered pledge was created over RAFAKO S.A. w restrukturyzacji 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.

10.21 Par value per share

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

10.22 Shareholders' rights

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

10.23 Share premium

In the six months ended June 30th 2020, there were no changes in the share premium, and as at June 30th 2020 the share premium was PLN 165,119 thousand.

10.24 Earnings /(loss) per share

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

(PLN thousand)

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

	Six months ended June 30th 2020	*Six months ended June 30th 2019*
Net profit/(loss) from continuing operations	(209,720)	(116,730)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(209,720)	(116,730)
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings/(loss) per share	**(209,720)**	**(116,730)**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	127,431,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	127,431,998	127,431,998
Earnings/(loss) per share		
– basic/diluted earnings/(loss) for period	(1.65)	(0.92)

10.25 Other non-current liabilities

	June 30th 2020	*December 31st 2019*
Financial liabilities		
Other non-current liabilities	16,196	18,556
	16,196	**18,556**

10.26 Long-term employee benefit obligations and provisions

	June 30th 2020	*December 31st 2019*
Unpaid bonus accrual	–	5
Provision for retirement gratuity	8,859	8,570
Provision for long-service benefits	14,493	13,944
Provision for other employee benefits	6,926	6,815
	30,278	**29,334**

(PLN thousand)

10.27 Post-employment and other benefits

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

	June 30th 2020	*December 31st 2019*
As at January 1st	31,794	26,097
Interest expense	300	730
Current service costs	342	654
Actuarial (gains)/losses	918	6,877
Benefits paid	(828)	(2,564)
Closing balance	**32,526**	**31,794**
Long-term provisions	30,278	29,329
Short-term provisions	2,248	2,465

The main assumptions adopted by the actuary as at June 30th 2020 and for the six months ended June 30th 2020 as well as for the 12 months ended December 31st 2019 to determine the amount of the obligation were as follows:

	June 30th 2020	*December 31st 2019*
Discount rate (%)	1.9	1.9
Expected inflation rate (%)*	–	–
Employee turnover rate	7.5	7.5
Expected growth of salaries and wages (%)**	2	2

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

10.28 Other long-term provisions

	June 30th 2020	*December 31st 2019*
Provision for warranty repairs	24,411	18,430
	24,411	**18,430**

10.29 Short-term trade and other payables

	June 30th 2020	*December 31st 2019*
Financial liabilities		
Trade payables	373,361	332,640
Amounts payable for tangible and intangible assets	108	163
Retentions (security deposits)	87	87
Total financial liabilities	**373,556**	**332,890**

(PLN thousand)

	June 30th 2020	*December 31st 2019*
Non-financial liabilities		
Taxes and other duties payable	1,591	5,525
Amounts payable under sureties/joint and several liability	10,877	15,386
Liabilities due to delayed payment of costs	6,081	13,582
Other non-financial liabilities	3,729	2,713
Total non-financial liabilities	**22,278**	**37,206**
	395,834	**370,096**

10.30 Short-term employee benefit obligations and provisions

	June 30th 2020	*December 31st 2019*
Social security	16,119	6,682
Salaries and wages payable	6,424	6,555
Obligations under Employee Capital Plans	98	225
Accrued holiday entitlements	4,276	2,769
Unpaid bonus accrual	290	532
Provision for retirement gratuity	277	432
Provision for long-service benefits	1,712	1,772
Provision for other employee benefits	259	261
	29,455	**19,228**

10.31 Other short-term provisions

	June 30th 2020	*December 31st 2019*
Provision for warranty repairs	3,845	6,555
Provision for expected contract losses	70,785	38,997
Other provisions	19	288
	74,649	**45,840**

11. Objectives and policies of financial risk management

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

12. Financial instruments

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

The value of financial assets presented in the statement of financial position as at June 30th 2020 and December 31st 2019 relates to the following categories of financial instruments defined in IFRS 9:

- financial assets at amortised cost,
- financial assets at fair value through profit or loss – designated as such on initial recognition or subsequently,
- financial assets at fair value through profit or loss – obligatorily measured this way in accordance with IFRS 9,

(PLN thousand)

- equity instruments at fair value through other comprehensive income designated as such on initial recognition,
- financial assets at fair value through other comprehensive income,
- financial instruments designated as hedging instruments,
- assets outside the scope of IFRS 9 (non-IFRS 9).

Classes and categories of financial assets	*Carrying amount June 30th 2020*	*Carrying amount December 31st 2019*
Assets at fair value through profit or loss	**173**	**120**
Long-term shareholdings	173	120
Assets at fair value through other comprehensive income	**1,376**	**1,376**
Long-term shareholdings	1,376	1,376
Assets at amortised cost	**381,718**	**372,306**
Bonds	–	–
Trade receivables	278,776	244,387
Other financial receivables*	74,285	75,853
Other financial assets	–	28,149
Cash and cash equivalents	28,657	23,917
	383,267	**373,802**

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

The value of financial liabilities presented in the statement of financial position as at June 30th 2020 and December 31st 2019 relates to the following categories of financial instruments defined in IFRS 9:

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

Classes and categories of financial liabilities	*Carrying amount June 30th 2020*	*Carrying amount December 31st 2019*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**469,583**	**463,467**
Borrowings	79,831	112,021
Trade payables (including capital commitments)	389,665	351,359
Other financial liabilities	87	87
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**5,415**	**5,741**
Liabilities under leases and rental contracts with purchase option	5,415	5,741
	474,998	**469,208**

(PLN thousand)

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

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

June 30th 2020	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	**173**	–	–
Long-term shareholdings	173	–	–
Assets at fair value through other comprehensive income	**1,376**	–	–
Long-term shareholdings	1,376	–	–

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

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

13. Derivative instruments

As at June 30th 2020 and December 31st 2019, the Company did not carry any open currency forward contracts or other derivative instruments.

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

(PLN thousand)

14. Borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						June 30th 2020	*December 31st 2019*
Short-term borrowings:							
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	current account overdraft facility of up to PLN 50m***	PLN	1M WIBOR + margin	November 10th 2020****	49,984	69,569
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility of up to PLN 31m	PLN/ EUR	1M WIBOR or 1M EURIBOR + margin	November 10th 2020****	21,547	34,149
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts*, clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement, registered pledge over a set of movables and rights comprising an entire business	revolving working capital facility to cover liabilities related to payments made under bank guarantees for up to PLN 142m	PLN	1M WIBOR + margin	November 10th 2020****	8,300	8,303
						79,831	**112,021**

*The facility is secured by receivables under contracts executed by the Company.
**As at the date of these interim condensed financial statements, the Company had established mortgages on its properties (other than flats and residential buildings) for a total amount of up to PLN 300m, serving as additional security for the PKO BP credit facility.
***As at the date of issue of these interim condensed financial statements, in accordance with the annex of June 30th 2020 to the multi-purpose credit facility agreement, the facility limit was set at PLN 142m, including an overdraft facility of up to 50 million;
***As at the date of issue of these interim condensed financial statements, in accordance with the annex of June 30th 2020 to the multi-purpose credit facility agreement, the term of the facility and its repayment date were extended until November 10th 2020.

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

(PLN thousand)

15. Capital management

The Company's standing should be analysed taking into account the information presented in Note 2.

	June 30th 2020	*December 31st 2019*
Debt to equity		
Equity	(105,935)	104,529
Borrowed funds (bank and non-bank borrowings)	79,831	112,021
Total equity and liabilities	851,401	932,588
Capitalisation ratio (equity / total assets)	**(0.12)**	**0.11**
Total financing sources		
Equity	(105,935)	104,529
Borrowed funds (bank and non-bank borrowings)	79,831	112,021
Finance leases	5,415	5,741
Capital-to-total financing sources ratio	**(1.24)**	**0.89**
EBITDA		
Operating profit/(loss)	(191,380)	(250,395)
Depreciation and amortisation	6,202	12,659
EBITDA	**(185,178)**	**(237,736)**
Debt		
Borrowings and other debt instruments	79,831	112,021
Finance leases	5,415	5,741
Debt to EBITDA	**(0.46)**	**(0.50)**

(PLN thousand)

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

	*Provision for expected losses on contracts**	*Provision for long-service benefits, retirement gratuity payments and Company Social Benefits Fund*	*Provision for unused holiday entitlement*	*Provision for warranty repairs*	*Employee benefit obligations*	*Provision for credit losses on sureties*	*Provision for voluntary redundancy programme*	*Provision for other costs*	*Other provisions*
January 1st 2020	**38,997**	**31,794**	**2,769**	**24,985**	**537**	**7,347**	**–**	**8,040**	**139**
Recognised	47,277	1,560	1,507	7,821	24	–	–	306	142
Reversed	(15,489)	–	–	(509)	(271)	–	–	–	–
Utilised	–	(828)	–	(4,042)	–	–	–	(4,816)	(95)
June 30th 2020	**70,785**	**32,526**	**4,276**	**28,255**	**290**	**7,347**	**–**	**3,530**	**186**
January 1st 2019	**4,077**	**26,096**	**2,928**	**22,951**	**747**	**1,549**	**145**	**1,531**	**139**
adjustment to opening balance	–	–	–	–	–	–	–	–	–
January 1st 2019	**4,077**	**26,096**	**2,928**	**22,951**	**747**	**1,549**	**145**	**1,531**	**139**
Recognised	22,514	1,159	1,536	5,640	26	–	–	–	142
Reversed	(4,693)	(18)	–	(1,576)	(2)	(70)	(4)	(48)	–
Utilised	–	(728)	–	(3,787)	(21)	–	(141)	–	(139)
June 30th 2019	**21,898**	**26,509**	**4,464**	**23,228**	**750**	**1,479**	**–**	**1,483**	**142**

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

(PLN thousand)

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

In the six months ended June 30th 2020, the Company did not issue, redeem or repay any debt or equity securities.

18. Dividends paid or declared

In the six months ended June 30th 2020, the Company did not pay any dividends, nor did the Management Board declare any dividend.

19. Capital commitments

As at June 30th 2020, the Company did not recognise any commitments related to purchase of property, plant and equipment.

As at June 30th 2020, the Company was not a party to any contracts or agreements which would commit the Company to incur capital expenditure but were not disclosed in the accounting records as at the reporting date.

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

	June 30th 2020	*December 31st 2019*
Receivables under bank guarantees obtained mainly as security for performance of contracts, including:	239,210	228,666
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	32,951	62,630
- from related entities	13,427	51,925
Letters of credit	390	5,643
Holds on subcontractors' bank accounts	982	–
	273,533	**296,939**

	June 30th 2020	*December 31st 2019*
Liabilities under bank guarantees issued mainly as security for contract performance, including:	499,867	510,939
- to related entities	–	–
Liabilities under sureties, including:	1,175,587	1,175,587
- to related entities	1,175,587	1,175,587
Promissory notes issued as security, including:	109,882	107,900
- to related entities	–	–
	1,785,336	**1,794,426**

In the six months ended June 30th 2020, there was a PLN 9,090 thousand decrease in the amount of the Company's contingent liabilities, which resulted primarily from a decrease in the level of guarantees granted. In the reporting period, at the request of the parent, the banks and insurance companies issued guarantees (performance bonds and bid bonds) for the benefit of the Group's trading partners for a total amount of PLN 8,046 thousand. The largest item of contingent liabilities was an advance payment guarantee of EUR 1,354 thousand issued in June 2020. As at the end of June 2020, 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 3 months ended March 31st 2020 was a EUR 8,139 thousand performance bond.

In the six months ended June 30th 2020, the Company's contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 23,406 thousand, which included an increase of PLN 10,544 thousand in receivables under bank and insurance guarantees, a decrease of PLN 29,679 thousand in receivables under promissory notes and a decrease of PLN 5,253 thousand in letters of credit. The largest item of guarantees received in the six months ended June 30th 2020 was a PLN 1,397 thousand performance bond. The largest guarantee which expired in the six months ended June 30th 2020 was a EUR 974 thousand performance bond.

21. Litigation and disputes

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

For a detailed description of key court cases, see the Company's full-year financial statements for the year ended December 31st 2019, available at:

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

The disputes described in Notes 42.1 and 42.4 to the full-year financial statements are considered closed. In the arbitration dispute described in Note 42.3. against Wärtsilä Finland Oy, the panel of arbitrators was appointed and the expected timetable for the proceedings was agreed. RAFAKO S.A. w restrukturyzacji is currently preparing the claim.

The dispute with Stal-Systems S.A., described in Note 42.6 to the full-year financial statements for 2019, is pending and is expected to be resolved within the next few months; the Company anticipates a favourable judgment.

With respect to the case described in Note 42.7 to the full-year financial statements for 2019, the court dismissed the motion for injunctive relief; the disputed amount was drawn from the bank guarantee, with the Company's account debited for the same amount. On July 27th 2020, RAFAKO S.A. w restrukturyzacji filed a claim for payment of PLN 1,917,750.00 due to the lack of grounds for release of the amount from the bank guarantee. RAFAKO S.A. w restrukturyzacji is preparing a separate action regarding the remaining amount of approximately PLN 4m drawn under the guarantee, which according to SODA CIECH Polska S.A. represents liquidated damages for termination of the contract.

On July 10th 2020, RAFAKO S.A. w restrukturyzacji submitted a request to initiate arbitration proceedings, which will be held at the Arbitration Institute of the Stockholm Chamber of Commerce in Stockholm. The main claims submitted by the Company in these proceedings are: i) extension of the project execution period until April 1st 2021, and ii) payment of additional remuneration for additional project costs. VKJ submitted a preliminary response to RAFAKO's request. By the date of preparation of these condensed interim financial statements, the panel of arbitrators was appointed, which will then determine (with the participation of the parties) the procedure.

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

22. Management Board and Supervisory Board

In the six months ended June 30th 2020 and until the date of these interim condensed financial statements, there were changes in the composition of the Management Board.

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

(PLN thousand)

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

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

On August 12th 2020, following the expiry of the term of office and mandates of the existing Management Board members as of August 12th 2020, the Supervisory Board of the Company:

- set the number of members of the RAFAKO Management Board at two;
- appointed the following persons to the Management Board for the joint three-year term of office starting on August 12th 2020:
  - Mariusz Zawisza, President of the Management Board,
  - Radosław Domagalski-Łabędzki, Vice President of the Management Board.

On September 8th 2020, the Supervisory Board passed the following resolutions to fill vacant positions on the Management Board, with effect from September 10th 2020:

- The Supervisory Board set the number of Management Board Members at four.
- The Supervisory Board appointed Mr Jarosław Pietrzyk to the Management Board as its Vice President, Chief Operating Officer.
- The Supervisory Board appointed Ms Ewa Porzucek to the Management Board as its Vice President, Chief Financial Officer.

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

Mariusz Zawisza	– President of the Management Board
Radosław Domagalski-Łabędzki	– Vice President of the Management Board
Jarosław Pietrzyk	– Vice President of the Management Board, Operations
Ewa Porzucek	– Vice President of the Management Board, Finance.

In the six months ended June 30th 2020 and until the date of these interim condensed consolidated financial statements, there were changes in the composition of the Company's Supervisory Board.

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

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

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

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

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

On the same day, the Extraordinary General Meeting of RAFAKO S.A.: changed in the composition of the Supervisory Board,

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

(PLN thousand)

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

Piotr Zimmerman	– Chairman of the Supervisory Board,
Michał Sikorski	– Deputy Chairman of the Supervisory Board,
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.

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

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

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

24. Related-party transactions

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

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

In the six months ended June 30th 2020 and 2019, the Company did not enter into any material related-party transactions on non-arm's length terms. All transactions with related parties are executed on terms applied by the Company in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are applied. A related party must ensure that a contract is performed in accordance with the relevant documentation, give a warranty for a specified period, and provide security in the form of a performance bond. Related parties are also required to accept standard liquidated damages clauses, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

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

	Operating income	
	from January 1st 2020 to June 30th 2020	*from January 1st 2019 June 30th 2019*
Sales to:		
Entities related through equity links:	3,015	2,259
Entities related through personal links:	17	24
TOTAL	**3,032**	**2,283**

(PLN thousand)

	Receivables	
	June 30th 2020	*December 31st 2019*
Sales to:		
Entities related through equity links:	45 032*	65 792*
Entities related through personal links:	3	5
TOTAL	**45,035**	**65,797**

** Including bonds from PBG S.A. described in Note* 10.14 and receivables under advance payments.

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

	Purchases (costs, assets)	
	from January 1st 2020 to June 30th 2020	*from January 1st 2019 June 30th 2019*
Purchases from:		
Entities related through equity links:	8,723	53,836
Entities related through personal links:	1,115	577
TOTAL	**9,838**	**54,413**

	Liabilities	
	June 30th 2020	*December 31st 2019*
Purchases from:		
Entities related through equity links:	10,139	15,802
Entities related through personal links:	663	718
TOTAL	**10,802**	**16,520**

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

The Company has not published any forecasts for 2020.

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

Shareholders holding 5% or more of total voting rights at the General Meeting of RAFAKO S.A. w restrukturyzacji are presented in Note 27 to the interim condensed consolidated financial statements for the six months ended June 30th 2020.

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

	Company	*As at July 28th 2020*	*Increase*	*Decrease*	*As at September 30th 2020*
Member of the Management Board					
Agnieszka Wasilewska- Semail – Acting President of the Management Board	RAFAKO S.A.	60,245	–	–	–
Member of the Supervisory Board		–	–	–	–

* On August 12th 2020, following the expiry of the term of office and mandate, Ms Agnieszka Wasilewska-Semail ceased to serve as acting President of the Management Board.

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

The financial highlights for the periods covered by these financial statements were translated into the euro at the mid-exchange rates quoted by the National Bank of Poland, and in particular:

- the exchange rate effective for the last day of the reporting period, June 30th 2020: 4.4660 PLN/EUR, December 31st 2019: 4.2585 PLN/EUR,
- the average exchange rate for the period, calculated as the arithmetic mean of the exchange rates effective for the last day of each month in the period: January 1st–June 30th 2020: 4.4143; PLN/EUR, January 1st–December 31st 2019: 4.2988 PLN/EUR.

The highest and the lowest exchange rates in each period were as follows: January 1st–June 30th 2020: 4.6044/4.2279 PLN/EUR, January 1st–December 31st 2019: 4.3891/4.2406 PLN/EUR.

	June 30th 2020	*December 31st 2019*	*June 30th 2020*	*December 31st 2019*
	PLN '000		*EUR '000*	
Statement of financial position				
Assets	851,401	932,588	190,641	218,994
Non-current liabilities	72,144	68,024	16,154	15,974
Current liabilities	885,192	760,035	198,207	178,475
Equity	(105,935)	104,529	(23,720)	24,546
PLN/EUR exchange rate at end of period			4.4660	4.2585

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

	from January 1st 2020 to June 30th 2020	*from January 1st 2019 June 30th 2019*	*from January 1st 2020 to June 30th 2020*	*from January 1st 2019 June 30th 2019*
	PLN '000		*EUR '000*	
Statement of comprehensive income				
Revenue	435,734	421,003	98,709	98,044
Operating profit/(loss)	(191,380)	(111,218)	(43,354)	(25,901)
Profit/(loss) before tax	(196,427)	(112,273)	(44,497)	(26,146)
Net profit/(loss)	(209,720)	(116,730)	(47,509)	(27,184)
Earnings per share (PLN)	(1.65)	(0.92)	(0.37)	(0.21)
Average PLN/EUR exchange rate in the period			4.4143	4.2940

	from January 1st 2020 to June 30th 2020	from January 1st 2019 June 30th 2019	from January 1st 2020 to June 30th 2020	from January 1st 2019 June 30th 2019
	PLN ’000		EUR ’000	
Statement of cash flows				
Net cash from operating activities	40,138	16,768	9,093	3,905
Net cash from investing activities	(425)	(63)	(96)	(15)
Net cash from financing activities	(34,973)	7,161	(7,923)	1,668
Net increase/(decrease) in cash and cash equivalents	4,740	23,866	1,074	5,558
Average PLN/EUR exchange rate in the period			4.4143	4.2940

29. Events after the reporting period

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

On September 28th 2020, RAFAKO S.A. w restrukturyzacji executed agreements to sell:

- an organised part of business operating as a branch of the Company under the name of RAFAKO S.A. Oddział w Solcu Kujawskim (“ZCP"), for an amount of PLN 30,985,000.00; the agreement was executed by and between RAFAKO EBUS sp. z o.o. of Racibórz (“EBUS") and RAFAKO S.A. w restrukturyzacji, with the participation of Agencja Rozwoju Przemysłu S.A. of Warsaw (“ARP”), and
- 100% of shares in the share capital of EBUS for PLN 15,000.00, between ARP and RAFAKO S.A. w restrukturyzacji, i.e. for a total amount of PLN 31,000,000.00.

As part of the agreement, the Company sold its eBus development project. As at June 30th 2020, the amount of development outlays of PLN 15,611 thousand was disclosed in short-term prepayments.

The share purchase agreement was executed after the agreement to sell ZCP was concluded. The share purchase agreement includes a condition precedent, which is payment of the price for ZCP (as provided for in the agreement to sell ZCP), to be paid from the funds obtained by EBUS from ARP following adoption of a resolution to increase the share capital of EBUS as part of the closing process. The ownership of the Organised Part of Business will be transferred upon payment of the full price for the Organised Part of Business, while the ownership of the shares will be transferred upon payment of the full price for the EBUS shares. At the time of the transfer of ownership of all shares in EBUS to ARP, the Organised Part of Business will be owned by EBUS.

The Company has the right to rescind the Agreement to Sell the Organised Part of Business if the price for the Organised Part of Business is not paid to the Company by the deadline specified therein.

On August 27th 2020, the Company's Management Board passed a resolution to commence restructuring of the RAFAKO S.A.'s workforce. The purpose of the restructuring is to adjust the level and costs of employment to the situation on the Company’s markets. The Management Board of RAFAKO S.A. decided to launch the formal collective redundancy procedure within the meaning of the Act on Special Rules of Termination of Employment for Reasons Not Attributable to Employees of March 13th 2003. For details, see Note 2 to these financial statements.

After the reporting date, there were changes in the composition of the Management Board of the Company, as described in detail in Note 22 to these interim condensed financial statements.

30. Authorisation for issue

These interim condensed financial statements of the Company were authorised for issue on September 30th 2020 by resolution of the Management Board of RAFAKO S.A. w restrukturyzacji dated September 30th 2020.

Signatures:

Mariusz Zawisza	President of the Management Board	....
Radosław Domagalski-Łabędzki	Vice President of the Management Board	....
Jarosław Pietrzyk	Vice President of the Management Board, Operations	....
Ewa Porzucek	Vice President of the Management Board, Finance	....
Jolanta Markowicz	Chief Accountant	....