RAFAKO S.A.
w restrukturyzacji

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31ST 2020

with the auditor's report on the financial statements

Table of contents

(PLN thousand)

Statement of comprehensive income

for the 12 months ended December 31st 2020

	Note	12 months ended Dec 31 2020	12 months ended Dec 31 2019
Continuing operations			
Revenue	12.1	869,360	947,061
Cost of sales	13.1	(1,010,288)	(1,071,525)
Gross profit/(loss)		**(140,928)**	**(124,464)**
Other income	13.4	23,412	8,892
Selling expenses	13.1	(13,927)	(22,452)
Administrative expenses	13.1	(36,072)	(35,175)
Other expenses	13.5	(105,568)	(65,860)
Research and development costs		(6,201)	(11,336)
Operating profit/(loss)		**(279,284)**	**(250,395)**
Finance income	14.1	4,756	7,013
Finance costs	14.2	(10,051)	(40,878)
Profit/(loss) before tax		**(284,579)**	**(284,260)**
Income tax expense	15	(12,944)	(384)
Net profit/(loss) from continuing operations	17	**(297,523)**	**(284,644)**
Profit/(loss) from discontinued operations		–	–
Net profit/(loss)	17	**(297,523)**	**(284,644)**

(PLN thousand)

Statement of comprehensive income

for the 12 months ended December 31st 2020

	Note	*12 months ended Dec 31 2020*	*12 months ended Dec 31 2019*
Other comprehensive income for period			
Items that will not be reclassified to profit or loss in subsequent reporting periods			
Other comprehensive income due to actuarial gains/(losses)		915	(6,877)
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods, gross		**915**	**(6,877)**
Tax on other comprehensive income	15.1	(174)	1,306
Other comprehensive income, net		**741**	**(5,571)**
Total comprehensive income for period		**(296,782)**	**(290,215)**

Earnings per share

	Note	12 months ended Dec 31 2020	12 months ended Dec 31 2019
Weighted average number of shares	17	127,431,998	127,431,998
Basic earnings/(loss) per share, PLN	17	(2.33)	(2.23)
From continuing operations		(2.33)	(2.23)
From discontinued operations		–	–
Diluted earnings/(loss) per share, PLN	17	(2.33)	(2.23)
From continuing operations		(2.33)	(2.23)
From discontinued operations		–	–

(PLN thousand)

Statement of financial position

as at December 31st 2020

	Note	*Dec 31 2020*	*Dec 31 2019 (restated)**
ASSETS			
Property, plant and equipment	20	107,827	122,381
Goodwill	23	–	1,774
Intangible assets	23	4,701	6,519
Right-of-use assets	21.1	5,849	8,524
Other long-term receivables	27	63,570	47,511
Shares	26	28,067	31,310
Other non-current financial assets	28	–	28,148
Deferred tax assets	15.3	24,108	37,226
Non-current assets		**234,122**	**283,393**
Inventories	29	22,870	27,205
Short-term trade and other receivables	30	291,580	384,418
Contract assets	11	181,754	213,552
Cash and cash equivalents	31.2	47,646	23,917
Current assets excluding non-current assets held for sale		**543,850**	**649,092**
Non-current assets held for sale	22	4,512	103
Current assets		**548,362**	**649,195**
TOTAL ASSETS		**782,484**	**932,588**

* For a description of restatements and changes in the presentation of the reporting data, see Note 9 to these financial statements.

(PLN thousand)

Statement of financial position

as at December 31st 2020

	Note	*Dec 31 2020*	*Dec 31 2019 (restated)**
EQUITY AND LIABILITIES			
Equity			
Share capital	33.1	254,864	254,864
Share premium	33.4	165,119	165,119
Retained earnings / Accumulated losses		(612,236)	(315,454)
		(192,253)	**104,529**
Non-current liabilities			
Lease liabilities	21	1,281	1,704
Other non-current liabilities	37.1	11,482	18,556
Other long-term provisions	37.2	52,966	47,764
		65,729	**68,024**
Current liabilities			
Bank and other borrowings	35	84,700	112,021
Lease liabilities	21	3,393	4,037
Short-term trade and other payables	37.3	599,698	386,998
Contract liabilities	11	178,519	208,444
Other short-term provisions	37.4	42,258	48,305
Grants	38	440	230
		909,008	**760,035**
Liabilities related to non-current asset held for sale		–	–
Total liabilities		**974,737**	**828,059**
TOTAL EQUITY AND LIABILITIES		**782,484**	**932,588**

* For a description of restatements and changes in the presentation of the reporting data, see Note 9 to these financial statements.

(PLN thousand)

Statement of cash flows
for the 12 months ended December 31st 2020

	Note	*12 months ended Dec 31 2020*	*12 months ended Dec 31 2019 (restated)**
Cash flows from operating activities			
Profit/(loss) before tax		**(284,579)**	**(284,260)**
Adjustments for:		**340,542**	**301,695**
Depreciation and amortisation		12,490	12,659
Foreign exchange (gains)/losses		–	–
Net interest		3,174	4,813
(Gain)/loss from investing activities		7,826	26,988
(Increase)/decrease in receivables	18	104,927	(27,608)
(Increase)/decrease in inventories		4,335	2,186
Increase/(decrease) in liabilities and provisions, excluding borrowings	18	206,682	172,514
Change in provisions	18	(845)	42,506
Change in contract assets and liabilities	18	1,873	67,385
Other		80	252
Cash flows from operating activities		**55,963**	**17,435**
Income tax (paid)/received		–	–
Net cash from operating activities		**55,963**	**17,435**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		1,084	477
Purchase of property, plant and equipment and intangible assets	18	(648)	(701)
Purchase of financial assets		(10)	(153)
Sale of financial assets		507	–
Other		–	–
Net cash from investing activities		**933**	**(377)**

* For a description of restatements and changes in the presentation of the reporting data, see Note 9 to these financial statements.

(PLN thousand)

	Note	12 months ended Dec 31 2020	12 months ended Dec 31 2019 (restated)*
Cash flows from financing activities			
Payment of lease liabilities		(3,004)	(4,386)
Proceeds from borrowings		–	11,197
Repayment of borrowings		(28,207)	–
Interest paid		(2,175)	(4,548)
Other		219	(808)
Net cash from financing activities		**(33,167)**	**1,455**
Cash flows before changes in foreign exchange rates		23,729	18,513
Net foreign exchange gains/(losses)		–	–
Net increase/(decrease) in cash and cash equivalents		23,729	18,513
Cash at beginning of period	31.2	23,917	5,404
Cash at end of period	31.2	47,646	23,917

* For a description of restatements and changes in the presentation of the reporting data, see Note 9 to these financial statements.

(PLN thousand)

Statement of changes in equity

for the 12 months ended December 31st 2020

	Share capital	*Share premium*	*Statutory reserve funds*	*Retained earnings/ accumulated losses*	*Total equity*
As at January 1st 2020	**254,864**	**165,119**	**15,902**	**(331,356)**	**104,529**
Presentation adjustment	–	–	(15,902)	15,902	–
As at Jan 1 2020 *(restated)**	**254,864**	**165,119**	–	**(315,454)**	**104,529**
Profit/(loss) from continuing operations	–	–	–	(297,523)	(297,523)
Other comprehensive income	–	–	–	741	741
Total comprehensive income	–	–	–	**(296,782)**	**(296,782)**
Distribution of retained earnings	–	–	–	–	–
Total changes in equity	–	–	–	**(296,782)**	**(296,782)**
As at Dec 31 2020	**254,864**	**165,119**	–	**(612,236)**	**(192,253)**

* For a description of restatements and changes in the presentation of the reporting data, see Note 9 to these financial statements.

(PLN thousand)

	Share capital	*Share premium*	*Statutory reserve funds*	*Retained earnings/ accumulated losses*	*Total equity*
As at Jan 1 2019	**254,864**	**165,119**	**11,600**	**(37,157)**	**394,426**
Adjustment to opening balance following implementation of IFRS 16	–	–	–	318	318
As of January 1st 2019 *(restated)*	**254,864**	**165,119**	**11,600**	**(36,839)**	**394,744**
Profit/(loss) from continuing operations	–	–	–	(284,644)	(284,644)
Other comprehensive income	–	–	–	(5,571)	(5,571)
Total comprehensive income	–	–	–	**(290,215)**	**(290,215)**
Distribution of retained earnings	–	–	4,302	(4,302)	–
Total changes in equity	–	–	**4,302**	**(294,517)**	**(290,215)**
As at Dec 31 2019	**254,864**	**165,119**	**15,902**	**(331,356)**	**104,529**

* For a description of restatements and changes in the presentation of the reporting data, see Note 9 to these financial statements.

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.

2. Identification of consolidated financial statements

The Company has also prepared the consolidated financial statements of the RAFAKO Group for the year ended December 31st 2020.

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

In the 12 months ended December 31st 2020 and as at the date of these financial statements, there were changes in the composition of the Management Board.

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

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

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

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.

(PLN thousand)

On January 22nd 2021, the Supervisory Board passed the following resolutions on changes in the composition of the Company's Management Board:

- The Supervisory Board removed Ms Ewa Porzucek, Vice President, from the Management Board,
- The Supervisory Board delegated Mr Maciej Stańczuk to temporarily perform the duties of Member of the Management Board (for three months).

On January 22nd 2021, the Company was notified by Mr Mariusz Zawisza of his resignation as Management Board Member holding the position of Management Board President, with effect from January 22nd 2021.

On January 22nd 2021, the Company's Supervisory Board passed a resolution to appoint Mr Radosław Domagalski-Łabędzki, the then Vice President, as President of the Management Board, with effect from January 22nd 2021.

On April 22nd 2021, the Supervisory Board of RAFAKO S.A. w restrukturyzacji passed a resolution to delegate Mr Maciej Stańczuk, member of the Supervisory Board, to serve on the Company's Management Board for another three months.

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

Radosław Domagalski-Łabędzki	– President of the Management Board
Jarosław Pietrzyk	– Vice President of the Management Board, Chief Operating Officer
Maciej Stańczuk	– delegated by the Supervisory Board to temporarily perform the duties of Member of the Management Board

In the 12 months ended December 31st 2020 and until the date of these financial statements, there were changes in the composition of the Supervisory Board.

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

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

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

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

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

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

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

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

Piotr Zimmerman	– Chairman of the Supervisory Board,
Michał Sikorski	– Deputy Chairman of the Supervisory Board,
Przemysław Schmidt	– Secretary of the Supervisory Board (independent member),
Krzysztof Gerula	– Member of the Supervisory Board (independent member),
Konrad Milczarski	– Member of the Supervisory Board,
Bartosz Sierakowski	– Member of the Supervisory Board,
Maciej Stańczuk	– Member of the Supervisory Board.

4. Authorisation of the financial statements

These financial statements for the year ended December 31st 2020 were authorised for issue by the Management Board on April 29th 2021.

5. Company's investments

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

(PLN thousand)

Name and principal place of business	*Principal business activity*	*Ownership interest in the share capital (%)*	
		Dec 31 2020	*Dec 31 2019*
PGL – DOM Sp. z o.o. Racibórz	Real property activities with own property	100%	100%
RAFAKO ENGINEERING Sp. z o.o. Racibórz	Construction and process design, urban planning	51.05%	51.05%
ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice	Construction and process design, urban planning, engineering consultancy	100%	100%
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industries	100%	100%
RAFAKO ENGINEERING SOLUTION doo Belgrade	Process design, including construction, industry, and environmental protection consultancy and supervision	77%	77%
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.	100%	100%
E003B7 Sp. z o.o. Racibórz	Development of building projects, business consultancy and construction design, engineering and technology	100%	100%
RENG-NANO Sp. z o.o. Racibórz	Manufacture of metal structures and components, repair and maintenance of finished metal goods	30.63%	30.63%
RAFAKO MANUFACTURING Sp. z o.o. Racibórz	Production of steam generators, excluding hot water central heating boilers	100%	100%
RAFAKO EBUS Sp. z o.o. Racibórz	Manufacture of buses, electrical and electronic equipment for motor vehicles and manufacture of other motor vehicle parts and accessories	-	100%

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

As at December 31st 2020 and December 31st 2019, the Company's share in total voting rights in the subsidiaries was equal to the Company's holdings in the share capital of those entities.

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

- an organised part of business operating as the Company’s branch under the name of RAFAKO S.A. Oddział w Solcu Kujawskim for an amount of PLN 30,985,000.00 thousand; the agreement was executed by and between RAFAKO EBUS Sp. z o.o. of Racibórz and RAFAKO S.A. w restrukturyzacji, with the participation of Agencja Rozwoju Przemysłu S.A. of Warsaw, and
- 100% of shares in the share capital of RAFAKO EBUS for PLN 15,000.00, between ARP and w restrukturyzacji.

6. Significant judgements and assumptions

6.1. Professional judgement

The preparation of the Company's financial statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Uncertainties related to these judgements and assumptions may result in material changes to carrying amounts of assets and liabilities in the future, because actual amounts may differ from the amounts estimated by the Management Board.

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

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.

6.2. Uncertainty of estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next reporting period are discussed below.

The Company made the assumptions and estimates concerning the future based on its knowledge as at the time of preparation of these financial statements. The assumptions and estimates presented in these financial statements may change in the future due to market developments or factors beyond the Company's control. In the 12 months ended December 31st 2020 and as at that date, there were changes in estimates in significant areas of the Company’s business.

In 2020, following contract termination and identification of risk of additional costs and risk of payment of contractual penalties for late execution of deliveries and services as well as for failure to meet the technical parameters of plants under construction, there was a change in estimated revenue from and costs of projects carried out as part of the construction of a new CHP plant in Vilnius, construction of the Kędzierzyn Compressor Station, construction of the Goleniów-Płoty gas pipeline section, and construction of a power generation unit for JSW KOKS S.A. in Radlin.

For detailed information about changes in the estimated contract revenue and costs and the effect of those changes on the Company’s financial results, see Note 11.1.

Impairment of assets

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

The impairment test carried out as at December 31st 2020 did not reveal any need to recognise an impairment loss on the Company's assets. For the assumptions used in the impairment testing of assets, see Notes 23 and 24.

For information about asset impairment as at the reporting date, see Notes 20, 23, 26, 27, 28 and 31.1to these financial statements.

Measurement of employee benefit provisions

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

Deferred tax asset

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

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

The Company prepared financial projections and used them to assess the recoverable amount of deferred tax assets. The analysis revealed the need to recognise an impairment loss on assets of PLN 41.3m, as presented in Note 15.

Fair value of financial instruments

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

Useful lives of non-current assets

Depreciation and amortisation rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment and intangible assets, as well as their estimated residual values. The Company reviews the useful lives of its assets annually, on the basis of current estimates. In the Management Board's opinion, as at December 31st 2020, the useful lives of assets assumed by the Company for depreciation and amortisation purposes reflect the expected periods of the assets remaining useful. However, the assets' actual useful lives may differ from those assumed due to technical wear and tear, among other factors. The carrying amount of property, plant and equipment and intangible assets subject to depreciation/amortisation is presented in Notes 20 and 23

Recognition of income, cost and profit or loss

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

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

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

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

The Company recognises revenue as follows:

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

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

The Company recognises revenue over time because:

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

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

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

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

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

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

Provision for expected contract losses

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

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 construction contract revenue and costs in the financial year are presented in Notes 8.23 and 11 to these financial statements.

Provision for costs due to late contract completion

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

Provision for warranty repairs

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

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

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

Impairment of financial assets

At the end of the reporting period, the Company measures the impairment loss on expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses over the life of the financial instrument. External bank ratings and publicly available information from rating agencies' websites were used for the purpose of credit risk assessment. In the case of trade receivables, the Company applies a simplified approach and measures the impairment loss on expected credit losses in the amount equal to expected credit losses over the lifetime of the instrument. FullFor a detailed description of the methods used to determine impairment losses, see Note 8.11.

Impairment of non-financial assets

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

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

The Polish tax legislation is subject to frequent changes, leading to significant differences in its interpretation and significant uncertainty in its application. The tax authorities are entitled to verify the tax base (in most cases for the last five financial years) and to impose penalties and fines. Since July 15th 2016, the Tax Legislation has also taken into account the provisions of the General Anti-Abuse Rule (GAAR), which is intended to prevent the creation and use of artificial schemes to avoid paying taxes. The GAAR should be applied both with respect to transactions made after its effective date and with respect to the transactions which were made before its effective date in the case of which tax benefits continued or still continue after that date.

Consequently, the determination of tax liabilities, deferred tax assets and deferred tax liabilities may require material judgements, including those relating to transactions already executed, and the amounts presented and disclosed in the financial statements may change in the future as a result of inspections by tax authorities.

The probability of utilising a deferred tax asset against future taxable profit is determined based on the Company's budget approved by the Management Board. If financial forecasts indicate that the Company will generate sufficient taxable income, deferred tax assets are recognised at full amount. The Company analysed the recoverable amount of the deferred tax asset as at December 31st 2020 based on forecasts and budgets prepared for subsequent years.

Lease term

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

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

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

Among other things, the following are considered:

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

The lease liability presented in the statement of financial position reflects best estimates of the lease term, but a future change in circumstances may result in an increase or decrease in the amount of the lease liability and recognition of a corresponding adjustment to the right-of-use assets. Changes in the estimates made in 2020 are disclosed in Notes 6 and 21.

7. Basis of preparation of the financial statements

7.1. Management Board representation on reliability of the financial statements

As the Management Board of RAFAKO S.A. w restrukturyzacji, we represent that to the best of our knowledge the financial statements of RAFAKO S.A. and the consolidated financial statements of the RAFAKO Group for the twelve months ended December 31st 2020 as well as the comparative data have been prepared in compliance with the applicable accounting policies and give a true, fair and clear view of the assets, financial condition and financial performance of both RAFAKO S.A. and the RAFAKO Group, and that the Directors’ Report on the operations of RAFAKO S.A. w restrukturyzacji and the RAFAKO Group in the 12 months ended December 31st 2020 gives a true view of the Company’s and the Group’s position, including description of key risks and threats.

7.2. Statement of compliance

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

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

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

The Company applied IFRSs applicable to financial statements prepared for the year beginning on January 1st 2020.

7.3. Management Board's information prepared on the basis of the Supervisory Board's statement on selection of the audit firm to audit full-year financial statements

The Management Board of RAFAKO Spółka Akcyjna of Racibórz, with its registered office at ul. Łąkowa 33, 47-400 Racibórz, Poland, entered in the Register of Businesses of the National Court Register maintained by the District Court of Gliwice, 10th Commercial Division of the National Court Register, under KRS No. 0000034143, Tax Identification Number (NIP): 6390001788, Industry Identification Number (REGON): 270217865 (the "Company"), acting pursuant to Art. 70.1.7) and Art. 71.1.7) of the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (Dz.U. of 2020, item 757), and pursuant to a representation by the Company's Supervisory Board of June 29th 2020 on selection of an audit firm to audit the Company's separate financial statements for the financial year 2020 and the RAFAKO Group's consolidated financial statements for the financial year 2020, announces that:

1) the audit firm to audit the Company's separate financial statements for the financial year 2020 and the RAFAKO Group's consolidated financial statements for the financial year 2020 was selected in accordance with the applicable laws and regulations, including those applicable to audit firm selection and the selection procedure;
2) the audit firm and members of the audit team which audited the Company's separate financial statements for the financial year 2020 and the RAFAKO Group's consolidated financial statements for the financial year 2020 met the conditions required to issue an impartial and independent audit report on the full-year separate and consolidated financial statements, in accordance with the applicable laws and regulations, professional standards, and principles of professional ethics;
3) the Company complies with all applicable laws concerning the rotation of audit firms and lead auditors and the mandatory cooling-off periods;
4) the Company has in place a policy governing the selection of an audit firm and a policy governing the provision of non-audit services, including permissible non-audit services, by an audit firm, its affiliates and members of its network.

7.4. Basis of preparation of the financial statements

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

The Management Board of the Company is thoroughly analysing the indications of the threat to the Group's ability to continue trading and the validity of this assumption. The Company's 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 key uncertainties with a material bearing on the Company's ability to continue trading include:

1. Completion of the proceedings to enter into an arrangement with the Company's creditors,
2. Performance of contracts with customers and settlement of contracts whose performance was discontinued as a result of contract termination by the parties,
3. Securing new sources of financing,
4. Finding a strategic investor for the Company.

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 a procedure to approve arrangement with its 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 businesses affected by the COVID-19 situation and on simplified procedure to approve arrangements due to COVID-19. 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.

On December 10th 2020, a meeting of creditors was held at the Company's registered office and approved the arrangement. The Arrangement Supervisor determined on that date that the Arrangement was approved by way of a decision. On December 30th 2020, RAFAKO S.A. filed with the District Court of Gliwice, 12th Commercial Division, an application for approval of the arrangement under the simplified restructuring procedure. The application included the Arrangement Supervisor's report, list of claims, restructuring plan, and the arrangement proposals approved by the creditors. On January 13th 2021, acting on the basis of the Company's application, the District Court of Gliwice, 12th Commercial Division, issued a decision to approve the arrangement under the simplified restructuring procedure, which was published in the *Monitor Sądowy i Gospodarczy* official gazette on February 23rd 2021. As at the date of these financial statements, one of the Company's creditors filed a complaint with the District Court of Gliwice against the decision to approve the arrangement. RAFAKO S.A. waits for the Court to examine the complaint as the decision to approve the arrangement of January 13th 2021 becoming final is of key importance to the Company. The opening of restructuring proceedings does not preclude an assumption that the Company 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 final arrangement with creditors.

Another issue of key importance for the Company's ability to continue as a going concern is its ability to continue performing the contracts with its customers. Material risks identified by the Management Board in this area relate to reaching agreements with the Company's key customers concerning the contracts listed below.

Contract to construct a 910 MW supercritical power generating unit at the Jaworzno Power Plant. On November 13th 2020, a trial run was completed, confirming that the unit met the requirements set out in the contract, whereupon the parties performed acceptance of the unit, which entered commercial operation. Another stage of the contract performance was a five-month transition period which should have ended on April 13th 2021. Due to delayed completion of this stage, not caused by either Party to the contract, the Parties continue negotiations with to agree on new contract terms. The Management Board expects to reach an agreement with the customer by the end of June 2021.

Construction of a coke gas power generation unit at JSW KOKS S.A. KKZ Branch - Radlin Coking Plant. Given the need to incur additional costs of performing the contract for the construction of a coke gas power generation unit at JSW KOKS S.A. KKZ Branch - Radlin Coking Plant, estimated by the Company at approximately PLN 65m, the Company's Management Board submitted a notice to JSW KOKS S.A. requesting additional consideration of approximately PLN 53m in view of significant changes to the subject matter of the contract and the need to perform indispensable additional services. Negotiations are being held with the Customer to reach an agreement to enable the Company to continue performing the contract. The Management Board is positive that the negotiations may be successfully closed and Annex 3 to the contract may be signed by the end of June 2021.

Another key issue is reaching agreements with customers regarding projects where one of the parties decided to withdraw from further contract performance by the Company, including:

- an agreement with Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. to settle the contracts for the construction of the Goleniów-Płoty section of the DN700 Szczecin-Gdańsk gas pipeline and for the construction of the Kędzierzyn Compressor Station;
- The Company is holding negotiations with Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. and expects to sign an agreement on contract settlement by the end of June 2021;
- an agreement with JSC VILNIAUS KOGENERACINĖ JĖGAINĖ to settle the contract for the construction of a biomass-fired co-generation unit as part of the construction of a new CHP plant in Vilnius;
- The Parties commenced negotiations to settle the dispute arising under the contract amicably in parallel with the ongoing arbitration proceedings concerning the dispute.

Another key issue for the Company's continued existence is its difficult financial position, in particular the inability to obtain contractual security from the financial sector, which significantly hinders the acquisition of new orders, refusal by suppliers to extend trade credit and their opting for prepaid transactions, employers making direct payments to subcontractors and then imposing penalties on the Company on that account, or adverse development of the Company's key financial ratios. In addition, the Management Board attaches great importance to maintaining financial liquidity, making it possible to implement projects without any major disruptions.

On January 5th 2021, RAFAKO S.A. w restrukturyzacji and Bank PKO BP S.A. executed Annex 34 to the multi-purpose credit facility agreement of February 7th 2012, as amended. The main provisions of the annex extend the availability and maturity date of the facility until January 31st 2022 and cap the aggregate amount that can be drawn under all sub-facilities at PLN 120,616,154.85, which allows the Company to finance its day-to-day operations, but does not secure funding for potential, new contracts. Given its liquidity position, the Company needs additional sources of financing.

The Company has applied for additional funds from the Industrial Development Agency under the New Chance Policy. The Management Board of RAFAKO S.A. w restrukturyzacji believes that the Company meets the definition of an entrepreneur in a difficult economic situation as set out in Section 1 Art. 2 of the Act on State Aid for Rescuing or Restructuring of Entrepreneurs of July 16th 2020 and expects the procedure for granting such funds to be completed by the end of the third quarter of 2021.

In 2020, the Company commenced divestment of its assets. On September 28th 2020, RAFAKO EBUS Sp. z o.o. and an organised part of its business were sold for a total price of PLN 31m. In addition, the Company plans to raise funds by divesting more idle assets, including the assets of an organised part of business located in Wyry, which has discontinued operations.

It should be emphasised that despite the above financial circumstances, 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 fact that the management does not intend to cease trading or put the Company into 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, licences or key suppliers, although the Company's ability to win new contracts has been seriously and adversely affected by the lack of debt capacity.

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 at the Steam Generator Plant and in the Power and Environmental Protection Division, which was recently been combined into the single Power Services Division. The order book is reviewed on an ongoing basis, while in its efforts to win new contracts the Company focuses 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 power generation market and the shrinking volume of capital spending on energy sources based on solid fuels have significantly affected the Company's position and will 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. The Company is now in the process of intensive restructuring efforts, the main objective of which is to meaningfully reduce its cost base.

In 2020, the Company's Management Board was implementing its planned restructuring measures, which involved extensive efforts to bring down operating expenses and put in place comprehensive organisational improvements at the Company. Both one-off and staged procedures were undertaken, including cost reductions in areas where potential for savings and optimisation had been identified. The organisational chart was modified and streamlined towards a much leaner management structure at the Company. A collective redundancy process was completed in line with collective the redundancy rules adopted on September 21st 2020 – the number of employees affected by the redundancies was 347 and the redundancy scheme ran until March 31st 2021.

The efforts to optimise workforce are consistent with the revised organisational chart and are necessary to adapt the staffing levels to the new scale of the organisation. An agreement was reached with employee representatives to reduce contributions to the Social Fund for 2021–2023 by 80% and to cut length-of-service awards by 50% in the same period by amending the Collective Bargaining Agreement. A process was launched to optimise the use of production space and to rent out unnecessary production and office areas to third parties, and negotiations were commenced to dispose of the Company's redundant assets held for sale.

The Company believes that these efforts have significantly raised its chance to attract a new investor, which will ultimately justify the Company's continued existence. The Company has signed an agreement with an international financial adviser whose task is to assist the Company in the process of securing an investor, including through reviewing the Company's economic and financial position, developing a strategy for securing an investor, and shortlisting potential investors (including Polish and international trade investors), as well as in concluding the transaction, including through negotiating and drafting transaction documents. According to the schedule agreed upon with the adviser, the process is planned to be completed at the end of June 2021.

Taking into account all the circumstances described above, which the Management Board identifies as material risks to the Company's ability to continue as a going concern within 12 months from the reporting date, the Management Board takes all the steps described above to ensure that these risks do not materialise and present the full-year financial statements for 2020 prepared on the assumption that the Company will continue as a going concern.

7.5. Functional currency and presentation currency

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

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

8. Significant accounting policies

8.1. Fair value measurement

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

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

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

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

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

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

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

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

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

Summary of significant accounting policies concerning fair value measurement

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

(PLN thousand)

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

8.2. Foreign currency translation

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

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

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

Exchange rates used to determine carrying amounts:

	Dec 31 2020	*Dec 31 2019*
USD	3.7584	3.7977
EUR	4.6148	4.2585
GBP	5.1327	4.9971
CHF	4.2641	3.9213
SEK	0.4598	0.4073
TRY	0.5029	0.6380

8.3. Property, plant and equipment

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

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

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

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

(PLN thousand)

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

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

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

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

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

8.4. Intangible assets

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

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

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

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

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

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

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

Research and development work

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

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

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

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

8.5. Goodwill

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

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

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

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

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

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the Company recognises an impairment loss. For information on the assumptions used to estimate the recoverable amount of a cash-generating unit in the impairment test, see Notes 23 and 24.

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

8.6. Shares in subsidiaries, associates and joint ventures

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

8.7. Leases

The Company as a lessee

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

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

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

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

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

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

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

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

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

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

The Company as a lessor

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

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

8.8. Impairment of non-financial non-current assets

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

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

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

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

Goodwill is tested for impairment annually. The test performed as at December 31st 2020 did not reveal any impairment of the goodwill disclosed in these financial statements. For the assumptions used in the impairment testing of assets, see Note 24.

8.9. Borrowing costs

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

8.10. Financial instruments

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

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

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

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

8.11. Financial assets

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

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

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

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

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

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

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

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

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

Impairment losses on financial assets measured at amortised cost less gains on reversals are recognised in profit or loss under ‘Finance income’ or ‘Finance costs’, as appropriate. Gains and losses arising on derecognition of assets in this category from the statement of financial position are recognised in profit or loss under ‘Gains (losses) on derecognition of financial assets measured at amortised cost’. As at December 31st 2020 and December 31st 2019, the Company had no such assets. Other gains and losses on financial assets recognised in profit or loss, including foreign exchange gains and losses, are presented as finance income or costs.

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

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

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

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

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

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

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

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

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

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

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

- In the case of trade receivables, the Company applies a simplified approach based on the calculation of allowances for expected credit losses over the lifetime of the instrument. Allowances are estimated on a collective basis and the receivables have been grouped based on the number of days past due. Allowances are estimated based mainly on historical data on days past due and an analysis of days past due and actual payments over the last five years, taking into account available information relating to the future. In 2020, following identification of increased credit risk, reflecting both the Company's difficult financial position and the impact of COVID-19, the Company estimated the impairment loss using a provision matrix estimated based on annual payment of trade receivables by trading partners.

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

  As at December 31st 2020, the Company's provisioning matrix was determined based on the number of days by which the trade receivables were past due:

  - 2.1% if the receivable is not past due or is past due less than 30 days,
  - 33.08% if past due more than 30 days and less than 90 days,
  - 46.51% if past due more than 90 days and less than 180 days,
  - 67.58% if past due more than 180 days and less than 360 days,
  - 99.67% if past due more than 360 days.

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

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

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

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

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

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

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

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

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

8.12. Financial liabilities

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

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

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

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

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

8.13. Non-current assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. That condition is met only if an asset is available for immediate sale in its present condition and its sale is highly probable. Classification of an asset as held for sale assumes the intention of the Company's management to sell an asset within one year from the classification. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. For disclosures, see Note 22 to these financial statements.

8.14. Derivative financial instruments and hedges

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

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

The Company holds no hedging financial instruments.

8.15. Inventories

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

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

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

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

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

8.16. Cash and cash equivalents

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

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

8.17. Share capital

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

8.18. Provisions

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

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

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

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

8.19. Interest-bearing borrowings and other debt instruments

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

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

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

8.20. Trade and other payables

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

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

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

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

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

8.21. Employee benefits

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

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

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

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

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

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

8.22. Government grants

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

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

8.23. Revenue

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

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

Identification of the contract with a customer

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

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

Identification of performance obligations

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

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

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

Determination of transaction price

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

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

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

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

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

The Company does not recognise the refund liability.

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

Allocation of the transaction price to performance obligations

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

Recognition of revenue when or as performance obligations are satisfied

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

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

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

The Company recognises revenue over time because:

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

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

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

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

8.24. Taxes

8.24.1. Income tax

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

8.24.1.1. Current income tax

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

8.24.1.2. Deferred income tax

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

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

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

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

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

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

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

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

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

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

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

8.24.1.3. Value added tax

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

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

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

8.24.1.4. Assessment of tax uncertainties

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

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

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

8.25. Earnings/(loss) per share:

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

9. Changes in accounting policies (significant accounting policies)

In 2020, the Company did not make any material changes to its accounting policies relative to the policies applied in the previous financial year, which would affect the Company's assets, financial position, liquidity or financial performance.

In 2020, the Company changed the presentation of some of the data included in the primary financial statements relative to the presentation used in the previous financial year.

Those changes follow from the application of the ESMA taxonomy guidelines applicable to the tagging of items in the financial statements to prepare them in accordance with the ESEF requirements.

In the process to implement the ESEF in the financial statements, the policy was reviewed and it was found that some changes would make the information included in the financial statements more useful, i.e. clear, internally coherent, reflecting transactions/balances at the Company, and more comparable than that presented by the Company's peers listed on the stock exchange.

9.1. Adjustment to the presentation of certain items in the statement of financial position, statement of cash flows and statement of changes in equity

Issuers whose securities are admitted to trading on a regulated market within the European Union are required to prepare their full-year reports in the European Single Electronic Format (ESEF) for the financial years beginning on or after January 1st 2020.

Under Directive 2004/109/EC (Transparency) and Regulation 2019/815 of 17 December 2018, the European Securities and Markets Authority (ESMA) has published a set of electronic XBRL files that have become the basis for reporting in accordance with the standard referred to above. The ESMA taxonomy files made available for this purpose conform to the regulatory technical standard, which is a formal basis for reporting in the European Single Electronic Format (ESEF).

To comply with the above regulations, the Company changed the method of financial data presentation for assets, equity and liabilities in the statement of financial position and the statement of cash flows. These changes were triggered by the need to standardise the presentation of information included in the financial statements. The Company believes that these changes will increase the transparency of information presented in the financial statements, and the use of ESMA taxonomy will increase the comparability of the information presented in the Company's financial statements relative to the information presented in the financial statements of other entities using the ESEF. As these changes do not materially affect the assessment of the financial statements, the Company decided not to present any comparative data for 2018. For disclosures of changes in the comparative data for 2018, see Notes 9.2, 9.3 and 9.4.

9.2. Effect of changes on financial data in the Company's statement of financial position

The data in the statement of financial position has been restated as follows:

- long-term and short-term prepayments have been transferred to long-term and short-term receivables, respectively, and are no longer presented as a separate item,
- long-term and short-term accruals and deferred income have been transferred to non-current and current liabilities, respectively, and are no longer presented as a separate item,
- change in the presentation of the Company's equity by transferring retained earnings from statutory reserve funds (previously created in accordance with the Articles of Association) to 'Retained earnings',
- long-term and short-term employee benefit provisions have been transferred to long-term and short-term provisions, and are no longer presented as a separate item,
- long-term and short-term employee benefit obligations have been transferred to long-term and short-term trade and other payables, and are no longer presented as a separate item.

Details of restatements in the statement of financial position are presented below.

The presented restatements in the statement of financial position also present data at the beginning of the comparative period, i.e. January 1st 2019, as the changes are material to the data presented for 2019.

(PLN thousand)

	Dec 31 2019	Restated data (according to ESMA guidelines)	Dec 31 2019 restated	Jan 1 2019 restated
NON-CURRENT ASSETS				
Long-term trade and other receivables	42,716	4,795	47,511	10,287
Long-term prepayments and accrued income	4,795	(4,795)	–	–
CURRENT ASSETS				
Short-term trade and other receivables	363,827	20,591	384,418	407,945
Short-term prepayments and accrued income	20,591	(20,591)	–	–

	Dec 31 2019	Restated data (according to ESMA guidelines)	Dec 31 2019 restated	Jan 1 2019 restated
EQUITY				
Statutory reserve funds	15,902	(15,902)	–	–
Retained earnings (accumulated losses)	(331,356)	15,902	(315,454)	(25,557)
NON-CURRENT LIABILITIES				
Long-term employee benefit obligations and provisions	29,334	(29,334)	–	–
Long-term trade and other payables	18,556		18,556	
Other long-term provisions	18,430	29,334	47,764	38,010
CURRENT LIABILITIES				
Short-term employee benefit obligations and provisions	19,228	(19,228)	–	–
Short-term trade and other payables	370,096	16,902	386,998	223,194
Other short-term provisions	45,840	2,465	48,305	15,553

(PLN thousand)

9.3. Effect of changes on financial data in the Company's statement of cash flows

The comparative data in the statement of cash flows as at January 1st 2020 the presentation of which was changed compared with the data presented in the financial statements for 2019 has been adjusted as follows:

	Change in trade and other receivables	*Change in liabilities, excluding borrowings*	*Change in provisions, accruals and deferrals*	*Bank fees*	*Interest paid*
Before adjustment	**(14,900)**	**171,729**	**30,583**	**(1,015)**	**(3,533)**
Fees and commissions paid	–	–	–	1,015	(1,015)
Accrued expenses and deferred income	(12,708)	–	12,708	–	–
Change in employee benefit provisions	–	785	(785)	–	–
After adjustment	**(27,608)**	**172,514**	**42,506**	–	**(4,548)**

9.4. Effect of changes on financial data in the Company's statement of changes in equity

The comparative data in the statement of changes in equity as at January 1st 2020 and January 1st 2019 the presentation of which was changed compared with the data presented in the financial statements for 2019 has been adjusted as follows:

	Share capital	*Share premium*	*Statutory reserve funds*	*Retained earnings (accumulated losses)*	*Equity*
Equity as at Jan 1 2020	**254,864**	**165,119**	**15,902**	**(331,356)**	**104,529**
Profit or loss brought forward recognised as equity created in accordance with the Articles of Association	–	–	(15,902)	15,902	–
Equity as at Jan 1 2020 *(restated)*	**254,864**	**165,119**	–	**(314,454)**	**104,529**

(PLN thousand)

	Share capital	*Share premium*	*Statutory reserve funds*	*Retained earnings (accumulated losses)*	*Equity*
Equity as at Jan 1 2019	**254,864**	**165,119**	**11,600**	**(37,157)**	**394,426**
Profit or loss brought forward recognised as equity created in accordance with the Articles of Association	–	–	(11,600)	11,600	–
Equity as at Jan 1 2019 *(restated)*	**254,864**	**165,119**	**–**	**(25,557)**	**394,426**

9.5. Amendments to standards or interpretations, effective and applied by the Company in 2020

New or amended standards and interpretations effective from January 1st 2020 and their effect on the Company's financial statements:

- 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 amendments did not affect the data disclosed in the Company's previous financial statements. In 2020, the Company did not enter into any transactions within the scope of IFRS 3, therefore the amendments had no effect on the data for the reporting period either.

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

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

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

  The amendment is effective for annual periods beginning on or after January 1st 2020.

- Amendments in references to the conceptual framework for IFRS

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

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

- Amendments to IFRS 9, IAS 39 and IFRS 7

  The IASB amended hedge accounting in connection with the planned reform of benchmark rates (WIBOR, LIBOR, etc.). The rates are often a hedged item, for example in the case of IRS hedges. The planned replacement of the existing rates with new benchmark 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 benchmark rates. Therefore, the amendment will not affect the fulfilment of hedge accounting requirements.

  The amendments are effective for annual periods beginning on or after January 1st 2020. As the Company does not apply interest rate derivatives, the amendment does not affect its financial statements.

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

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

10.1. Early application of standards or interpretations

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

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

As at the date of issue of these financial statements, the following new or amended standards and interpretations effective for annual periods subsequent to 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 does not expect the new standard to affect its financial statements, because the Company does not conduct any insurance business.

  The standard is effective for annual periods beginning on or after January 1st 2023.

- 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 2023. As the Company already applies principles consistent with the amended standard, the changes will not affect its financial statements.

- Amendments to IFRS 1, IFRS 9, examples to IFRS 16 and IAS 41 as part of Annual Improvements 2018−2020:
  - IFRS 1: additional exemption for the measurement of accumulated exchange differences on consolidation;
  - IFRS 9: (1) only fees which are exchanged between the debtor and the creditor should be included in the 10 per cent test conducted to determine whether the modification should result in the derecognition of the liability; (2) it has been clarified that fees incurred when the liability is derecognised are recognised in profit or loss and if the liability is not derecognised, it should be charged to the liability;
  - IFRS 16: The incentive from the lessor in the form of coverage of fit-out costs incurred by the lessee, which raised interpretative doubts, has been removed from example 13;
  - IAS 41: The amendment to IAS 41 removed a requirement to exclude cash flows from taxation when measuring the fair value of biological assets.

  The amendments are effective for annual periods beginning on or after January 1st 2022. The Company does not expect the above amendments to have an effect on its financial statements.

- Amendment to IAS 16 *Property, Plant and Equipment*

  It has been clarified that production carried out as part of tests on an item of property, plant and equipment before an item is available for use should be recognised as (1) inventories in accordance with IAS 2 and (2) sales proceeds when it is sold. The Company does not expect the amendment to have an effect on its financial statements. The amendment is effective for annual periods beginning on or after January 1st 2022.

- Amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

  It has been clarified that the costs of performing onerous contracts include incremental costs (e.g. labour costs) and an allocated part of other costs directly related to the performance cost, e.g. depreciation and amortisation. The Company does not expect the amendment to have an effect on its financial statements as it has not identified any onerous contracts so far.

  The amendment is effective for annual periods beginning on or after January 1st 2022.

- Amendments to IFRS 3 *Business Combinations*

  References to the definition of liabilities in the conceptual framework and the definition of contingent liabilities in IAS 37 have been clarified. The Company does not expect the amendment to have an effect on its financial statements.

  The amendment is effective for annual periods beginning on or after January 1st 2022.

- 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. As the Company has not received any concessions specified in the standard, the Company will not apply the practical expedient. Therefore, the amendment will have no effect on its financial statements.

  The amendment is effective for annual periods beginning on June 1st 2020, with earlier adoption permitted.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

  In connection with the planned reform of benchmark rates (WIBOR, LIBOR, etc.) the IAS Board has made further amendments to accounting policies for financial instruments:
  - in the case of measurement at amortised cost, changes in estimated cash flows that relate directly to the IBOR reform will be treated as changes to a floating interest rate, without being recognised in profit or loss,
  - it will not be necessary to discontinue a hedging relationship as long as the only change are the effects of the IBOR reform and the other criteria for application of hedge accounting are met; the amendment specifies how the alternative rate should be reflected in the hedging relationship,
  - an entity will be obliged to disclose risks arising from the reform and how it manages the process to transition to alternative reference rates.

  The Company is yet to complete estimating the effect of the amendment on its financial statements. The IBOR reform applies primarily to the credit facility agreement in force as at December 31st 2020.

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

(PLN thousand)

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

11. Contract assets and liabilities

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

	Dec 31 2020	*Dec 31 2019*
Gross contract assets	183,369	214,763
Impairment of contract assets (-)	(1,615)	(1,211)
Contract assets	181,754	213,552
Contract liabilities, including prepayments	178,519	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 December 31st 2020 and as at December 31st 2019, as well as gross amounts due to customers for contract work and gross amounts due from customers for contract work.

	Dec 31 2020	*Dec 31 2019*
Revenue initially agreed in contract	3,380,384	3,912,289
Change in contract revenue, including:	(196,893)	(40,485)
- change in revenue from liquidated damages and provisions for liquidated damages	(81,876)	(15,337)
Aggregate contract revenue	**3,183,491**	**3,871,804**
Contract costs incurred as at reporting date	2,343,536	2,052,801
Costs expected to be incurred by contract completion date	889,878	1,736,097
Estimated aggregate contract costs	**3,233,414**	**3,788,898**
Estimated aggregate profit/(loss) on contracts, including:	**(49,923)**	**82,906**
profit	244,111	292,742
loss (-)	(294,034)	(209,836)

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

	Dec 31 2020	*Dec 31 2019*
Advance payments received as at reporting date	85,843	127,665
Advance payments that can be set off against amounts due from customers for contract work	34,762	22,305
Contract costs incurred as at reporting date	2,381,422	2,091,798
Cumulative profit as at reporting date (+)	204,619	188,866
Cumulative loss as at reporting date (+)	(294,034)	(209,836)
Cumulative contract revenue as at reporting date	2,292,007	2,070,828
Amounts invoiced as at reporting date (progress billings)	2,201,314	1,936,844
Settlement of contracts (balance) as at reporting date, including:	**90,693**	**133,984**
Contract assets less advance payments that can be offset	183,369	214,763

(PLN thousand)

Contract liabilities	127,438	103,084

The Company analysed changes in contract assets and liabilities and reasons behind those changes in 2019 and 2020. For a detailed description of the effect of changes in estimates on the Company's key contracts, see the Directors' Report on the Company's operations in the year ended December 31st 2020 (Note 3.5).

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

Contract assets:

	Dec 31 2020	*Dec 31 2019*
Contract assets at beginning of period	213,552	205,149
Revenue charged in reporting period to contract assets	101,362	122,695
Total revenue restatements charged to contract assets	34,238	50,298
Changes in impairment losses on contract assets	(404)	637
Reclassification to trade receivables (-)	(166,994)	(165,227)
Contract assets at end of period	**181,754**	**213,552**

Contract liabilities:

	Dec 31 2020	*Dec 31 2019*
Contract liabilities at beginning of period	208,444	132,656
Performance obligations recognised in reporting period as contract liabilities	68,038	57,675
Change in advance payments	(54,280)	40,271
Total revenue restatements charged to contract liabilities	4,387	1,917
Recognition of revenue recognised in contract liabilities at beginning of period (-)	(48,070)	(24,075)
Contract liabilities at end of period	**178,519**	**208,444**

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

11.1. Key contracts executed by the Company

11.1.1. Jaworzno Project

RAFAKO S.A., as a member of the consortium comprising RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A., is performing the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems'. The final division of work within the consortium was agreed on August 4th 2013 based on the amendments made to the consortium agreement, which related to RAFAKO S.A. taking over 99.99% of the project deliveries (with 0.01% remaining for Mostostal Warszawa) and changing the distribution of consideration due to the consortium members to reflect the members' actual shares in the project. The contract for the construction of the Jaworzno III power generation unit was concluded on April 17th 2014. The current contract price (after execution of Annex 8) is PLN 4,547m (VAT exclusive). It is the largest contract executed by RAFAKO S.A. to date. Following completion of the trial run, which confirmed that the unit met the requirements set out in the contract, on November 13th 2020 the unit entered commercial operation. The unit operates within the Polish power system.

As a result, the warranty period commenced, during which final measurements of the 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.

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 desulfurisation 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, setting out the rules for the performance of additional works by the Contractor and addressing other key issues, i.e. a PLN 9.9m (VAT exclusive) increase in the contract price, taking into account additional work, a change in the commissioning deadline for the unit, an update of the time and payment schedule reflecting changes in the delivery dates for individual milestones and transfer of ownership rights to the turbine island.

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

On November 13th 2020, a trial run was completed, confirming that the unit met the requirements set out in the contract, whereupon the parties performed acceptance of the unit, which entered commercial operation. The unit operates within the Polish power system.

On the same day, Nowe Jaworzno Grupa TAURON Sp. z o.o., E003B7 sp. z o.o. (a wholly-owned subsidiary of RAFAKO S.A. w restrukturyzacji) and RAFAKO S.A. w restrukturyzacji, acting with approval from the supervisor of the Company's arrangement made under the simplified restructuring procedure, signed a settlement agreement resulting from mediation conducted before the Arbitration Court at the General Counsel to the Republic of Poland, with the following key provisions:

1. The Parties, that is RAFAKO S.A. w restrukturyzacji and Nowe Jaworzno Grupa TAURON Sp. z o.o. waived equivalent mutual claims which arose before the settlement agreement date in connection with performance of the contract, except for the Company's claims for the work performed in accordance with the contract, NJGT's warranty or guarantee claims, and recourse claims against RAFAKO S.A. w restrukturyzacji for the payment of claims of lower-tier subcontractors.
2. RAFAKO S.A. w restrukturyzacji will extend the technical guarantee for the high-pressure section of the boiler by six (6) months (to 36 months) and will grant licences to use computer software not covered by the contract. The Company will perform certain additional work, including work to optimise the unit's operation so that its minimum technical capacity is reduced from 40% to 37%.

The settlement agreement will take effect upon fulfilment of certain conditions precedent, including the following key conditions:

1. execution by the Company and Nowe Jaworzno Grupa TAURON Sp. z o.o. of a handover-for-operation certificate for the unit at the Jaworzno Power Plant by November 15th 2020 (the condition has been met),

2. RAFAKO S.A. w restrukturyzacji providing an agreement in the form of a commitment letter with financial institutions, i.e. Powszechny Zakład Ubezpieczeń S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Gospodarstwa Krajowego, concerning the method of raising funds necessary for the completion of proper performance of the contract (the condition has been met).

The settlement agreement was filed with a competent common court for approval. Once approved by a final court decision, the settlement agreement will have the legal effect of a court settlement.

Furthermore, on November 13th 2020 Nowe Jaworzno TAURON Sp. z o.o. and RAFAKO S.A. w restrukturyzacji, acting with approval from the supervisor of the Company's arrangement made under the simplified restructuring procedure, entered into Annex 9 to the contract, which sanctions the arrangements made by the parties in the settlement agreement regarding RAFAKO S.A. w restrukturyzacji's additional non-monetary obligations, including obligation performance dates and related payment due dates.

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 were delivered mainly in 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

In 2020, the total contract revenue decreased by PLN 3.9m, while the estimated total contract costs increased by PLN 4.4m. The effect of the Jaworzno contract on the Company's profit or loss for the 12 months ended December 31st 2020 (taking into account the change in the contract performance progress corresponding to the portion of work performed by the Company) was negative at PLN -6.8m.

In the comparative period in 2019, the total contract revenue increased by PLN 4.5m, while the estimated total costs increased by PLN 1.6m. The effect of the Jaworzno contract on the Company's profit or loss for the 12 months ended December 31st 2020 (corresponding to the portion of work performed by the Company) was negative at PLN -6.8m.

11.1.2. Vilnius Project

On September 29th 2016, the Company entered into a contract with JSC VILNIAUS KOGENERACINË JËGAINË 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 Company.

On July 10th 2020, the Company filed a request for arbitration with the Stockholm Chamber of Commerce concerning recognition by the employer of RAFAKO S.A.'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 42.7 to these 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.

On October 5th 2020, acting pursuant to the contract, RAFAKO S.A. w restrukturyzacji (in restructuring) submitted a notice of impossibility/termination notifying the employer of:

1) inability to perform the contract due to the fact that the task the Company had committed itself to perform became different from that provided for in the contract or, alternatively
2) withdrawal from the contract due to lack of cooperation on the part of the employer and the employer's failure to perform its contractual obligations, in particular lack of coordination between projects LOT1 and LOT2,
3) withdrawal from the contract due to the employer's failure to issue on time interim payment certificates for completed milestones.

This decision was necessary given the substantial risk and costs of completing the contract in light of the circumstances described above. The decision did not require any additional provisions or impairment losses, as – to the best of the Company's knowledge based on prudent estimates – those recognised as at June 30th 2020 already reflected the risks associated with the decision.

Subsequently, the Company received from the employer a notice of immediate withdrawal from the contract. As the main reason for the withdrawal the employer cites the fact that 'the Contractor conducts its business under the management of a receiver, trustee or administrator acting for the benefit of creditors' and that 'an event has occurred which (in accordance with applicable laws) has a similar effect'. The Company considered the employer's notice as ineffective since earlier, on October 5th 2020, RAFAKO S.A. w restrukturyzacji effectively submitted to the employer a notice of impossibility/termination. Furthermore, the employer submitted to KUKE Korporacja Ubezpieczeń Kredytów Eksportowych S.A. and Generali T.U. S.A. a call on performance bond totalling EUR 14,965,000. As a result, on October 20th 2020 the Company received from KUKE S.A. a pre-litigation call for payment of the guaranteed amount of EUR 11,972,000.00 under Master Agreement No. IN/GU/1/2015 in connection with KUKE S.A. having paid out to the employer as the performance bond beneficiary that same guaranteed amount of EUR 11,972,000.00, and on November 17th 2020 the Company received from Generali T.U. S.A. a call for payment of the guaranteed amount of EUR 2,993,000.00 under framework revolving contract bond facility agreement No. GNL-UF/2016/1483/UG in connection with Generali T.U. S.A. having paid out to the employer as the performance bond beneficiary that same guaranteed amount of EUR 2,993,000.00. In the opinion of the Company's Management Board, KUKE S.A. and Generali T.U. S.A.'s claims constitute claims covered by the arrangement as part of the simplified restructuring procedure opened with respect to the Company.

The Parties commenced negotiations to settle the dispute arising under the contract amicably in parallel with the ongoing arbitration proceedings concerning the dispute.

Change in estimates for the Vilnius Project

Following termination of the contract, in 2020 the total contract revenue, including estimated contractual penalties, decreased by PLN 243.9m, while the estimated total costs decreased by PLN 144.4m.

The effect of the Vilnius contract on the Company's profit or loss for the 12 months ended December 31st 2020 was negative at PLN -99.5m

In the comparative period in 2019, the estimated total contract revenue increased by PLN 2.4m, while the estimated total contract costs rose by PLN 87.1m. The effect of the Vilnius contract on the Company's profit or loss for the 12 months ended December 31st 2019 was negative at PLN -57.9m

11.1.3. Radlin Project

In June 2019, the Company signed a contract to carry out the "Improvement of energy efficiency at JSW KOKS S.A." investment project. The project consists of two steam generators, an extraction condensing steam turbine, a power generator and a set of auxiliary facilities. The contract price is PLN 289m. In October 2020, the Company signed an annex to increase the scope of the project and the contract price to PLN 296.8m.

On February 19th 2021, the RAFAKO Management Board decided to recognise a provision of approximately PLN 65m in connection with the risk of incurring additional costs of works carried out under the project to construct a power generation unit. The parent has submitted a notice to JSW KOKS S.A. requesting additional consideration of approximately PLN 53m in view of significant changes to the subject matter of the contract and the need to perform indispensable additional services.

Change in estimates for the Radlin Project

The total revenue for 2020 increased by PLN 7.7m, while the total costs increased by PLN 75.2m. The effect of the Radlin contract on the Company's profit or loss for the 12 months ended December 31st 2020 (corresponding to the portion of work performed by the Company) was negative at PLN -44.8m.

11.1.4. Kędzierzyn Compressor Station and Goleniów-Płoty Gas Pipeline Project

On May 30th 2018, the Company signed a contract with Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. for general contractor services as part of the project to construct the Goleniów-Płoty section of the DN 700 Szczecin-Gdańsk gas pipeline, together with the accompanying infrastructure, with a VAT-exclusive value of PLN 124,892,356.00 (PLN 153,617,597.88, VAT inclusive).

On February 15th 2019, the Company signed a contract with Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. for construction work under the project to build the Kędzierzyn Compressor Station. The VAT-exclusive value of the contract was PLN 168.7m (PLN 207.5m, VAT inclusive), with the Company's share accounting for 95% of that amount.

On December 15th 2020, GAZ-SYSTEM S.A. terminated the contract for Goleniów-Płoty gas pipeline construction and the contract Kędzierzyn Compressor Station construction for reasons attributable to the Company.

In connection with termination of the Kędzierzyn contract, the employer charged a contractual penalty of PLN 33,916,160.35 and demanded a refund of the outstanding advance payment of PLN 20,750,100.00., and in the case of the Goleniów contract the employer charged a contractual penalty of PLN 20,512,308.19 and demanded a refund of the outstanding advance payment of PLN 12,000,000.00 as well as called on the performance bond and advance payment guarantee for the above amounts.

On January 15th 2021, mBank S.A. made payments to GAZ-SYSTEM S.A. of PLN 20,750,100.00 under the performance bond and PLN 20,750,100.00 under the advance payment guarantee.

On February 16th 2021, Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. made payments to GAZ-SYSTEM S.A. of PLN 15,222,720.75 under the performance bond and PLN 2,755,069.19 under the advance payment guarantee.

The Company challenges in full the employer's right to terminate the Goleniów contract, and is of the opinion that the charging of a contractual penalty by the employer and its claim for refund of the advance payment are ineffective.

The Company also voices reservations regarding the employer's right to terminate the Kędzierzyn contract and the grossly overcharged contractual penalty of PLN 33,916,160.35.

(PLN thousand)

Change in estimates for the Goleniów-Płoty Gas Pipeline Project

In 2020, the total revenue under the contract did not change despite its termination, while the estimated total costs of settlements with subcontractors increased by PLN 1.6m. The effect of the Goleniów-Płoty Gas Pipeline project on the Company's profit or loss for the 12 months ended December 31st 2020 (corresponding to the portion of work performed by the Company) was negative at PLN -0.6m.

Change in estimates for the Kędzierzyn Compressor Station project

In 2020, total revenue under the contract decreased by PLN 33.6m following contract termination by the Customer, with a concurrent decline of estimated total contract costs by PLN 23.4m.The effect of the Kędzierzyn Compressor Station contract on the Company's profit or loss for the 12 months ended December 31st 2020 was negative at PLN -10.2m.

11.2. Provision for contract losses

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

	Dec 31 2020	*Dec 31 2019*
Opening balance	38,997	4,077
Provision for the obligation	83,452	50,820
Reversal of provision for the obligation	–	–
Utilisation of provision for liability	(84,564)	(15,900)
Closing balance	**37,885**	**38,997**
Short-term as at	37,885	38,997
Long-term as at	–	–
	37,885	**38,997**

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

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

In the 12 months ended December 31st 2020, the Company reviewed the amounts of recognised provisions for costs due to late contract completion (including delays in meeting contractual obligations and the terms of assessing damages) under running contracts.

Provisions for damages due to late contract completion or failure to meet contractually guaranteed technical parameters totalled PLN 8.1m in 2020. As at December 31st 2020, provisions for penalties amounted to PLN 10.0m (December 31st 2019: PLN 8.4m).

(PLN thousand)

12. Revenue and operating segments

12.1. Revenue from sale of goods, services and materials

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Net revenue from sale of products	112,842	74,061
including: from related entities	4	350
Net revenue from sale of services	824,572	869,174
including: from related entities	6,242	3,376
Revenue from sale of other goods	3,920	3,822
Contractual penalties*	(85,303)	–
Exchange differences on trade receivables	11,461	(1,084)
Net revenue from sale of goods and services	**867,492**	**945,973**
Revenue from sale of materials	1,868	1,088
including: from related entities	–	–
Net revenue from sale of merchandise and materials	**1,868**	**1,088**
Net sales revenue, total	**869,360**	**947,061**
including: from related entities	6,246	3,726

*For a detailed description of the provision for liquidated damages, affecting the Company's revenue, see Note 11.3; contractual penalties reducing revenue relate mainly to the contract for the construction of a power generation unit in Vilnius and to the upgrade of an electrostatic precipitator and boiler at the Bełchatów Power Plant.

The decrease in revenue recorded in 2020 was mainly attributable to the termination of contracts performed by the Company, including for the construction of the power generation unit in Vilnius and the construction of the Kędzierzyn Compressor Station.

12.2. Revenue by geography

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Revenue from sales to domestic customers	574,819	493,858
including: from related entities	6,019	3,726
Revenue from sales to foreign customers	294,541	453,203
including: from related entities	227	–
Net sales revenue, total	**869,360**	**947,061**
including: from related entities	6,246	3,726

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

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

(PLN thousand)

Trading partner	*% of total sales*	*12 months ended Dec 31 2020*
GÓRNICTWO I ENERGETYKA KONWENCJONALNA S.A.	24.2%	210,315
Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	13.9%	122,172
PT. PLN (Persero)	14.8%	128,247
Other	47.1%	408,626
Total	**100%**	**869,360**

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

12.3. Operating segments

As at December 31st 2020 and as at December 31st 2019, the Company identified two operating segments, i.e. 'Power and environmental protection facilities' and 'Products for the oil and gas sector'. The Management Board assesses the Company's performance based on its financial statements.

12 months ended Dec 31 2020 or as at Dec 31 2020	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Revenue			
Sales to external customers	133,448	735,912	869,360
Inter-segment sales	–	–	–
Total segment revenue	133,448	735,912	869,360
Cost of products and materials sold	(147,688)	(862,600)	(1,010,288)
Result			
Gross profit/(loss)	(14,240)	(126,688)	(140,928)
Other income/(expenses)	3,984	(142,340)	(138,356)
Operating profit/(loss)	(10,256)	(269,028)	(279,284)
Finance income/(costs)	17	(5,312)	(5,295)
Profit/(loss) before tax	(10,239)	(274,340)	(284,579)
Income tax expense	–	(12,944)	(12,944)
Segment's net profit/(loss)	(10,239)	(287,284)	(297,523)
Results			
Depreciation and amortisation	(287)	(12,203)	(12,490)
Share of profit of associates and joint ventures	–	–	–
Assets and liabilities as at December 31st 2020			
Segment assets	115,166	667,318	782,484
Segment liabilities	36,672	938,065	974,737
Other information			
Investments in associates and joint ventures	–	–	–
Capital expenditure	265	1,669	1,934

(PLN thousand)

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

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

(PLN thousand)

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

12 months ended December 31st 2020	*Products for oil and gas sector*	*Power and environmental protection facilities*	*Segments – total*
Region			
Poland	133,328	441,492	574,820
European Union	120	117,050	117,170
Other countries	–	177,370	177,370
Total segment revenue	133,448	735,912	869,360
Term of the contract			
Short-term contracts	133,448	471,023	604,471
Long-term contracts	–	264,889	264,889
Total segment revenue	133,448	735,912	869,360

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

(PLN thousand)

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

Product group name	*12 months ended Dec 31 2020*	*12 months ended Dec 31 2019*
Power generation units and steam generators	233,665	341,120
Revenue under the Jaworzno 910 MW project	4,437	18,678
Air pollution control systems	315,249	251,428
Power equipment, machinery and components, and related services	138,003	197,339
Services and products for oil and gas sector	133,448	109,965
Construction	37,919	21,825
Other revenue	6,639	6,706
Total	**869,360**	**947,061**

13. Operating income and expenses

13.1. Expenses by nature

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Depreciation and amortisation	12,490	12,659
Raw materials and consumables used	362,807	210,576
Services	589,432	667,370
Taxes and duties	9,610	7,818
Salaries and wages	107,133	110,211
Social security and other employee benefits	23,071	24,314
Business travel expenses	1,278	3,390
Advertising expenses	285	1,336
Foreign exchange differences	11,994	(1,292)
Cost of insurance	501	761
Other expenses	319	1,350
Total expenses by nature	**1,118,920**	**1,038,493**
Change in inventories, provisions, accruals and deferrals	(53,429)	101,289
Cost of merchandise and materials sold	1,405	810
Work performed by entity and capitalised	(408)	(104)
	1,066,488	**1,140,488**
Selling expenses (negative value)	(13,927)	(22,452)
Administrative expenses (negative value)	(36,072)	(35,175)
Research and development costs (negative value)*	(6,201)	(11,336)
Cost of products and materials sold	**1,010,288**	**1,071,525**

(PLN thousand)

The decrease in costs of products and materials sold relative to 2019 was mainly attributable to termination of contracts for the construction of the power generation unit in Vilnius and for the construction of the Kędzierzyn Compressor Station. For a detailed description of the impact of the estimate on the cost of performance of key contracts, see Note 11.1.

In 2020, selling expenses were PLN 13,927 thousand, having decreased by PLN 8,525 thousand year on year, mainly due to lower bid preparation costs (down PLN 3,812 thousand) and lower costs of marketing and sales departments.

Administrative expenses in 2020 totalled PLN 36,072 thousand, having increased by PLN 897 thousand year on year, mainly due to higher costs resulting from changes in the management personnel and higher costs of advisory services provided by audit and legal firms, relating mainly to the restructuring process.

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

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Items recognised as cost of sales (cost of merchandise and finished goods sold)		
Depreciation of property, plant and equipment	7,517	7,451
Amortisation of intangible assets	1,015	1,173
Warranty provisions	6,889	2,034
Net foreign exchange gains/(losses)	11,991	(1,292)
Inventory write-downs	6,794	1,687
	34,206	**11,053**
Items recognised as selling expenses		
Depreciation of property, plant and equipment	341	428
Amortisation of intangible assets	65	75
	406	**503**
Items recognised as administrative expenses		
Depreciation of property, plant and equipment	1,999	2,023
Amortisation of intangible assets	126	136
	2,125	**2,159**
Items recognised as cost of technical progress		
Depreciation of property, plant and equipment	1,428	1,344
Amortisation of intangible assets	–	–
	1,428	**1,344**

(PLN thousand)

13.3. Employee benefits expense

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Salaries and wages, including:	107,133	110,211
- current wages and salaries expense	113,659	112,428
- post-employment benefits	(6,057)	(1,910)
- provision for bonuses*	(293)	(174)
- provision for holiday entitlements	(176)	(133)
Social security, including:	23,071	24,314
- social security relating to salaries and wages	18,992	19,745
- social security relating to provision for bonuses	(59)	(36)
- social security relating to provision for holiday entitlements	(39)	(27)
- other benefits	4,177	4,632
	130,204	**134,525**
Items recognised as cost of sales	94,477	98,971
Items recognised as selling expenses	8,275	10,335
Items recognised as administrative expenses	27,452	25,219
	130,204	**134,525**

13.4. Other income

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Income from liquidated damages	4,362	145
Reversal of impairment loss on non-financial assets	–	480
Gain on sale of organised part of business*	13,410	–
Gain on disposal of non-current non-financial assets	82	47
Compensation received	2,108	277
Grants	438	1,341
Income from subsidiary for surety provided	–	5,236
Reversal of provision for other costs	2,085	297
Other	927	1,069
	23,412	**8,892**

*In 2020, the Company sold an organised part of business. For details, see Note 5.

(PLN thousand)

13.5. Other expenses

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Donations	156	1,460
Scrapping of property, plant and equipment	230	421
Scrapping of materials	651	658
Repair of property, plant and equipment	146	196
Contractual penalties***	10,192	–
Legal costs	821	123
Impairment loss on assets*, including:	81,441	45,738
- property, plant and equipment and intangible assets (including held for sale)	4,432	34
- trade receivables	16,249	9,589
- other receivables	60,760	36,115
Recognition of provisions for other costs**	10,937	14,398
Other	994	2,866
	105,568	**65,860**

* In the 12 months ended December 31st 2020, the Company recognised impairment losses on assets of PLN 81,441 thousand. For details, see Note 30.1;

** In the 12 months ended December 31st 2020, in connection with a contract for the construction of a gas pipeline where the parent PBG S.A. w restrukturyzacji acted as the Company's subcontractor, the Company recognised a PLN 3,343 thousand provision for claims of PBG S.A.'s subcontractors under joint and several liability; the Company also recognised a restructuring provision of PLN 1,905 thousand;

*** In the 12 months ended December 31st 2020, the Company paid contractual penalties charged by its trading partners for late payment to the Company's suppliers.

14. Finance income and expenses

14.1. Finance income

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Interest on financial instruments, including interest on loans, past due receivables, deposits, and bank accounts, measurement of long-term settlements	–	6,454
Interest on security deposits provided	198	549
Net foreign exchange gains	3,908	–
Proceeds from sale of securities	100	–
Reversal of impairment of financial assets	547	–
Other finance income	3	10
	4,756	**7,013**

(PLN thousand)

14.2. Finance costs

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Interest on financial instruments, including interest on bank and other borrowings, lease, past due liabilities, and bank loan fees	5,726	5,511
Interest on employee benefits	605	730
Net foreign exchange losses	–	1,360
Costs on measurement of financial instruments	–	47
Recognition of impairment losses on financial assets	–	27,822
Recognition of impairment loss on shares	3,156	5,323
Recognition of provision for interest expense	138	6
Other finance costs	426	78
	10,051	**40,878**

15. Income tax

15.1. Income tax expense

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

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Statement of profit or loss		
Current tax	–	–
Current income tax expense	–	–
Adjustments to current income tax from previous years	–	–
Deferred tax	(12,944)	(384)
Related to recognition and reversal of temporary differences	28,336	12,616
Impairment loss on deferred tax assets	(41,280)	(13,000)
Income tax expense in the statement of profit or loss	**(12,944)**	**(384)**
Deferred tax on other comprehensive income	(174)	1,306
Related to recognition and reversal of temporary differences	(174)	1,306
Income tax expense disclosed in other comprehensive income	**(174)**	**1,306**

In the reporting period, the Company filed with tax authorities adjustments to tax returns for previous reporting periods, including:

- adjustment to the CIT 8 tax return for 2017 – the adjustment increases taxable income and tax-deductible expenses, reducing the 2017 tax loss;
- adjustment to the CIT 8 tax return for 2018 – the adjustment increases taxable income and tax-deductible expenses, reducing the 2018 tax loss on other activities;
- adjustment to the CIT 8 tax return for 2019 – the adjustment decreases taxable income and tax-deductible expenses, reducing the 2019 tax loss.

(PLN thousand)

15.2. Reconciliation of effective income tax rate

The table below presents reconciliation of corporate income tax on profit/(loss) before tax computed at the statutory tax rate with corporate income tax computed at the effective tax rate for the year ended December 31st 2020:

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Profit before tax from continuing operations	(284,579)	(284,260)
Tax rate applied by the Company	19%	19%
Income tax calculated at the tax rate applied by the Company	**(54,070)**	**(54,009)**
Reconciliation of income tax on account of:		
Non-taxable income (-)	(4,806)	(157)
Expenses which are permanently non-tax-deductible (+)	36,673	19,461
Unrecognised deferred tax asset on tax losses	(6,343)	21,864
Impairment loss on deferred tax	41,280	13,000
Other items	210	225
Income tax expense	**12,944**	**384**
Average tax rate applied	4.5%	0%

15.3. Deferred income tax calculated as at December 31st 2020

As at December 31st 2020, the Company analysed the recoverable amount of the deferred tax asset based on forecasts and budgets prepared for subsequent years and recognised a PLN 24,108 thousand impairment loss on deferred tax assets.

(PLN thousand)

	Statement of financial position		*Statement of comprehensive income for 12 months ended*	
	Dec 31 2020	*Dec 31 2019*	*Dec 31 2020*	*Dec 31 2019*
- investment reliefs	(1)	(1)	–	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(11,685)	(14,156)	2,471	9
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,475	953	522	(1,160)
- difference between tax base and carrying amount of loans and receivables	8,294	4,831	3,463	714
- difference between tax base and carrying amount of gross amount due from customers for contract work and related accruals and deferrals	(16,925)	(25,228)	8,303	3,278
- difference between tax base and carrying amount of inventories	3,565	2,275	1,290	321
- provisions	19,945	18,978	967	7,730
- difference between tax base and carrying amount of financial liabilities measured at amortised cost	162	27	135	–
– difference between tax base and carrying amount of liabilities, provisions, and accruals and deferrals relating to accounting for contracts	68,255	58,353	9,902	18,935
- tax loss	–	–	–	(16,178)
- adjustment to costs of unpaid invoices	3,536	3,536	–	(320)
- other	1,767	657	1,109	591
Deferred tax expense/benefit disclosed in the statement of profit or loss			28,336	12,616
Deferred tax expense/benefit disclosed in other comprehensive income			(174)	1,306
Impairment loss on deferred tax	(54,280)	(13,000)	(41,280)	(13,000)
			(13,118)	**922**
Net deferred tax asset/(liability) including:	**24,108**	**37,226**		
Deferred tax assets	24,108	37,226		
Deferred tax liability	–	–		

16. Proposed coverage of 2020 loss

The Management Board recommends that the net loss of PLN 297,523 thousand be offset against future profits of the Company.

17. 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 applied to calculate basic earnings/(loss) per share:

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Net profit/(loss) from continuing operations	(297,523)	(284,644)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(297,523)	(284,644)
Net profit/(loss) attributable to holders of ordinary shares, applied to calculate earnings per share	**(297,523)**	**(284,644)**
Weighted average number of outstanding ordinary shares, applied to calculate basic earnings/(loss) per share	127,431,998	127,431,998
Dilutive effect:	–	–
Stock options	–	–
Cancellable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	127,431,998	127,431,998
Earnings/(loss) per share		
– basic earnings/(loss) from profit/(loss) for the period	(2.33)	(2.23)
– diluted earnings/(loss) from profit/(loss) for period	(2.33)	(2.23)

18. Significant items disclosed in the statement of cash flows

The PLN 104,927 thousand decrease in receivables disclosed in the statement of cash flows for the twelve months ended December 31st 2020 resulted mainly from:

- PLN 21,779 thousand decrease in trade receivables,
- PLN (588) thousand increase in receivables from the state budget (including VAT),
- PLN 14,743 thousand decrease in advance payments made,
- PLN (207) thousand increase in security deposits receivable,
- PLN 28,148 thousand decrease in sureties receivable,
- PLN 17,449 thousand decrease in accruals and deferrals,
- PLN 23,603 thousand decrease in other receivables.

For a detailed description of changes in security deposits and disputed receivables in the 12 months ended December 31st 2020, see Note 30.

The PLN 206,682 thousand increase in liabilities disclosed in the statement of cash flows resulted mainly from:

- PLN 37,583 thousand increase in trade payables,
- PLN (1,878) thousand decrease in taxes and other duties payable,
- PLN 13,346 thousand increase /(decrease) in employee benefit obligations,
- PLN 157,631 thousand increase in other liabilities.

(PLN thousand)

The PLN 1,873 thousand change in gross amounts due to and from customers for contract work disclosed in the statement of cash flows resulted primarily from:

- PLN 31,798 thousand increase in amounts due from customers for contract work,
- PLN (29,925) thousand decrease in gross amounts due for contract work,

The PLN (845) thousand change in provisions, accruals and deferrals disclosed in the statement of cash flows resulted mainly from:

- PLN 6,889 thousand increase in the provision for warranty repairs,
- PLN (6,366) thousand decrease in employee benefit provisions,
- PLN (1,112) thousand decrease in the provision for expected contract losses,
- PLN (256) thousand change in other provisions.

The cash flows of PLN 648 thousand relating to purchase of property, plant and equipment and intangible assets included PLN 319 thousand incurred to purchase property, plant and equipment, and PLN 329 thousand incurred to purchase intangible assets.

19. Assets and liabilities of the Company Social Benefits Fund

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

	Dec 31 2020	*Dec 31 2019*
Assets of Company's social benefits fund:	(559)	1,073
Cash	(185)	617
Loans advanced to employees	(374)	456
Liabilities to Social Benefits Funds	–	(1,356)
Net balance	**(559)**	**(283)**

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Contributions to the Social Benefits Fund during the reporting period	2,543	2,088
	2,543	**2,088**

(PLN thousand)

20. Property, plant and equipment

For the 12 months ended December 31st 2020	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*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**
Acquisitions	–	–	–	–	–	59	59
Liquidation/sale	(9)	(118)	(169)	(674)	–	–	(970)
Transfers from property, plant and equipment under construction	–	–	59	–	–	(59)	–
Depreciation for period	–	(2,670)	(4,165)	(599)	–	–	(7,434)
Impairment of property, plant and equipment in period	–	–	(3)	(8)	–	–	(11)
Other, including reclassification of property, plant and equipment to/from assets held for sale	(933)	(4,507)	(1,008)	250	–	–	(6,198)
Net carrying amount as at December 31st 2020	**8,242**	**66,865**	**31,396**	**1,324**	**–**	**–**	**107,827**
As at Jan 1 2020							
Gross carrying amount	9,184	108,487	111,920	7,680	2,454	–	239,725
Accumulated depreciation and impairment	–	(34,327)	(75,238)	(5,325)	(2,454)	–	(117,344)
Net carrying amount	**9,184**	**74,160**	**36,682**	**2,355**	**–**	**–**	**122,381**
As at Dec 31 2020							
Gross carrying amount	8,242	100,208	107,326	4,526	2,418	–	222,720
Accumulated depreciation and impairment**	–	(33,343)	(75,930)	(3,202)	(2,418)	–	(114,893)
Net carrying amount	**8,242**	**66,865**	**31,396**	**1,324**	**–**	**–**	**107,827**

* Property, plant and equipment pledged as security for the Company's liabilities as at the reporting date are presented in Note 32.1.
** As at December 31st 2020, the amount of impairment losses on property, plant and equipment was PLN 115 thousand (December 31st 2019: PLN 129 thousand).

(PLN thousand)

For the 12 months ended December 31st 2019	*Land*	*Buildings and structures*	*Plant and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at January 1st 2019	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**–**	**132,814**
Adjustment to opening balance following implementation of IFRS 16	–	–	(476)	(4,156)	–	–	(4,632)
Net carrying amount as at January 1st 2019	**9,184**	**76,752**	**41,227**	**1,019**	**–**	**–**	**128,182**
Acquisitions	–	–	–	–	–	342	342
Lease agreements	–	–	–	–	–	–	–
Liquidation/sale	–	–	(129)	(95)	–	–	(224)
Transfers from property, plant and equipment under construction	–	98	244	–	–	(342)	–
Exchange differences on translating foreign operations	–	–	–	–	–	–	–
Depreciation for period		(2,690)	(4,747)	(290)	–	–	(7,727)
Impairment of property, plant and equipment in period	–	–	33	96	–	–	129
Other, including reclassification of property, plant and equipment to/from assets held for sale	–	–	54	1,625	–	–	1,679
Net carrying amount as at December 31st 2019	**9,184**	**74,160**	**36,682**	**2,355**	**–**	**–**	**122,381**
As at Jan 1 2019							
Gross carrying amount	9,184	108,390	113,055	10,838	2,466	–	243,933
Accumulated depreciation and impairment	–	(31,638)	(71,352)	(5,663)	(2,466)	–	(111,119)
Net carrying amount	**9,184**	**76,752**	**41,703**	**5,175**	**–**	**–**	**132,814**
As at December 31st 2019							
Gross carrying amount	9,184	108,487	111,920	7,680	2,454	–	239,725
Accumulated depreciation and impairment	–	(34,327)	(75,238)	(5,325)	(2,454)	–	(117,344)
Net carrying amount	**9,184**	**74,160**	**36,682**	**2,355**	**–**	**–**	**122,381**

(PLN thousand)

21. Leases

21.1. The Company as a lessee

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 Dec 31 2020*	Depreciation of right-of-use assets (cumulative) *Dec 31 2020*	Depreciation in the reporting period *Jan 1–Dec 31 2020*
Land	20	233	118
Buildings and structures	110	1,695	1,032
Plant and equipment	3,558	4,259	2,129
Vehicles	2,076	918	571
Intangible assets	85	28	23
Total	**5,849**	**7,133**	**3,873**

Class of underlying assets	*Carrying amount of right-of-use assets Dec 31 2019*	Depreciation of right-of-use assets (cumulative) *Dec 31 2019*	Depreciation in the reporting period *Jan 1–Dec 31 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.

The Group's leasing activities are summarised in the table below:

Class of underlying assets	*Number of rights of use*	*Remaining lease term (years) from*	*to*	*Average remaining lease term (years)*	*Number of contracts with extension option*	*Number of contracts with purchase option*	*Number of contracts with variable rate-indexed payments*	*Number of contracts with early termination option*
Land	1	0.2	0.2	0.2	1	–	–	1
Buildings and structures	8	0.1	1	0.3	8	–	–	8
Plant and equipment	7	0.1	5	1.7	5	1	–	2
Vehicles	29	0.1	2.6	1.7	–	29	–	29
Intangible assets	1	3.8	3.8	3.8	1	–	–	1

(PLN thousand)

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 870 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:

	Dec 31 2020		*Dec 31 2019*	
	Minimum payments	*Present value*	*Minimum payments*	*Present value*
up to 1 year	3,439	3,393	4,167	4,037
from 1 to 5 years	1,427	1,281	1,893	1,704
Total minimum lease payments	**4,866**	**4,674**	**6,060**	**5,741**
Less finance costs	(192)	–	(319)	–
Present value of minimum lease payments, including:	**4,674**	**4,674**	**5,741**	**5,741**
short-term	3,393	3,393	4,037	4,037
long-term	1,281	1,281	1,704	1,704

In the 12 months ended December 31st 2020, interest expense related to leases was PLN 114 thousand.

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

	Dec 31 2020	*Dec 31 2019*
Short-term leases	4,126	2,732
Leases of low-value assets	–	–
Total	**4,126**	**2,732**

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

(PLN thousand)

22. Non-current assets held for sale

As at December 31st 2020, the Company classified non-current assets worth PLN 4,515 thousand (December 31st 2019: PLN 103 thousand) as assets held for sale, unrelated to discontinued operations.

	Dec 31 2020	*Dec 31 2019*
Non-current assets held for sale, including:		
land	933	–
buildings and structures	2,597	–
plant and equipment	689	45
vehicles	296	58
	4,515	**103**

In the 12 months ended December 31st 2020, in connection with organisational changes taking place at the Company, the Management Board of RAFAKO S.A. w restrukturyzacji decided to sell property, plant and equipment located in Wyry. As a result, the Company reclassified those assets to assets held for sale in a total amount of PLN 4,100 thousand.

Most of the assets held for sale were sold in 2020. The Management Board expects to sell the remaining assets in 2021.

23. Intangible assets

For the 12 months ended December 31st 2020	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2020	**1,774**	**6,323**	**196**	**8,293**
Acquisitions	–	–	111	111
Transfers from intangible assets under development	–	87	(87)	–
Liquidation/sale	–	(180)	(196)	(376)
Amortisation for the year	–	(1,183)	–	(1,183)
Impairment of intangible assets in the reporting period	(1,774)	(370)	–	(2,144)
As at Dec 31 2020	–	**4,677**	**24**	**4,701**
As at Jan 1 2020				
Gross carrying amount	1,774	26,818	196	28,788
Accumulated amortisation and impairment	–	(20,495)	–	(20,495)
Net carrying amount	**1,774**	**6,323**	**196**	**8,293**
As at Dec 31 2020				
Gross carrying amount	1,774	26,612	24	28,410
Accumulated amortisation and impairment**	(1,774)	(21,935)	–	(23,709)
Net carrying amount	–	**4,677**	**24**	**4,701**

*Intangible assets pledged as security for the Company's liabilities as at the reporting date are presented in Note 32.2.
** As at December 31st 2020, impairment losses on intangible assets amounted to PLN 2,144 thousand.

(PLN thousand)

For the 12 months ended December 31st 2019	*Goodwill*	*Patents and licences*	*Intangible assets under development*	*Total*
Net carrying amount as at January 1st 2019	**1,774**	**7,565**	**29**	**9,368**
Acquisitions	–	–	304	304
Transfers from intangible assets under development	–	137	(137)	–
Amortisation for the year	–	(1,379)	–	(1,379)
As at December 31st 2019	**1,774**	**6,323**	**196**	**8,293**
As at Jan 1 2019				
Gross carrying amount	1,774	26,681	29	28,484
Accumulated amortisation and impairment	–	(19,116)	–	(19,116)
Net carrying amount	**1,774**	**7,565**	**29**	**9,368**
As at December 31st 2019				
Gross carrying amount	1,774	26,818	196	28,788
Accumulated amortisation and impairment	–	(20,495)	–	(20,495)
Net carrying amount	**1,774**	**6,323**	**196**	**8,293**

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

The largest item is the licence for BENSON supercritical boilers, with a carrying amount of PLN 2,148 thousand as at December 31st 2020 (December 31st 2019: PLN 2,417 thousand). The remaining licence amortisation period is eight years from December 31st 2020.

Goodwill

As at December 31st 2020, the Company disclosed goodwill of PLN 1,774 thousand, recognised on:

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

In the 12 months ended December 31st 2020, the Company recognised a goodwill impairment loss of PLN 1,774 thousand. The impairment loss was recognised based on an estimate of the recoverable amount of the asset following discontinuation of operations of an organised part of business in Wysogotowo and Wyry.

Test for goodwill impairment

As at the reporting date, due to discontinuation of operations, the Company recognised an impairment loss on goodwill arising from acquisition of control over an organised part of the business of PBG AVATIA sp. z o.o. by RAFAKO S.A.

Development work

In the 12 months ended December 31st 2020 and the 12 months ended December 31st 2019, the Company made no expenditure on development work which would be capitalised under intangible assets.

24. Impairment of assets

As at December 31st 2020, the impairment test was performed based on the methodology for measuring recoverable amounts in accordance with IAS 36 Impairment of assets. The valuation was performed using the discounted future cash flows method (DCF). Projected flows used to measure residual value were calculated based on NOPLAT (Net Operating Profit Less Adjusted Taxes) and adjusted assumptions for capital expenditure, depreciation and working capital. It was assumed that capital expenditure in the residual period will be at least equal to projected depreciation charges.

The amount of working capital depends on the assumed growth rate of FCFF (Free Cash Flow to Firm) over the residual period for a particular unit tested, with the dynamics of changes in working capital not lower than the assumed growth rate g. This procedure for measuring CGU's recoverable amount was based on the cash flows available to owners and creditors (FCFF) and the leveraged cost of capital (WACC).

The following assumptions were made for impairment testing purposes:

The valuation of the recoverable amount of the cash-generating unit, which is the key element of the test, was performed using the discounted future cash flows method (DCF).

The impairment test was performed based on the methodology for measuring recoverable amounts in accordance with IAS 36 *Impairment of Assets*.

The cash-generating unit used in the test comprises the following assets: intangible assets, fixed assets comprising plant and equipment, other non-current assets (selected long-term investments and long-term prepayments and accrued income).

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

- As at December 31st 2020, the risk-free interest rate was assumed at the average annual rate of return on 10-year US treasury bonds based on the secondary market data, i.e. 0.9160% per annum.
- The calculation of Beta was based on A. Damodaran's calculation of “unleveraged” Beta factors and the debt structure for the West Europe market in the Engineering/Construction sectors, at 0.6043 and 45.3% respectively. Using these parameters, the leveraged Beta in the DCF calculation was set at 1.0052.
- The market risk premium was assumed based on A. Damodaran’s calculation for the Polish market at 5.54%.
- The size premium was set at 2.6%, based on market data for the Polish capital market published for Q4 2020 by Financial Craft. The 2.6% premium is defined by Polish companies listed on the Warsaw Stock Exchange with market capitalisation within the range PLN 90m–PLN 190m.
- The Company’s additional specific risk premium was estimated at 8% (1.5% market risk (market volatility), 5% forecasting risk (materialisation of the assumptions depends on attracting an investor for the Company – this scenario may not materialise, which should be factored in in the test), and 1.5% change in energy requirements – departing from conventional energy sources (RAFAKO’s strategy assumes a revenue shift from projects based on hard coal technology to projects using other technologies, mainly on the natural gas market).

Based on the above assumptions, WACC is estimated at 10.64%

The impairment test carried out as at December 31st 2020 did not reveal any need to recognise an impairment loss on the Company's assets.

25. Business combinations

In the 12 months ended December 31st 2020 and 12 months ended December 31st 2019, the Company did not merge with another entity.

(PLN thousand)

26. Shares in subsidiaries and other entities

	Dec 31 2020	*Dec 31 2019 (restated)*
Shares in listed subsidiaries	–	–
Shares in non-listed subsidiaries	26,691	29,814
Shares in other listed companies	–	120
Shares in other non-listed companies	1,376	1,376
	28,067	**31,310**

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

On September 28th 2020, the Industrial Development Agency (ARP) and RAFAKO S.A. w restrukturyzacji entered into an agreement to sell all shares in the share capital of RAFAKO EBUS, for PLN 15 thousand.

In the 12 months ended December 31st 2020, the Company sold 73,219 shares in TAURON Polska Energia S.A. for a total amount of PLN 182 thousand.

26.1. Impairment of shares

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
At beginning of period	(10,338)	(4,975)
- write-down recognised	(3,156)	(5,370)
- write-down reversed	–	7
- write-down used	410	–
		–
At end of period	**(13,084)**	**(10,338)**

In the 12 months ended December 31st 2020, the Company recognised an impairment loss of PLN 3,117 thousand on shares in the subsidiary ENERGOTECHNIKA Engineering Sp. z o.o. The the impairment loss was recognised following a decrease in the fair value of the subsidiary’s net assets.

27. Other long-term receivables

	Dec 31 2020	*Dec 31 2019 (restated)*
Financial receivables		
Security deposits	5,831	380
Other long-term receivables	56,188	42,336
Total financial receivables, net	**62,019**	**42,716**
Non-financial receivables		
Accrued expenses and deferred income	1,551	4,795
Total non-financial receivables, net	**1,551**	**4,795**
Total long-term receivables, net	**63,570**	**47,511**

(PLN thousand)

28. Other non-current financial assets

	Dec 31 2020	*Dec 31 2019 (restated)*
Receivables under sureties granted to related parties	40,719	28,148
Impairment loss on other non-current financial assets	(40,719)	–
	–	**28,148**

28.1. Receivables under sureties granted to related parties

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

In the In the 12 months ended December 31st 2020, the Company recognised an impairment loss of PLN 40,719 thousand on receivables under a surety provided to the subsidiary E003B7 Sp. z o.o. The impairment loss was recognised due to a significant increase in the risk of non-realisability of the above asset, caused by uncertainty as to the subsidiary's ability to perform the contract for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of a supercritical 910 MW generation unit at the Jaworzno III Power Plant – Power Plant II' with a positive margin. For details regarding progress in the performance of that contract, see Note 11.1.1 to these financial statements.

29. Inventories

	Dec 31 2020	*Dec 31 2019 (restated)*
Materials (at net realisable value)	22,870	27,205
At cost	41,638	39,179
At net realisable value	22,870	27,205
Total inventories, at the lower of cost and net realisable value	**22,870**	**27,205**

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

29.1. Inventory write-downs

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
At beginning of period	(11,974)	(10,287)
- write-down recognised	(8,587)	(2,096)
- write-down reversed	656	90
- write-down used	1,137	319
At end of period	**(18,768)**	**(11,974)**

(PLN thousand)

30. Short-term trade and other receivables

	Dec 31 2020	*Dec 31 2019 (restated)*
Financial receivables		
Trade receivables	188,348	207,730
Impairment losses on trade receivables (-)	(21,928)	(5,679)
Net trade receivables	**166,420**	**202,051**
Receivables on sale of property, plant and equipment and intangible assets	–	–
Security deposits	61,492	66,736
Disputed receivables in litigation *	21,382	31,896
Other financial receivables	7,639	10,489
Impairment loss on financial receivables (-)	(29,758)	(33,648)
Total financial receivables, net	**227,175**	**277,524**
Non-financial receivables		
Receivables under prepayments and advance payments	88,652	103,395
Receivables from the state budget	11,646	11,058
Accrued expenses and deferred income**	6,386	20,591
Other non-financial receivables	29,842	11,280
Impairment loss on non-financial receivables (-)	(72,121)	(39,430)
Total non-financial receivables, net	**64,405**	**106,894**
Total short-term receivables, net	**291,580**	**384,418**

*The Company recognised an impairment loss on the receivables in an amount corresponding to the estimated risk of their non-recoverability. For a detailed description of disputed receivables, see Note 42.2 to these financial statements;

** 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, RAFAKO S.A. w restrukturyzacji signed an agreement to sell an organised part of business operating as the Company's branch under the name of RAFAKO S.A. Oddział w Solcu Kujawskim, for an amount of PLN 30,985,000.00; the agreement was executed by and between RAFAKO EBUS Sp. z o.o. of Racibórz and RAFAKO S.A. w restrukturyzacji, with the participation of Agencja Rozwoju Przemysłu S.A. of Warsaw. As part of the transaction, development expense on the eBus prototype was sold.

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

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

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

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

Short-term trade receivables of PLN 166,420 thousand recognised in the statement of financial position as at December 31st 2020 relate to contracts with domestic and foreign trading partners.

(PLN thousand)

	Dec 31 2020	*Dec 31 2019 (restated)*
Short-term trade receivables from domestic customers	71,584	124,932
Short-term trade receivables from foreign customers	94,836	77,119
Net trade receivables	**166,420**	**202,051**

The security deposits of PLN 61,492 thousand disclosed in the statement of financial position as at December 31st 2020 relate mainly to projects executed in the following areas:

- construction of a coal-fired steam unit – PLN 18,685 thousand;
- construction of a coke gas-fired power generation unit − PLN 7,128 thousand;
- manufacture of an evaporator – PLN 5,938 thousand;
- manufacture of high-pressure sections of a boiler for an incineration plant – PLN 6,198 thousand;
- construction of a compressor station – PLN 3,154 thousand.

The change in the amount of security deposits in the 12 months ended December 31st 2020 was primarily attributable to the refund of a PLN 5,149 thousand cash security deposit provided in connection with the performance of contracts for upgrade of FGD units and the refund of a PLN 8,139 thousand cash security deposit provided in connection with the performance of a contract for delivery of a catalytic flue gas NOx reduction unit. In addition, the value of security deposits advanced was affected by the provision of a security deposit of PLN 5,938 thousand in connection with a project to manufacture an evaporator.

Advance payments represented a significant portion of other receivables, and amounted to PLN 88,696 thousand as at December 31st 2020, including:

- advance payment of PLN 44,740 thousand towards a contract to construct fuel storage tanks;
- advance payment of PLN 14,677 thousand under a contract to construct a biomass boiler island;
- advance payment of PLN 11,130 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.

30.1. Impairment losses on trade and other receivables

The Company tested receivables for impairment in accordance with the accounting policies applied, as described in Note 8.11 to these financial statements. Impairment losses on receivables, recognised in 2020 in the statement of comprehensive income, were as follows:

- for trade receivables – recognition of impairment losses of PLN 16,249 thousand (2019: reversal/use of impairment losses of PLN 13,052 thousand),
- for other short-term and long-term financial receivables – impairment losses of PLN 28,801 thousand were recognised (2019: impairment losses of PLN 45,789 thousand were recognised).

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

(PLN thousand)

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

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
At beginning of period	(5,679)	(18,731)
Allowances recognised as expense in period	(16,253)	(3,323)
Allowances reversed and recognised as income in period (-)	4	3,085
Allowances used (-)	–	13,290
At end of period	**(21,928)**	**(5,679)**

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 trade partner. In consequence, allowances are estimated on a collective basis and 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. Based on an estimated increase in credit risk, the Company made an estimate based on a one-year analysis of receivables from trading partners.

The change in allowances for trade receivables disclosed in the 12 months ended December 31st 2020 was chiefly attributable to an update of the matrix used to determine the impairment loss on trade receivables as at the reporting date. For details, see Note 8.11 to these financial statements. Allowances for other short-term and long-term financial receivables (i.e. other than trade receivables)

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
At beginning of period	(73,078)	(27,289)
Allowances recognised as expense in period	(43,497)	(46,312)
- 12M expected losses	(7,503)	(709)
- significant increase in credit risk, but no impairment	–	–
- impaired assets	(35,994)	(45,603)
Allowances reversed and recognised as income in period (-)	14,697	523
- 12M expected losses	14,697	523
Allowances used (-)	–	–
- 12M expected losses	–	–
- significant increase in credit risk, but no impairment	–	–
- impaired assets	–	–
At end of period	**(101,879)**	**(73,078)**

(PLN thousand)

The change in allowances for other receivables was mainly attributable to the recognition of:

- a PLN 14,036 thousand allowance for receivables under advance payments,
- a PLN 7,503 thousand allowance for security deposits,
- a PLN 1,596 thousand allowance for disputed receivables,
- a PLN 19,464 thousand allowance for receivables under direct payments made under joint and several liability for subcontractors' liabilities
- a PLN 898 thousand allowance for other receivables.

31. Current financial assets

31.1. Other current financial assets

	Dec 31 2020	*Dec 31 2019 (restated)*
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 loss on bonds	(27,822)	(27,822)
	–	–

* For a detailed description of the bonds, see Note 31.1.1.

31.1.1. Bonds

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

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

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

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

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

Redemption Date	June 30th 2019	December 31st 2019	June 30th 2020
Series	G, G1 and G3	H, H1 and H3	I, I1 and I3
Amount of Bonds to be redeemed	PLN 61,934,800	PLN 46,875,600	PLN 238,445,700
including Bonds acquired by RAFAKO S.A.	*PLN 4,996,100*	*PLN 3,781,300*	*PLN 19,045,000*

(PLN thousand)

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

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

Following change in the position of the Management Board with respect to the collectability of the receivables, as at December 31st 2020 and December 31st 2019 the Company recognised an impairment loss for the entire amount of the bonds held.

31.2. Cash and cash equivalents

	Dec 31 2020	*Dec 31 2019 (restated)*
Cash at bank and in hand	46,706	21,089
Short-term deposits for up to 3 months, including:	940	2,828
- deposits pledged as security for contingent liabilities	–	–
	47,646	**23,917**

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 December 31st 2020, the amount was PLN 14,080 thousand. Furthermore, as at December 31st 2020 the Company had restricted cash of PLN 3.5m in an assigned account.

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.

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

32.1. Property, plant and equipment pledged as security

As at December 31st 2020, the amount of property, plant and equipment pledged as security for liabilities was PLN 114,601 thousand. Property, plant and equipment are pledged as security for liabilities under the multi-purpose credit facility agreement with PKO BP S.A. (mortgage of up to PLN 300m on property of which RAFAKO is the owner or perpetual usufructuary, except residential property, and a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno TAURON Sp. z o.o. in connection with the execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

(PLN thousand)

	Dec 31 2020	*Dec 31 2019 (restated)*
Mortgaged property, plant and equipment, including:	80,140	83,094
land	9,162	9,162
buildings and structures	70,978	73,932
Property, plant and equipment encumbered with registered pledge, including:	34,461	39,282
plant and equipment	32,842	36,880
vehicles	1,619	2,402
	114,601	**122 376***

* The disclosed amounts include PLN 4,512 thousand of property, plant and equipment classified as held for sale (December 31st 2019: PLN 103 thousand), presented in Note 22.

32.2. Intangible items pledged as security

As at December 31st 2020, intangible assets worth PLN 4,677 thousand were pledged as security for the Company's liabilities (December 31st 2019: PLN 8,097 thousand). The assets are pledged as security for liabilities under the Multi-Purpose Credit Facility Agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of Nowe Jaworzno TAURON Sp. z o.o. in connection with execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

32.3. Shares pledged as security

As at December 31st 2020, shares with a carrying amount of PLN 28,067 thousand (December 31st 2019: PLN 31,310 thousand) were pledged as security for liabilities under the Multi-Purpose Credit Facility Agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for the issuance of guarantees for the benefit of Nowe Jaworzno Grupa TAURON Sp. z o.o in connection with the execution of the Jaworzno III 910 MW Project (a second-ranking registered pledge over a set of movables and rights).

The year-on-year decrease in the carrying amount of shares in the 12 months ended December 31st 2020 was mainly attributable to the recognition of impairment losses on shares in a subsidiary, as discussed in more detail in Note 26.1.

32.4. Inventories pledged as security

As at December 31st 2020, inventories with a total carrying amount of PLN 22,870 thousand were pledged as security for the parent's liabilities (December 31st 2019: PLN 27,205 thousand). Inventories are pledged as security for liabilities under the Multi-Purpose Credit Facility Agreement with PKO BP S.A. (a first-ranking registered pledge over a set of movables and rights) and in respect of the repayment of BGK's, PKO BP's, mBank's and PZU's claims towards RAFAKO S.A. under the Surety Agreement signed to secure the liabilities of E003B7 Sp. z o.o. arising in connection with the agreement providing for issuance of guarantees for the benefit of TAURON Wytwarzanie S.A. in connection with the execution of the Jaworzno III 910 MW unit Project (a second-ranking registered pledge over a set of movables and rights).

32.5. Trade receivables pledged as security

As at December 31st 2020, trade receivables of PLN 44,157 thousand were pledged as security for guarantees and borrowings received by the Company (December 31st 2019: PLN 21,499 thousand).

33. Equity

33.1. Share capital

In the 12 months ended December 31st 2020, RAFAKO S.A.'s share capital did not change and as at December 31st 2020 its amount of was PLN 254,864 thousand.

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

In connection with the 2016 bond issue carried out by PGB S.A. restrukturyzacji, the Company's main shareholder, a registered pledge was created over RAFAKO S.A. shares held directly by PBG S.A. (7,665,999 shares) and indirectly through Multaros Trading Company Limited, a subsidiary of PBG S.A. w restrukturyzacji (34,800,001 shares) for the benefit of bondholders.

33.2. Par value per share

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

33.3. Shareholders' rights

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

33.4. Share premium

In the 12 months ended December 31st 2020, there were no changes in the share premium, and as at December 31st 2020 the amount of the share premium was PLN 165,119 thousand.

33.5. Dividends paid

In the 12 months ended December 31st 2020 and by the date of issue of these financial statements, the Company did not pay dividends nor did the Management Board declare any dividend.

33.6. Capital management

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

(PLN thousand)

The Company's standing should be analysed taking into account the information presented in Note 7.

	Dec 31 2020	*Dec 31 2019 (restated)*
Debt to equity		
Equity	(192,253)	104,529
Borrowed funds (bank and non-bank borrowings)	84,700	112,021
Total equity and liabilities	782,484	932,588
Capitalisation ratio (equity / total assets)	**(0.25)**	**0.11**
Total financing sources		
Equity	(192,253)	104,529
Borrowed funds (bank and non-bank borrowings)	84,700	112,021
Leases	4,674	5,741
Capital-to-total financing sources ratio	**(2.15)**	**0.89**
EBITDA		
Operating profit/(loss)	(279,284)	(250,395)
Depreciation and amortisation	12,490	12,659
EBITDA	**(266,794)**	**(237,736)**
Debt		
Borrowings and other debt instruments	84,700	112,021
Leases	4,674	5,741
Debt to EBITDA	**(0.33)**	**(0.50)**

(PLN thousand)

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

The table below presents shareholders who held 5% or more of total voting rights at the General Meeting of RAFAKO S.A. as at December 31st 2020:

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

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

(PLN thousand)

35. Interest-bearing borrowings

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						Dec 31 2020	*Dec 31 2019*
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 together with assignment under an assets insurance policy, financial pledge on transfer of receivables under contracts, cash security deposits	current account overdraft facility of up to PLN 50m***	PLN	1M WIBOR + margin	Jan 31 2022****	50,354	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 together with assignment under an assets insurance policy, financial pledge on transfer of receivables under contracts, cash security deposits	revolving working capital facility of up to PLN 7m***	PLN/ EUR	1M WIBOR or 1M EURIBOR + margin	Jan 31 2022****	3,683	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 together with assignment under an assets insurance policy, financial pledge on transfer of receivables under contracts, cash security deposits	revolving working capital facility to cover liabilities related to payments made under bank guarantees***	PLN	1M WIBOR + margin	Jan 31 2022****	8,344	8,303
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 together with assignment under an assets insurance policy, financial pledge on transfer of receivables	revolving working capital facility to cover liabilities related to payments made under bank guarantees***	PLN	1M WIBOR + margin	Jan 31 2022****	6,070	–

under contracts, cash security deposits

(PLN thousand)

Short-term borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Liabilities under borrowings*	
						Dec 31 2020	*Dec 31 2019*
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 together with assignment under an assets insurance policy, financial pledge on transfer of receivables under contracts, cash security deposits	revolving working capital facility to cover liabilities related to payments made under bank guarantees***	PLN	1M WIBOR + margin	Jan 31 2022****	14,196	–
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 together with assignment under an assets insurance policy, financial pledge on transfer of receivables under contracts, cash security deposits	revolving working capital facility to cover liabilities related to payments made under bank guarantees***	PLN	1M WIBOR + margin	Jan 31 2022****	2,053	–
						84,700	**112,021**

*The facility is secured by receivables under contracts executed by the Company.
**As at the date of these financial statements, the Company had established mortgages on its properties (other than flats and residential buildings) for a total amount of up to PLN 300m, serving as additional security for the PKO BP credit facility.
***As at the date of issue of these financial statements, in accordance with the annex of January 5th 2021 to the multi-purpose credit facility agreement, the facility limit was set at PLN 120.6m, including an overdraft facility of up to PLN 50m until January 31st 2022;
****As at the date of issue of these financial statements, in accordance with the annex of january 5th 2021 to the multi-purpose credit facility agreement, the term of the facility and its repayment date were extended until January 31st 2022.

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

36. Employee benefit obligations

36.1. Post-employment and other benefits

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

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
As at January 1st	31,794	26,097
Interest expense	605	730
Current service costs	527	654
Past service costs	(3,514)	
Actuarial (gains)/losses	(915)	6,877
Benefits paid	(3,064)	(2,564)
Closing balance	**25,433**	**31,794**
Long-term provisions	24,483	29,329
Short-term provisions	951	2,465

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

	Dec 31 2020	*Dec 31 2019*
Discount rate (%)	1.2	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 2021 and in subsequent years

Sensitivity analysis

Change of the discount rate by half percentage point:

	Increase (PLN '000)	*Decrease (PLN '000)*
Dec 31 2020		
Effect on the defined benefit obligation	(1,297)	1,389
Dec 31 2019		
Effect on the defined benefit obligation	(1,398)	1,520

(PLN thousand)

37. Trade and other payables

37.1. Other non-current liabilities

	Dec 31 2020	Dec 31 2019 (restated)
Financial liabilities		
Other non-current liabilities	11,482	18,556
	11,482	**18,556**

37.2. Other long-term provisions

	Dec 31 2020	Dec 31 2019 (restated)
Provision for warranty repairs	28,484	18,430
Provisions for retirement severance payments	7,379	8,570
Provision for long-service benefits	10,330	13,944
Provision for other employee benefits	6,773	6,815
Unpaid bonus accrual	–	5
	52,966	**47,764**

37.3. Short-term trade and other payables

	Dec 31 2020	Dec 31 2019 (restated)
Trade payables	377,297	332,640
Amounts payable for tangible and intangible assets	22	163
Retentions (security deposits)	131	87
Other financial liabilities*	155,355	–
Total financial liabilities	**532,805**	**332,890**
Taxes and other duties payable	3,647	5,525
Employee benefit obligations	30,108	16,763
Amounts payable under sureties/joint and several liability	7,478	15,386
Liabilities due to delayed payment of costs	16,615	13,582
Liabilities under employment restructuring costs	2,701	–
Other non-financial liabilities	6,344	2,713
Total non-financial liabilities	**66,893**	**37,206**
	599,698	**370,096**

* As at December 31st 2020, the Company recognised in the statement of financial position liabilities under bank and insurance guarantees, including accrued interest, in a total amount of PLN 71,176 thousand, and liabilities under contractual penalties of PLN 10,192 thousand.

(PLN thousand)

As at December 31st 2020, the Company disclosed short-term employee benefit obligations of PLN 30,108 thousand, comprising the following items:

	Dec 31 2020	*Dec 31 2019 (restated)*
Social security	20,826	6,682
Salaries and wages payable	6,364	6,555
Obligations under Employee Capital Plans	181	225
Accrued holiday entitlements	2,553	2,769
Unpaid bonus accrual	184	532
	30,108	**16,763**

As at December 31st 2020, the Company estimated the amount of the surety provision described in Note 28.1 at PLN 7,344 thousand (December 31st 2019: PLN 7,344 thousand).

The Company entered into a contract for the construction of a gas pipeline, where the parent PBG S.A. w restrukturyzacji acted as the Company's subcontractor. Under joint and several liability, the Company recognised a PLN 131 thousand liability on account of claims of PBG S.A.'s subcontractors (December 31st 2019: PLN 8,040 thousand).

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

37.4. Other short-term provisions

	Dec 31 2020	*Dec 31 2019 (restated)*
Provision for warranty repairs	3,390	6,555
Provision for expected contract losses	37,885	38,997
Provisions for retirement severance payments	241	432
Provision for long-service benefits	656	1,772
Provision for other employee benefits	54	261
Other provisions	32	288
	42,258	**48,305**

37.5. Liabilities under financial derivatives

As at December 31st 2020 and December 31st 2019, the Company carried no open FX contracts with a negative fair value.

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

As at December 31st 2020, the Company had commitments to purchase property, plant and equipment of PLN 22 thousand (December 31st 2019: PLN 163 thousand).

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

(PLN thousand)

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

37.7.1. Amounts payable for unused holiday entitlements

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

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Opening balance	2,769	2,929
Provision for the obligation	–	–
Cost of benefits paid	(216)	(160)
Reversal of provision for the obligation	–	–
Closing balance	**2,553**	**2,769**
Short-term as at	2,553	2,769
Long-term as at	–	–
	2,553	**2,769**

37.7.2. Unpaid bonus accrual

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

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Opening balance	537	746
Provision for the obligation	42	64
Cost of benefits paid	(123)	(130)
Reversal of provision for the obligation	(272)	(143)
Closing balance	**184**	**537**
Short-term as at	184	532
Long-term as at	–	5
	184	**537**

(PLN thousand)

37.7.3. Provision for warranty repairs

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

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Opening balance	24,985	22,951
Provision for the obligation	16,527	14,874
Costs of warranty repairs incurred	(7,605)	(9,458)
Reversal of provision for the obligation	(2,033)	(3,382)
Closing balance	**31,874**	**24,985**
Short-term as at	3,390	6,555
Long-term as at	28,484	18,430
	31,874	**24,985**

37.8. Income tax payable

As at December 31st 2020 and December 31st 2019, the Company carried no income tax payable.

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

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

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

38. Grants

Grants recognised as at December 31st 2020 amounted to PLN 440 thousand. The grants pertain to:

- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed the design, delivery and installation of natural gas detection and signalling systems for two gas furnaces at RAFAKO; the grant was made in cash.
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to install a hydrocarbons detection system in RAFAKO's paint and varnish storage facility; the grant was made in cash.
- Prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed a project to modernise and extend RAFAKO's CCTV system; the grant was made in cash.

(PLN thousand)

- Prevention activities of Powszechny Zakład Ubezpieczeń S.A. and InterRisk Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group, under which the insurance companies co-finance the fire safety improvement programme in a production building of RAFAKO; the grant was made in cash.
- Research project ‘Flexibility of existing power generating units given limited capital expenditure’ funded by the National Centre for Research and Development under measure SGOP 1.2 as part of the PBSE sectoral programme; the grant was made in cash.
- Research project ‘Development of a low-cost method to increase the efficiency of flue gas desulfurization units’ funded by the National Centre for Research and Development under measure SGOP 1.2 as part of the INNOCHEM sectoral programme; the grant was made in cash.
- Research project ‘CO_2 methanisation unit for storing electricity by producing CO2-SNG’ pursued in partnership with TAURON Wytwarzanie S.A., Institute for Chemical Processing of Coal, AGH University of Technology, West Technology & Trading Polska Sp. z o.o. of Opole, EXERGON Sp. z o.o. of Gliwice, CEA Institute of France, and Atmostat of France; the grant was made in cash,
- Research project ‘Municipal polygeneration system fired with biomass and refuse-derived fuel’, pursued in partnership with EXERGON Sp. z o.o. of Gliwice, TAURON Wytwarzanie S.A., Institute for Chemical Processing of Coal, EQTEC of Spain, CEA Institute of France, and Atmostat of France; the grant was made in cash.
- Research project ‘HYBRID system to reduce emissions of acidic components and fly ashes from flue gas’ funded by the National Centre for Research and Development under the POIR 4.1.4 activity in the Application Projects competition; the grant was made in cash.

Grant settlements:

Purpose	*As at Jan 1 2020*	*Increase*	*Grants charged to other income*	*Grants returned*	*Other decrease in grants*	*As at Dec 31 2020*
Modernisation of property, plant and equipment	159	–	(9)	–	–	150
Partial performance of research project	71	1,855	(1,636)	–	–	290
	230	**1,855**	**(1,645)**	**–**	**–**	**440**

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

In the 12 months ended December 31st 2020 and December 31st 2019, the Company did not issue, redeem or repay any debt or equity securities.

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

	Dec 31 2020	*Dec 31 2019*
Receivables under bank guarantees obtained mainly as security for performance of contracts, including:	176,687	228,666
- from related entities	–	–
Receivables under sureties received, including:	–	–
- from related entities	–	–
Promissory notes received as security, including:	48,243	62,630
- from related entities	12,973	51,925
Letters of credit	–	5,643
	224,930	**296,939**

(PLN thousand)

	Dec 31 2020	*Dec 31 2019*
Liabilities under bank guarantees issued mainly as security for contract performance, including:	329,033	510,939
- to related entities	–	–
Liabilities under sureties, including:	1,183,594	1,175,587
- to related entities	1,183,594	1,175,587
Promissory notes issued as security, including:	109,892	107,900
- to related entities	–	–
Letters of credit	–	–
	1,622,519	**1,794,426**

In the 12 months ended December 31st 2020, RAFAKO S.A. w restrukturyzacji posted a PLN 171,907 thousand decrease in contingent liabilities, which resulted from a decrease in guarantees granted. In the 12 months ended December 31st 2020, at the request of RAFAKO S.A. w restrukturyzacji, banks and insurance companies issued guarantees (performance bonds, advance payment guarantees and bid bonds) for the benefit of the Group's trading partners for a total amount of PLN 8,307 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 December 2020, liabilities under sureties in issue were PLN 1,183,594 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. w restrukturyzacji on April 16th 2014 and February 24th 2016 and valid until April 17th 2028, in connection with the project to develop new coal-fired generation capacities at TAURON Wytwarzanie S.A. – construction of supercritical 910 MW generating unit at the Jaworzno III Power Plant – Power Plant II.

The largest item of guarantees expired in the 12 months ended December 31st 2020 was a EUR 11,972 thousand performance bond.

In 2020, the Company's contingent receivables (mainly under performance bonds and advance payment guarantees) fell by PLN 72,009 thousand, including a PLN 51,979 thousand decrease in receivables under bank and insurance guarantees, a PLN 14,387 thousand decrease in receivables under promissory notes, and a PLN 5,643 thousand decrease in letters of credit. The largest item of guarantees received in 2020 was a EUR 1,397 thousand performance bond. The largest item of guarantees expired in 2020 was a USD 1,335 thousand advance payment guarantee.

41. Bank and insurance guarantees

As at December 31st 2020, the Company carried contingent liabilities under bank and insurance guarantees with a total amount of PLN 329,033 thousand, including:

No.	*Guarantee provider:*	*Guarantee amount (PLN '000)*	*Type of guarantee*
1.	Alior Bank	39,064	performance bond, warranty bond
2.	ALLIANZ	8,315	performance bond, warranty bond
3.	AXA	7,245	performance bond, warranty bond
4.	Generali	8,823	performance bond, advance payment guarantee
5.	Hermes	7,305	performance bond, warranty bond
6.	Hestia	65,843	performance bond, warranty bond, advance payment guarantee
7.	HSBC	6,309	performance bond, advance payment guarantee
8.	InterRisk	25,604	performance bond, warranty bond
9.	KUKE	56,328	performance bond, warranty bond, advance payment guarantee
10.	Lev Ins	14,707	performance bond, warranty bond
11.	mBank	41,500	performance bond, warranty bond, advance payment guarantee
12.	PKO BP	36,964	performance bond, warranty bond, advance payment guarantee
13.	TUW PZUW	94	advance payment guarantee
14.	UNIQA	2,565	performance bond, warranty bond, advance payment guarantee
15.	WARTA	2,120	performance bond, warranty bond
16.	AIK Banka AD	6,247	advance payment guarantee
	TOTAL	**329,033**	

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

42. Litigation and disputes

42.1. Court proceedings against Mostostal Warszawa S.A.

On March 2nd 2020, following negotiations, RAFAKO S.A. w restrukturyzacji and Mostostal Warszawa S.A. reached an agreement regarding the dispute relating to a suit filed by RAFAKO on April 30th 2019. In the statement of claim, the Company demanded payment of PLN 2,429 thousand in interest, citing incorrect VAT invoices issued by Mostostal Warszawa S.A. that prevented the Company from making deductions from output VAT on time. Under the agreement, the Company received PLN 1.5m from Mostostal Warszawa S.A.

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

On March 20th 2017, the Company filed with the Regional Court of Gliwice a joint and several claim against Mostostal Warszawa S.A. and Zakład Termicznego Unieszkodliwiania Odpadów Sp. z o.o. for payment of PLN 16,157,215 plus statutory interest accrued from November 18th 2016, based on an invoice issued for the work performed by the Company and not paid by Mostostal Warszawa S.A. and Zakład Unieszkodliwiania Odpadów sp. z o.o. under the subcontract concerning the Thermal Waste Treatment Plant in Szczecin. RAFAKO considers the claim to be well-founded and, to support it, the Company carried out a relevant survey of the work performed and delivered the results to the debtors. On March 29th 2017, the court issued a non-final order for payment of the claimed amounts. On April 19th 2017, the respondents lodged with the court objections against the payment order. A court-appointed expert prepared an opinion to which the Company did not make any objections as it fully confirmed the quantity and value of the work to be settled for the benefit of RAFAKO. As the respondents submitted comments and objections to the opinion, the Court decided to admit evidence in the form of a supplementary expert opinion, to be provided in the third quarter of 2021.

As at December 31st 2020, the Company recognised this disputed receivable, net of a prudentially recognised impairment loss, at PLN 13m in 'Other receivables and prepayments'. In the opinion of the law firm representing the Company in these proceedings, the claim as such is legitimate (the chances that the case will be resolved in favour of the Company are about 90%). In view of the foregoing, in the opinion of the Management Board as at the date of these financial statements the risk of non-recovery of the above receivables in the disclosed net amount is marginal.

42.3. Dispute with Wärtsilä Finland Oy (Customer)

The dispute concerned a contract for the construction of an LNG storage tank in Hamina, Finland, entered into with Wärtsilä Finland Oy (Customer) on March 29th 2018. On October 19th 2018, the Customer notified the Company of the exercise of its substitute performance right with respect to a part of the scope of the contract binding upon the parties, and provided an estimate of the related costs of EUR 3,537,412.00 without any documents to support it. The Company did not agree with the claim and rejected it in its entirety due to: (a) the Customer's failure to provide technical documentation to enable the performance of that scope of the work, (b) failure to comply with the substitute performance procedure provided for in the contract. In view of delays in delivering documents by the Customer and changes to the scope and technology of the work, the Company summarised the work performed by December 2018 and notified the Customer about its claims totalling EUR 3m. By letter of September 16th 2019, the Customer terminated the contract, claiming that RAFAKO had allegedly discontinued the performance of a part of the contract. On the same day, PKO BP received calls on two bank guarantees for payment of a total of EUR 2,687,800.00; the payments were made on September 25th 2019. As RAFAKO S.A. w restrukturyzacji disputed the Customer's claim in its entirety, on January 10th 2020 it filed for arbitration. During the initial phase of the proceedings, the parties entered into talks aimed at reaching a settlement. Finally, on November 30th 2020 the arbitration tribunal issued a decision closing the proceedings following the settlement reached on October 30th 2020, whereby the parties waived their claims and agreed to pay their own costs of the proceedings. The settlement has a neutral effect on the Company's financial performance.

42.4. Action brought by Elektrobudowa S.A.

Elektrobudowa S.A. filed a suit with the District Court of Gliwice against the court administrator of PBG S.A. w restrukturyzacji and RAFAKO S.A. (as jointly and severally liable), as a result of which on March 20th 2020 the court issued a non-final payment order. The suit concerns joint and several liability for payment of remuneration of PLN 4,664,337.56. RAFAKO S.A. w restrukturyzacji rejects the claim in its entirety on the grounds that the sub-contractor agreement with PBG S.A. w restrukturyzacji and downstream sub-contracting of works with Elektrobudowa S.A. was not a construction contract and therefore no joint and several liability arose. On September 16th 2020, a hearing was held at which some witnesses were heard. The parties were required to submit further pleadings. The date of the next hearing has not been set.

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

On March 24th 2020, the District Court of Gliwice issued a payment order with writ of enforcement in the case brought by Stal-Systems S.A. against RAFAKO and PGE Górnictwo i Energetyka Konwencjonalna S.A. (PGE) as parties having joint and several liability. The claimant demands payment of PLN 3,391,319.10 for services subcontracted by RAFAKO S.A. as part of the contract for modernisation of electrostatic precipitators at unit 2 of the Bełchatów power plant. Objection to the payment order was filed on June 15th 2020, on grounds that the amount of the claim was set off against the amount of liquidated damages charged by the Company, and therefore RAFAKO S.A. maintains that the claim is without merit. On March 11th, the Court awarded to the claimant approximately PLN 2.7m from RAFAKO S.A. and PGE S.A., to be paid jointly and severally, together with statutory default interest and a proportionate part of the costs of the court proceedings. An analysis of the reasons for the judgment is ongoing. It is highly probable that the Company will file an appeal.

42.6. Dispute with CIECH SODA POLSKA S.A.

By letter of June 13th 2020, CIECH SODA POLSKA S.A. (CIECH) submitted to RAFAKO S.A. a notice of termination of the contract for upgrade of boiler OP140 No. 4 at the Janikowo CHP Plant due to the fault of RAFAKO S.A., and demanded payment of PLN 3,935,500.00 as liquidated damages. In the opinion of RAFAKO S.A., the grounds for termination given by CIECH are sham and artificial, and therefore in response, on June 15th 2020, RAFAKO S.A. served a notice of termination of the contract due to the fault of CIECH and declared the other party's termination ineffective. On June 17th 2020, CIECH called on a performance bond of PLN 5,903,250, which, in addition to the absence of grounds for such a claim, is an amount far exceeding the amount of liquidated damages. As for the amount of the performance bond from which payment was made in excess of the penalties charged, the Company received a court order for payment. CIECH filed an objection with the Court against the order, to which the Company responded by submitting another pleading and agreed to refer the case to mediation. On April 15th 2021, the attorney-in-fact for RAFAKO S.A. w restrukturyzacji received a court decision to refer the case to mediation, appoint a mediator and allow a period of two months for mediation.

42.7. Dispute with UAB VILNIAUS KOGENERACINE JEGAINE

On July 10th 2020, RAFAKO S.A. w restrukturyzacji submitted a request to initiate arbitration proceedings against UAB VILNIAUS KOGENERACINĖ JĖGAINĖ (VKJ) as the employer under the Vilnius project, 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 the request from RAFAKO S.A. w restrukturyzacji. In November 2020, the schedule for the arbitration procedure before the arbitration court changed and the parties chose to extend the subject matter of the dispute following the mutual termination of the contract. In January 2021, following termination of the contract between the parties, the Company submitted a request to the arbitration court for award of the outstanding remuneration and additional claims to the Company.

42.8. Dispute brought by Kaefer Sp. z o.o.

On April 19th 2021, RAFAKO S.A. w restrukturyzacji received a copy of the payment order issued against the Company and PGE Górnictwo i Energetyka Konwencjonalna S.A. in respect of a claim for PLN 1,482,000 filed by Termokor Kaefer Sp. z o.o. The amount is the remuneration of the claimant as a downstream subcontractor in one of the projects. The Company is analysing the documents received in terms of existence of the claim and the Company's liability, if any.

42.9. UAB Dzukijos Statyba

On February 25th 2021, the Vilnius Regional Court issued a default judgment in a case brought by UAB Dzukijos Statyba, awarding the Company and PBG S.A. w restrukturyzacji the amount of EUR 343,666, which corresponds to the part of the contractual remuneration not received from PBG S.A. w restrukturyzacji for the work performed under the Vilnius project. RAFAKO S.A. w restrukturyzacji will request that the judgment be reviewed as the case documents have not been properly served on the Company.

(PLN thousand)

43. Related-party transactions

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

Outstanding balances of receivables and liabilities are usually settled in cash. For information on contingent liabilities to related parties, see Note 40.

In 2020 and 2019, the Company did not enter into any material transactions with related parties on non-arm's length terms.

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

	Operating income	
	Jan 1– Dec 31 2020	*Jan 1– Dec 31 2019*
Sales to:		
Entities related through equity links:	6,302	3,824
Entities related through personal links:	17	62
TOTAL	**6,319**	**3,886**

	Receivables	
	Dec 31 2020	*Dec 31 2019*
Sales to:		
Entities related through equity links:	50,128	65,792
Entities related through personal links:	–	5
TOTAL	**50,128**	**65,797**

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

	Purchases (costs, assets)	
	Jan 1– Dec 31 2020	*Jan 1– Dec 31 2019*
Purchases from:		
Entities related through equity links:	16,314	95,927
Entities related through personal links:	1,092	2,853
TOTAL	**17,406**	**98,780**

(PLN thousand)

	Liabilities	
	Dec 31 2020	*Dec 31 2019*
Purchases from:		
Entities related through equity links:	10,617	15,802
Entities related through personal links:	116	718
TOTAL	**10,733**	**16,520**

43.1. Shares held by members of management and supervisory bodies

The table below presents the number of shares in the Company or the Company's related parties held by the management and supervisory personnel as at December 31st 2020:

	Company	*Total number of shares*	*Par value of shares (PLN)*
Management staff member			
Mariusz Zawisza	Quadrat Partners Sp. z o.o.	25	2,500
Ewa Porzucek	TNDF Sp. z o.o.	90	4,500
Supervisory staff member			
Przemysław Schmidt	Get Fresh Sp. z o.o.	50	2,500
	Comanche Investments Sp. z o.o. (in the process of dissolution)	160	80,000
Maciej Stańczuk	Nowe Technologie Budowlane Sp. z o.o.	24	1,200
Bartosz Sierakowski	ZiW Szkolenia Sp. z o.o.	20	1,000
	Zimmerman Filipiak Restrukturyzacja S.A.	212	21,200
Piotr Zimmerman	ZiW Szkolenia Sp. z o.o.	80	4,000
	Zimmerman Filipiak Restrukturyzacja S.A.	485	48,500
	Plus Media i Finanse Sp. z o.o.	66	6,600
	BPE Akademos Sp. z o.o.	25	1,250
	Martin's Media Sp. z o.o.	20	1,000

43.2. Company's parent

As at the date of these financial statements, RAFAKO S.A. w restrukturyzacji does not have a parent.

43.3. Joint ventures

The Company is not a partner in any joint ventures.

(PLN thousand)

43.4. Related-party transactions

In the 12 months ended December 31st 2020, the Company did not enter into any material transactions with related parties on non-arm's length terms. All transactions with related parties are executed on terms applied by the Company in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are applied. A related party must ensure that a contract is performed in accordance with the relevant documentation, give a warranty for a specified period, and provide security in the form of a performance bond or a blank promissory note. Related parties are also required to accept standard liquidated damages clauses, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

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

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

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

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

The Company does not operate any employee stock option plans.

43.7. Transactions with key management personnel

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

	12 months ended Dec 31 2020	*12 months ended Dec 31 2019*
Short-term employee benefits (salaries and overheads)*	4,375	3,683
Long-service benefits	–	–
Post-employment benefits	362	–
Termination benefits	100	–
Total cost of the remuneration paid to key management staff	**4,837**	**3,683**

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

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

In 2020, the Company did not enter into any purchase transaction with the key management personnel, nor does it recognise any amount payable under such transactions.

In 2020, the Company did not enter into any sale transaction with the key management personnel, nor does it recognise any amount receivable under such transactions.

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

The remuneration paid to members of the Company's Management and Supervisory Boards for the year ended December 31st 2020 was as follows:

PLN '000

	Base pay	*Awards*	*Other remuneration*
Management Board	**2,714**	–	**549**
Agnieszka Wasilewska-Semail	420	–	29
Jerzy Ciechanowski	5	–	–
Paweł Jarczewski	285	–	407
Jacek Drozd	648	–	81
Michał Sikorski	144	–	1
Radosław Domagalski-Łabędzki:	444	–	5
Mariusz Zawisza	326	–	19
Ewa Porzucek	221	–	1
Jarosław Pietrzyk	221		6

	Base pay	*Awards*	*Other remuneration*
Supervisory Board	**814**	–	**530**
Krzysztof Gerula	99	–	55
Przemysław Schmidt	132	–	127
Adam Szyszka	44	–	68
Michał Sikorski	56	–	14
Jerzy Karney	21	–	–
Michał Maćkowiak	32	–	51
Maciej Stańczuk	89	–	37
Konrad Milczarski	67	–	68
Piotr Zimmermann	133		1
Bartosz Sierakowski	55		1
Małgorzata Wiśniewska	86		108
Total	**3,528**	–	**1,079**

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

PLN '000

	Base pay	*Awards*	*Other remuneration*
Management Board	**2,015**	–	**94**
Jarosław Dusiło	400	–	18
Agnieszka Wasilewska-Semail	710	–	57
Jerzy Wiśniewski	420	–	–
Helena Fic	164	–	2
Jerzy Ciechanowski	200	–	17
Jerzy Karney	40	–	–
Paweł Jarczewski	66	–	–
Jacek Drozd	15	–	–

	Base pay	*Awards*	*Other remuneration*
Supervisory Board	**876**	–	**611**
Krzysztof Gerula	108	–	–
Przemysław Schmidt	144	–	108
Adam Szyszka	108	–	162
Jerzy Karney	9	–	–
Michał Maćkowiak	21	–	–
Małgorzata Wiśniewska	229	–	243
Dariusz Szymański	97	–	98
Helena Fic	160	–	–
Total	**2,891**	–	**705**

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

The Company has not published any forecasts for 2020.

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

The table below presents the remuneration paid or payable to the qualified auditors of financial statements for the years ended December 31st 2020 and December 31st 2019, by type of service:

Service	*Year ended Dec 31 2020**	*Year ended December 31st 2019**
Mandatory audit of the separate and consolidated financial statements	149	139
Other services	–	–
Total**	**149**	**139**

** Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością*

46. Objectives and policies of financial risk management

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

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

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

46.1. Currency risk

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

In the reporting period, more than 40.7% of the Company's invoiced revenue was denominated in foreign currencies, primarily in EUR.

The Company's currency risk management strategy provides for the use of natural hedging to the largest possible extent. The Company seeks to achieve the highest possible level of structural matching of income and expenses denominated in the same currency and related to the running contracts. From 30% to 70% of the estimated net exposure to currency risk which is not covered by natural hedging is hedged at the time of contract singing, exclusively with accepted types of derivative instruments. As at December 31st 2020, the Company did not have any open hedging positions.

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

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

	Amount in foreign currency ('000)								*Translated*
	EUR	*USD*	*GBP*	*HUF*	*SEK*	*IDR*	*RSD*	*SGD*	*amount*
Dec 31 2020									
Financial assets (+):									
Loans	–	–	–	–	–	–	–	–	–
Trade receivables and other financial receivables	31,795	–	–	–	–	–	–	–	171,285
Other financial assets	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	1,703	–	–	–	–	–	–	–	7,857
							–		
Financial liabilities (-):							–		
Borrowings and other debt instruments	–	–	–	–	–	–	–	–	–
Leases	–	–	–	–	–	–	–	–	–
Trade payables and other financial liabilities	(33,376)	(134)	–	–	–	(663)	(1,323)	(54)	(154,732)
Total exposure to currency risk	**122**	**(134)**	**–**	**–**	**–**	**(663)**	**(1,323)**	**(54)**	**24,410**
Dec 31 2019									
Financial assets (+):									
Loans	–	–	–	–	–	–	–	–	–
Trade receivables and other financial receivables	31,819	–	2	–	–	–	–	–	135,502
Other financial assets	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	2,700	1	–	–	1	–	–	–	11,503
							–		
Financial liabilities (-):							–		
Borrowings and other debt instruments	–	–	–	–	–	–	–	–	–
Leases	–	–	–	–	–	–	–	–	–
Trade payables and other financial liabilities	(21,647)	(17)	(3)	(16)	–	–	–	(54)	(92,414)
Total exposure to currency risk	**12,872**	**(16)**	**(1)**	**(16)**	**1**	**–**	**–**	**(54)**	**54,591**

(PLN thousand)

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

	Exchange rate increase/decrease	*Effect on profit/(loss) before tax*	*Effect on net profit/loss*
December 31st 2020 – EUR	+10%	12	10
	-10%	(12)	(10)
December 31st 2020 – SGD	+10%	(5)	(4)
	-10%	5	4
December 31st 2020 – USD	+10%	(13)	(11)
	-10%	13	11
December 31st 2020 – RSD	+10%	(132)	(107)
	-10%	132	107

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

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

46.2. Interest rate risk

Management of interest rate risk focuses on minimising the impact of fluctuations in interest cash flows on financial assets and liabilities bearing variable rates of interest. As at December 31st 2020, the Company was party to a credit facility agreement which was a source of potential interest rate risk. Changes in market interest rates may trigger changes in the amount of interest charged on the credit facility, as well as the amount of interest earned by the Company on its deposits.

Sensitivity to such changes is presented in the table below.

(PLN thousand)

Sensitivity to interest rate risk

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

	Increase/Decrease (percentage points)	*Effect on profit/(loss) before tax*
Period ended December 31st 2020		
PLN	+ 1%	606
EUR	+ 1%	1,780
PLN	- 1%	(606)
EUR	- 1%	(1,780)
Period ended December 31st 2019		
PLN	+ 1%	2,803
EUR	+ 1%	1,355
PLN	- 1%	(2,803)
EUR	- 1%	(1,355)

46.3. Commodity price risk

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

In 2020, the Company's supplier base was highly fragmented as none of the suppliers represented more than 10% of the total value of purchases.

RAFAKO S.A. relies on external suppliers for various services – delivery and assembly of machinery and equipment, construction and installation services and transport, as well as pipes, metal sheets, shaped materials, welding materials and specialist equipment. The Company purchases goods and services both from domestic suppliers (75.5% of total purchases) and foreign suppliers (24.5%), and therefore the Company is exposed to currency risk, as described in more detail in Note 46.1

46.4. Credit risk

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

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

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

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

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

An expected credit loss is calculated on recognition of the receivable in the statement of financial position and is updated as at each subsequent reporting date, depending on the number of days past due for a given amount receivable. The same policy for estimating allowances for expected credit losses is applied to related parties and other parties. As at December 31st 2020, the Company reviewed the model of estimating expected credit losses on trade receivables and determined new rates of allowances based on the number of days past due.

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

With respect to listed debt securities for which financial information on their issuers is available, the Company assumes that credit risk is low if, based on available financial statements, the financial condition of the issuers of these securities gives no rise to concerns. The Company has assumed that there is a significant increase in risk when, for instance, payments are past due 90 days or more. If the increase in credit risk has been significant, lifetime losses on the instrument are recognised. The Company assumes that a default occurs if the number of days past due is 180, or other circumstances indicate that a default has occurred, as described in more detail in 8.11 8.11 to these financial statements. Items in respect of which the debtor is in default as described above are treated by the Company as credit impaired financial assets.

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

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

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

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

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

With respect to trade receivables, which are the most significant class of assets exposed to credit risk, as well as in the case of contract assets, the Company is exposed to credit risk related to a single major counterparty. As the contracts have been secured through public procurement, the Company does not use any security for these receivables.

Analysis of the financial condition of the Company's counterparties did not reveal an increased risk of non-payment of those receivables. In consequence, allowances are estimated on a collective basis and 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.

In 2020, the Company did not hold any negotiations or make any arrangements that would follow from a significant increase in credit risk, as a result of which payment dates would change or expected cash flows under trade receivables and contract assets would be otherwise modified.

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

As at December 31st 2020 and December 31st 2019, the gross amounts of individual groups and impairment losses were as follows:

(PLN thousand)

	Contract assets	Trade receivables						Total
		Current	0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	
Dec 31 2020								
Location: Poland								
Allowance rate	2.10%	2.10%	2.10%	33.08%	46.51%	67.58%	99.67%	–
Gross carrying amount	183,368	49,275	15,749	1,115	15,239	5,724	2,258	272,728
Impairment loss	(1,615)	(1,125)	(356)	433	(7,096)	(3,868)	(2,256)	(16,749)
Location: outside Poland								
Allowance rate	2.10%	2.10%	2.10%	33.08%	46.51%	67.58%	99.67%	–
Gross carrying amount	–	152,769	43	3,730	24	–	1,263	157,829
Impairment loss	–	(3,307)	(1)	(2,216)	(11)	–	(1,259)	(6,794)
Total impairment losses	**(1,615)**	**(4,432)**	**(357)**	**(2,649)**	**(7,107)**	**(3,868)**	**(3,515)**	**(23,543)**

	Assets assets	Trade receivables						Total
		Current	0–30 days	31–90 days	91–180 days	181–365 days	365 days or more	
Dec 31 2019								
Location: Poland								
Allowance 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								
Allowance 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 December 31st 2020, an impairment loss of PLN 90,513 thousand was recognised on other financial receivables with a gross carrying amount of PLN 29,758 thousand (December 31st 2019: a PLN 109,121 thousand impairment loss on other receivables with a gross carrying amount of PLN 33,648 thousand).

46.5. Liquidity risk

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

In view of the Company's current financial position and the ongoing restructuring process, the Company's subcontractors and sub-suppliers are making their requirements regarding terms of payment for goods and services more stringent. They demand significant advance payments and prepayments, frequently for the entire value of an order. Given the fixed payment schedules with employers, reflecting actual progress of work at the site, this practice exacerbates the liquidity problems.

Another liquidity-related issue the Company is facing are frequent direct payments made by our customers to subcontractors and sub-suppliers that make deliveries or provide services as part of the projects carried out by the Company. Direct payments significantly constrain the Company's ability to manage funds. In addition, employers often charge penalties for breach of order in the context of the direct payments they make. There are cases where the amount of contractual penalties charged on this account exceeds the value of a single payment made.

What also prevents the Company from improving its liquidity position are restrictions under the Public Procurement Law, based on which most of the Company's domestic projects are carried out. Pursuant to the Public Procurement Law, on the one hand, the general contractor is obliged to pay remuneration to its subcontractor or downstream subcontractor as provided for in the subcontract within no more than 30 days from the date the invoice is served. On the other hand, employers are quite free to determine both payment schedules and payment deadlines for completed and aggregated work performed by the general contractor. What makes the situation worse is the fact that employers will not make payments for a specific stage of the project until all subcontractors and/or sub-suppliers make representations that they have received payment for their services/deliveries, which means that the Company must pay the amounts due to its counterparties long before receiving payment from the employer.

In addition, the employers' reluctance to make advance payments to general contractors increases the already high requirement for working capital needed to implement the projects.

Also, it is difficult for the Company to add new projects to its order book. One reason is the lack of available guarantee limits for new projects as a result of the very cautious approach of the financial sector to the Company's operating performance and the ongoing restructuring process. This reduces the ability to maintain the order book at a level that would enable the Company to cover fixed costs in a longer term and generate the expected financial surplus for the Company, which exacerbates the liquidity problems.

The Company's financial liquidity in 2020 is discussed at length (in the context of the going concern uncertainties) in Note 7 to these financial statements.

(PLN thousand)

The table below presents the Company's financial liabilities by maturity as at December 31st 2020 and December 31st 2019, based on contract cash flows (including liabilities covered by the arrangement still to be approved).

Dec 31 2020	*Payable on demand*	*Up to 3* months	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total undiscounted liabilities*	*Carrying amount*
Interest-bearing borrowings	–	–	84,700	–	–	84,700	84,700
Lease liabilities	–	2,584	809	1,281	–	4,674	4,674
Trade payables and other financial liabilities	232,779	110,809	189,616	10,659	825	544,688	544,287
	232,779	**113,393**	**275,125**	**11,940**	**825**	**634,062**	**633,661**

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

(PLN thousand)

47. Derivative instruments

As at December 31st 2020 and December 31st 2019, the Company did not have any open positions in derivative financial instruments.

As at December 31st 2020 and December 31st 2019, the Company did not have other types of derivative instruments.

48. Financial instruments

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

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

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

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

Classes and categories of financial assets	*Carrying amount Dec 31 2020*	*Carrying amount Dec 31 2019*
Assets at fair value through profit or loss	**–**	**120**
Long-term shareholdings	–	120
Assets at fair value through other comprehensive income	**1,376**	**1,376**
Long-term shareholdings	1,376	1,376
Assets at amortised cost	**336,840**	**372,306**
Trade receivables	222,608	244,387
Other financial receivables*	66,586	75,853
Other financial assets	–	28,149
Cash and cash equivalents	47,646	23,917
	338,216	**373,802**

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

(PLN thousand)

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

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

Classes and categories of financial liabilities	*Carrying amount Dec 31 2020*	*Carrying amount Dec 31 2019*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**628,987**	**463,467**
Borrowings	84,700	112,021
Trade payables (including capital commitments)	388,801	351,359
Other financial liabilities	155,486	87
Liabilities under guarantees, factoring and excluded from the scope of IFRS 9	**4,674**	**5,741**
Liabilities under leases and rental contracts with purchase option	4,674	5,741
	633,661	**469,208**

As at December 31st 2020 and December 31st 2019, the Company held the following financial instruments measured at fair value:

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

Dec 31 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	–	–

(PLN thousand)

48.2. **Interest** rate risk

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

Dec 31 2020

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

Variable interest rate	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	47,646	–	–	–	–	–	47,646
Loans advanced	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–
Liabilities under finance leases and rental contracts with purchase option	3,392	739	318	225	–	–	4,674
Borrowings	84,700	–	–	–	–	–	84,700
Borrowings	–	–	–	–	–	–	–

(PLN thousand)

Dec 31 2019

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

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

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

49. Employment

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

	Year ended Dec 31 2020	*Year ended Dec 31 2019*
Production employees	604	604
Engineering design offices staff	159	200
Technology office staff	45	55
Quality control staff	57	68
Maintenance staff	21	19
Other employees (financial and accounting, sales and procurement staff)	473	545
Total	**1,359**	**1,491**

	Year ended Dec 31 2020	*Year ended Dec 31 2019*
New hires	95	102
Terminations	(341)	(153)
Total	**(246)**	**(51)**

For a detailed description of changes in the employment structure, see Section II.4 of the Directors' Report on the Operations of RAFAKO S.A. in 2020.

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

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

- the exchange rate effective for the last day of the reporting period, December 31st 2020: 4.6148 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–December 31st 2020: 4.4449 PLN/EUR, January 1st–December 31st 2019: 4.2988 PLN/EUR.

The highest and lowest exchange rates for each period were as follows: January 1st–December 31st 2020: 4.6330/4.2279 PLN/EUR, January 1st–December 31st 2019: 4.3891/4.2406 PLN/EUR.

	Dec 31 2020	*Dec 31 2019*	*Dec 31 2020*	*Dec 31 2019*
	PLN '000		*EUR '000*	
Statement of financial position				
Assets	782,484	932,588	169,560	218,994
Non-current liabilities	65,729	68,024	14,243	15,974
Current liabilities	909,008	760,035	196,977	178,475
Equity	(192,253)	104,529	(41,660)	24,546
PLN/EUR exchange rate at end of period			4.6148	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.

	Jan 1– Dec 31 2020	*Jan 1– Dec 31 2019*	*Jan 1– Dec 31 2020*	*Jan 1– Dec 31 2019*
	PLN '000		*EUR '000*	
Statement of comprehensive income				
Revenue	869,360	947,061	195,584	222,393
Operating profit/(loss)	(279,284)	(250,395)	(62,832)	(58,799)
Profit/(loss) before tax	(284,579)	(284,260)	(64,023)	(66,751)
Net profit/(loss)	(297,523)	(284,644)	(66,935)	(66,841)
Earnings per share (PLN)	(2.33)	(2.23)	(0.53)	(0.52)
Average PLN/EUR exchange rate in the period			4.2988	4.2585
Statement of cash flows				
Net cash from operating activities	55,963	17,435	12,590	4,094
Net cash from investing activities	933	(377)	210	(89)
Net cash from financing activities	(33,167)	1,455	(7,462)	342
Net increase/(decrease) in cash and cash equivalents	23,729	18,513	5,338	4,347
Average PLN/EUR exchange rate in the period			4.2988	4.2585

51. Effect of the COVID-19 pandemic on the Company's operations

The World Health Organisation declaring the coronavirus outbreak a pandemic prompted many governments to introduce various restrictions aimed at limiting spread of the disease. Shortly after the state of epidemic was announced in Poland in mid-March 2020, the Company adapted to the situation to the largest extent possible. In order to ensure that the highest safety standards are met, a Crisis Management Team has been established, which monitors the situation on an ongoing basis, takes decisions and prepares operating guidelines related to the risk of coronavirus infection. Based on the guidelines from the Ministry of Health and Chief Sanitary Inspector, the sanitary rules have been tightened both at the Company's headquarters and at the contract performance sites, where additional sanitary procedures have been implemented by the employers. Among the preventive measures taken by the Company to contain the spread of the coronavirus were:

- implementing procedures to minimise direct contact and enable remote work,
- providing employees with protective equipment and disinfectants and implementing hygienic and sanitary procedures,
- limiting business trips and meetings – other means of communication, such as conference calls, online communication tools and videoconferences were applied to a greater extent.

Despite these efforts, the epidemic affected the performance of contracts by the Company. The development of the epidemic in 2020 resulted in such difficulties as extended delivery times, growing prices of materials, limited availability of our employees and our subcontractors' employees, as well as limited access to the construction sites. The Crisis Management Team is monitoring the situation on an ongoing basis and takes appropriate measures to mitigate its adverse impacts on the Company's business, and its priority is to maintain business continuity and keep employees and stakeholders safe. As at the date of these financial statements, the Management Board did not identify any risks to business continuity due to the pandemic. However, the continued public health threat makes it impossible to predict the end of the pandemic and assess its further economic impact, which will affect the financial condition and investment decisions of the Company's customers.

Pursuant to the provisions of 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 due to COVID-19, the Company applied for opening the procedure to approve the arrangement. The notice was effectively published in the *Monitor Sądowy i Gospodarczy* official gazette on September 7th 2020. In addition, the provisions of the Act of March 31st 2020 amending the Act on special measures to prevent, counteract and combat COVID-19, other infectious diseases and related crisis situations, and certain other acts, allowed the Company to postpone the payments to the Social Insurance Institution (ZUS).

52. Events after the reporting period

After the reporting period, no events took place that would affect the Company's financial results and would not be recognised in the Company's financial results for 2020.

On January 5th 2021, the Company and Bank PKO BP S.A. executed Annex 343 to the multi-purpose credit facility agreement of February 7th 2012, as amended.

The key amendments made under the Annex are set out below.

1. The maximum facility amount was set at PLN 120,616,154.85 (one hundred and twenty million, six hundred and sixteen thousand, one hundred and fifty-four złoty, 85/100), comprising the following sub-facilities provided by the Bank to RAFAKO S.A. w restrukturyzacji:
   a) an overdraft facility of up to PLN 50,000,000.00;
   b) a revolving working capital facility, in PLN and EUR, of up to PLN 7,000,000.00 to finance current liabilities under day-to-day operations;
   c) bank guarantee facilities denominated in PLN, CZK, USD, EUR and GBP, together with a revolving working capital facility in PLN to cover the Company’s liabilities for payments made under bank guarantees issued by the Bank of up to PLN 120,616,154.85;
2. The credit facility was granted until January 31st 2022.

On January 11th 2021, the Company was notified that Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. submitted to Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. a call on (i) performance bond no. 280000147245 in the amount of PLN 15,222,720.75, (ii) advance payment guarantee no. 280000169992 in the amount of PLN 5,000,000, and (iii) advance payment guarantee no. 280000169762 in the amount of PLN 7,000,000. The performance bonds and advance payment guarantees were provided to Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. at the request of RAFAKO S.A. w restrukturyzacji in connection with the provisions of the contract. On February 16th 2021, the guarantor notified the Company that it paid the following amounts to the employer: (i) PLN 15,222,720.75 under performance bond no. 280000147245, and (ii) PLN 2,755,069.19 under advance payment guarantee No. 280000169992. Also, the guarantor submitted a demand for payment of PLN 17,977,789.94 paid by the guarantor to the employer.

On January 15th 2021, RAFAKO S.A. w restrukturyzacji received from mBank S.A. a notice of payment made to Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. (i) of PLN 20,750,100.00 under performance bond no. 02141KPB19 and (ii) PLN 20,750,100.00 under advance payment guarantee no. 02283KAP19.

On January 19th 2021, the Company was notified by PBG S.A. w restrukturyzacji of PGB losing the parent status towards RAFAKO S.A. w restrukturyzacji. PBG S.A. w restrukturyzacji also confirmed that it held, directly and indirectly, 42,466,000 voting rights in RAFAKO S.A. w restrukturyzacji.

On February 18th 2021, the Company’s subsidiary RAFAKO Engineering sp. z o.o. w restrukturyzacji of Racibórz notified RAFAKO S.A. w restrukturyzacji that:

1. Pursuant to Art. 119.3 of the Restructuring Law in conjunction with Art. 19.6 of Shield 4.0, the Arrangement Supervisor in the proceedings for approval of the arrangement of the Company’s subsidiary RAFAKO Engineering sp. z o.o. w restrukturyzacji (in restructuring) of Racibórz, as referred to above, stated that the creditors of the Company’s subsidiary RAFAKO Engineering sp. z o.o. w restrukturyzacji (in restructuring) of Racibórz approved the arrangement, which was voted on at the meeting of creditors of the Company’s subsidiary RAFAKO Engineering sp. z o.o. w restrukturyzacji (in restructuring) of Racibórz on February 16th 2021;
2. On February 18th 2021, the subsidiary of RAFAKO S.A. w restrukturyzacji, i.e. RAFAKO Engineering sp. z o.o. w restrukturyzacji of Racibórz, filed an application for approval of the arrangement with the District Court of Gliwice, 12th Commercial Division.

In its decision of March 3rd 2021 concerning case No. XII GRz 8/20, the District Court of Gliwice, 12th Commercial Division, approved the arrangement previously approved by creditors of the subsidiary of RAFAKO S.A. w restrukturyzacji, i.e. RAFAKO Engineering sp. z o.o. w restrukturyzacji of Racibórz. The decision issued by the District Court of Gliwice is not final.

53. Authorisation for issue

These financial statements were authorised for issue on April 29th 2021 by the Management Board's resolution of April 29th 2021.

Signatures:

Radosław Domagalski-Łabędzki	President of the Management Board	....
Jarosław Pietrzyk	Vice President of the Management Board	....
Maciej Stańczuk	Member of the Supervisory Board delegated to serve on the Management Board	
Jolanta Markowicz	Chief Accountant	....