FABRYKA KOTŁÓW RAFAKO S.A.

FINANCIAL REPORT
FOR THE PERIOD ENDED ON DECEMBER 31, 2005
WITH AN OPINION OF CHARTERED AUDITOR

TABLE OF CONTENTS

TABLE OF CONTENTS

TABLE OF CONTENTS

Profit and loss account
for the period ended on December 31, 2005 and the year ended on December 31, 2004 (in kPLN)

	Note	*Year ended on December 31, 2005*	*Year ended on December 31, 2004*
Revenue on sale		**382 225**	**283 547**
Revenue from sale of products and services		379 910	281 626
Revenue from sales of materials		2 315	1 921
Own cost of sales		(348 054)	(242 345)
Gross profit on sale		**34 171**	**41 202**
Other operating revenue		11 328	13 387
Sales costs		(11 477)	(12 742)
Management overheads		(15 961)	(13 872)
Other operating costs		(8 968)	(15 813)
Operating profit		**9 093**	**12 162**
Financial revenue		3 507	4 298
Financial costs		(9 085)	(16 094)
Gross profit		**3 515**	**366**
Income tax		(575)	(115)
Net profit for financial year		**2 940**	**251**
Profit per share			
– basic from profit for financial year		**0,17**	**0,01**

Balance sheet
as on December 31, 2005 and December 31, 2004
(in kPLN)

	Note	December 31, 2005	December 31, 2004
ASSETS			
Fixed assets (long-term)			
Tangible fixed assets	16	84 109	88 430
Investment real property		8 805	8 805
Intangible assets	19	2 175	2 528
Financial assets	,23	24 690	33 946
Deferred income tax assets		13 186	6 304
		132 965	**140 013**
Current assets			
Stock		15 530	17 940
Trade and other receivables		145 968	139 945
Income tax receivables		–	1 018
Accruals	28	47 567	41 540
Short-term deposits		41 476	1 008
Cash and cash equivalents		7 342	5 276
		257 883	**206 727**
Long-term assets recognised as for sale		**757**	**–**
TOTAL ASSETS		**391 605**	**346 740**
LIABILITIES			
Equity capital			
Initial capital		34 800	34 800
Capital from sales of shares above nominal value		36 778	36 778
Capital reserves		43 856	41 430
Retained profits/Uncovered loss		71 712	71 198
Total equity capital		**187 146**	**184 206**
Long-term liabilities			
Interest bearing bank loans and credits		–	900
Provisions, including:		17 237	20 283
- long-term		15 098	15 373
- short-term		2 139	4 910
		17 237	**21 183**
Short-term liabilities			
Trade and other liabilities		61 282	58 495
Current part of interest bearing bank loans and credits		900	35 744
Income tax liabilities		6 062	–
Accruals		118 978	47 112
		187 222	**141 351**
Liabilities		**204 459**	**162 534**
TOTAL LIABILITIES		**391 605**	**346 740**

Cash flow report
for the year ended on December 31, 2005 and the year ended on December 31, 2004 (in kPLN)

	Note	*year ended December 31 2005*	*year ended December 31 2004*
Operating cash flow			
Gross profit/(loss)		**3 515**	**366**
Adjustment:			
Depreciation		7 556	8 368
Foreign exchange gains (losses)		250	2 558
Interest, commission and dividends, net		4 501	3 370
(Profit)/loss on investment		(286)	639
(Increase)/decrease in debtors		(8 791)	(22 560)
(Increase)/decrease in stock		2 410	2 817
Increase/(decrease) in creditors except loans and credits		2 154	(13 852)
Changes in prepayments and accruals		65 839	2 334
Changes in provisions		(3 046)	487
Income tax paid		(378)	(4 684)
Other		–	–
Net operating cash flow		**73 724**	**(20 157)**
Investment cash flow			
Sale of intangible and tangible fixed assets		39	180
Purchase of intangible and legal and tangible fixed assets		(3 590)	(4 506)
Sale of investment real property		–	–
Purchase of investment real property		–	–
Sale of financial assets		948	6 975
Purchase of financial assets		(41 476)	(1 350)
Dividends and interest received		659	3 078
Repayment of loans		6 146	10 584
Loans granted		(322)	(856)
Other		6 377	–
Net cash flow from investing activities		**(31 219)**	**14 105**
Cash flow from financing activities			
Cash inflow from issue of shares		–	–
Payments of financial lease contract liabilities		(46)	–
Inflow from loans/credits obtained		53 901	97 422
Repayment of loans/credits		(89 594)	(90 445)
Dividends paid to shareholders		–	–
Interest paid		(2 527)	(2 058)
Bank commission		(2 173)	(2 268)
Other		–	–
Net cash flow from financing activities		**(40 439)**	**2 651**
Increase of net cash and equivalents		**2 066**	**(3 401)**
Net exchange rate differences		–	–
Cash at beginning of period		**5 276**	**8 677**
Cash at end of period, including:		**7 342**	**5 276**
Restricted use		5 293	4 143

Summary of changes in equity capital

for the year ended on December 31, 2005 and the year ended on December 31, 2004 (in kPLN)

	Share capital	*Capital from sales of shares above nominal value*	*Capital reserves*	*Retained profits/Uncovered loss*	*Total equity capital*
As on January 1 2004	**34 800**	**36 778**	**33 805**	**78 572**	**183 955**
Distribution of profit from previous years	–	–	7 625	(7 625)	
Result of the period	–	–	–	251	251
Dividend payment	–	–	–	–	–
As on December 31 2004	**34 800**	**36 778**	**41 430**	**71 198**	**184 206**
As on January 1 2005	**34 800**	**36 778**	**41 430**	**71 198**	**184 206**
Distribution of profit from previous years	–	–	847	(847)	
Distribution of result generated by change of accounting principles			1 579	(1 579)	
Result of the period				2 940	2 940
Dividend payment	–	–	–	–	–
As on December 31 2005	**34 800**	**36 778**	**43 856**	**71 712**	**187 146**

Additional remarks and explanations

1. General information

Fabryka Kotłów RAFAKO S.A. ("Company", "RAFAKO") is a joint stock company with the seat in Racibórz, ul. Łąkowa 33. Company was established by force of notarised deed of January 12 1993. On August 24 2001, Company was entered in the companies register at Regional Court in Gliwice, Department X of National Court Register, at number KRS 34143.

Company received statistical number REGON 270217865.

Company was established for indefinite period.

Company financial report covers the period of 12 months ended on December 31 2005 and includes comparative data for the year ended on December 31 2004.

The main objects of Company are:

- manufacturing steam generators and any production, assembly and trade operations, on own account, by agency or cooperation with domestic and foreign partners, regarding power machines and equipment and environment protection (PKD 28.30.A.)
- services, including guarantee and post-guarantee services for products manufactured by domestic and foreign producers, in the above mentioned scope, for domestic and foreign companies (PKD 28.30.B.)
- manufacturing metal constructions (PKD 28.11.B.)
- metal constructions installation services (PKD 28.11.C.)
- manufacturing of cooling and ventilation equipment, except for home use equipment (PKD 29.23.Z.)
- installation, repair and maintenance services of cooling and ventilation equipment, except for home use equipment, not listed elsewhere (PKD 29.24.B.)
- manufacturing cisterns, metal tanks and containers (PKD 28.21.Z)
- machining of metal elements (PKD 28.52.Z.)
- metals machining and applying coatings on metal (PKD 28.51.Z.)
- manufacturing mechanical tools (PKD 29.40.A.)
- installation, repair and maintenance services of mechanical tools (PKD 29.40.B.)
- technological design, including advisory and supervision services for construction, industry and environment protection (PKD 74.20.A.).

Company does not have any internal units, which prepare individual financial reports.

The entity with considerable influence on Company is ELEKTRIM S.A., which owns 49,9 % shares of RAFAKO S.A.

2. Identification of consolidated financial report

Company prepared a consolidated financial report for the year ended on December 31 2005, which was approved for publication on March 30 2006.

3. Company Governing Bodies membership

The following persons were members of Company Management Board, as on December 31 2005:

Wiesław Różacki	Chairman of Management Board
Roman Jarosiński	Deputy Chairman of Management Board
Eugeniusz Myszka	Deputy Chairman of Management Board
Jerzy Thamm	Deputy Chairman of Management Board

The following persons were members of Company Supervisory Board, as on December 31 2005:

Krzysztof Pawelec	Chairman
Leszek Wysłocki	Deputy Chairman
Piotr Fugiel	Member
Witold Okarma	Member
Sławomir Sykucki	Member
Marek Wiak	Member
Marian Woronin	Member

The following persons were members of Company Management Board, as on December 31 2004:

Ryszard Kapluk	Chairman of Management Board
Roman Jarosiński	Deputy Chairman of Management Board
Jerzy Thamm	Deputy Chairman of Management Board

On March 7 2005, Supervisory Board of RAFAKO S.A. made the following decisions:
1. Recalled, as from March 7 2005, Chairman of Management Board – Managing Director Mr Ryszard Kapluk.
2. Appointed, as from March 8 2005, to the position of Chairman of Management Board – Managing Director Mr Wiesław Różacki.

On April 7 2005, Supervisory Board of RAFAKO S.A. made the following decisions:
1. Specified that there will be four members of Company Management Board.
2. Appointed, as from April 7 2005 Mr Eugeniusz Myszka, to the position of Deputy Chairman of Management Board.

There were no membership changes in Company Management Board from the balance sheet date to financial report publication approval date.

4. Approval of financial report

This financial report was approved for publication by Management Board on March 30 2006.

5. Important values based on professional judgement and estimates

5.1. Professional judgement

Professional judgement of the management, apart from the accounting estimates, was the most important aspect in the process of application of accounting policy principles, regarding the below described matters.

Classification of lease contracts where Company is a lessee

Company is party to lease contracts. Each of the signed lease contracts has been analysed from the risk and benefits point of view, generated from the use of assets acquired on the basis of contracts; depending on the analysis result, pursuant to IFRS requirements, each contract is recognised as operating or financial lease.

Information regarding contracts for building services

When a contract for building services is signed, management performs an analysis of the contract revenue and costs recognition method and decides whether a contract should be reconciled according to progress advance method or by recognising revenue versus the incurred costs.

Identification of embedded derivatives

Company management prepare, for each balance sheet day, an assessment of the signed contracts, from the point of economic elements and risk, relevant to the embedded derivative in foreign currency, which would be directly related to economic elements and risk relevant to the main contract.

Classification of financial assets

Company prepares an assessment, for each balance day, whether the owned financial assets are the investments maintained until the maturity date.

5.2. Uncertainty of estimates

The following sections discuss the basic estimates regarding future events and other key uncertainties as of the balance sheet date, which carry considerable risk of major adjustment of balance sheet assets and liabilities value during the next financial year.

Impairment of assets value

Company implemented tests for impairment of fixed assets. This required preparing an estimation of use value of the cash generating unit, which owns the fixed assets. Estimation of use value is based on assessment of future cash flows generated by the unit, which creates cash, and specification of a discount rate for the purpose of calculation of such cash flows current value. Details of revaluation write downs of the assets as of the balance sheet are presented in the notes: 16, 18, 19, 22, 23, 24, 26 and 27 of additional information.

Provision for foreseen contractual losses

On every balance sheet date, Company updates estimates of total revenue and costs of the building services contract, which are reconciled with the use of progress advance method. The foreseen loss on a contract is recognised by Company as cost, pursuant to IFRS. Details of reconciliation of revenues and costs from building services contracts in a financial year are presented in the notes: 9, 28, 33 and 36 of additional information.

Foreign currency exchange rate applied to valuation of building services contract in foreign currencies.

On every balance sheet date, Company analyses currency structure of the signed contracts, in order to specify, which exchange rate ('forward' rate or average exchange rate in NBP (National Bank of Poland) valid for a given currency on the balance sheet date) would more precisely reflect the contracts total financial result. As mentioned above, details of reconciliation of revenues and costs from building services contracts in a financial year are presented in the notes 9, 28, 33 and 36 of additional information.

6. Relevant accounting principles

6.1. Basis of financial report

The financial report was drawn pursuant to historical cost principle, adjusted for financial instruments.

The financial report is presented in Polish zloty ("PLN") and all values have been described in thousand PLN ("kPLN"), if not stated otherwise.

The financial report was prepared with the assumption of continuing economic activity of Company in the foreseeable future. As of the date of approval of this financial report, no circumstances posing risk to Company continued operations was identified.

6.2. Declaration of conformity

As of January 1 2005, it has been possible to prepare the financial report in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced as the European Commission resolutions ("IFRS approved for use in the EU"). On February 23 2005, Company General Meeting of Shareholders passed a resolution on preparing the Company statutory financial report according to IFRS approved for use in the EU. As of the day of this financial report approval, considering the on-going process of introducing IFRS in the EU and Company activities within the field of accounting practices, there are no differences between IFRS standards and IFRS standards approved in the EU.

This financial report was drawn pursuant to International Financial Reporting Standards ("IFRS") and IFRS approved in the EU. IFRS include standards and interpretations approved by International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretation Committee ("IFRIC").

Company applied IFRS according to the status valid as of December 31 2005.

6.3. Currency of analysis and financial reports

The currency of Company analysis and this financial report is Polish zloty.

6.4. Changes to the applied accounting principles

International Accounting Standards Board ("IASB") issued International Financial Reporting Standard no. 1 ("IFRS 1") "Application of International Financial Reporting Standards for the first time", which is obligatory in financial reports for the periods starting on or after January 1 2004. IFRS 1 regards the entities, which prepare financial reports pursuant to IFRS for the first time. IFRS 1 requirements is that the first financial report prepared according to IFRS be the first annual financial report, where the entity applied all IFRS standards, declaring full conformity with all IFRS standards.

This financial report is the first, complete financial report prepared according to IFRS standards. For the purpose of this financial report, the date of transfer to IFRS is January 1 2004. The last Company financial report prepared according to Law on accounting was the financial report prepared for the year ended December 31 2004.

According to IFRS 1, the financial report was prepared in such a way as if Company had always used IFRS; however Company used the following exemptions from transformation, referred to in IFRS 1:

- Company specified the assumed cost of tangible and intangible assets as well as investment real property by setting fair value of these assets as on the day of transfer to IFRS.

Notes 7 and 7.1 include details related to influence of such adjustments on the financial report.

6.5. New standards and interpretation published but not yet in force

The following standards and interpretations have been issued by International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretation Committee ("IFRIC") but have not been implemented yet:

- IFRS 6: *Search and assessment of mineral deposits - (valid from – January 1 2006),*
- IFRS 7: *Financial instruments: disclosing information - (valid from – January 1 2007).),*
- Interpretation IFRIC 4: *Lease elements in a contract - (valid from – January 1 2006),*
- Interpretation IFRIC 5: *Rights to shares resulting from participation in liquidation funds, reclamation funds and environment improvements funds - (valid from – January 1 2006),*
- Interpretation IFRIC 7: *Adjustment of financial reports pursuant to IAS 29 Financial reporting in hyperinflation conditions - (valid from – March 1 2006),*
- Interpretation IFRIC 8: *IFRS 2 application scope - (valid from – May 1 2006),*
- Interpretation IFRIC 9: *Reassessment of embedded derivatives classification - (valid from – June 1 2006).*

As of the date of this financial report, it is not possible to provide a reliable assessment of the influence of changes, which are the consequence of application of the above mentioned standards or interpretations for the first time.

6.6. Error correction

There were no errors corrected in the financial report for the year ended on December 31 2005.

6.7. Investments in subsidiaries, affiliates and others

Investments in subsidiaries are the investment in the entities, over which Company has control. Investments in affiliates are the investments in the entities, in which Company has considerable influence directly or via subsidiaries and which are neither subsidiaries nor joint ventures. Financial year of subsidiaries, affiliates and Company is the same. Investment in subsidiaries, affiliates and others, which were not listed as for sale, shall be recognised at purchase price minus potential impairment write-downs.

6.8. Translation of items in foreign currencies

Transactions in currencies other than Polish zloty are translated into Polish zloty according to the exchange rate from the day of transaction.

As of the balance sheet date, financial assets and liabilities expressed in currencies other than Polish zloty, are translated into Polish zloty according to the average exchange rate of a given currency established by National Bank of Poland, for the end of the reporting period. Exchange rate differences from the translation are recognised as financial revenue (costs) or, in the cases defined by accounting policy, capitalised in assets value.

Non-financial assets and liabilities, recognised according to historical cost expressed in foreign currency, are shown according to historical exchange rate from the transaction date. Non-financial assets and liabilities, recognised according to fair value expressed in foreign currency, are shown according to exchange rate from the date of valuation to fair value.

The following exchange rates were accepted for the purpose of balance sheet valuation:

	December 31 2005	*December 31 2004*
USD	3,2613	2,9904
EUR	3,8598	4,0790
GBP	5,6253	5,7699
CHF	2,4788	2,6421
SEK	0,4097	0,4521

6.9. Tangible fixed assets

Tangible fixed assets are recognised according to purchase price/manufacturing cost minus depreciation and all impairment revaluation write-downs. Initial value of fixed assets includes their purchase price plus all purchase costs and all costs related to putting the assets to use. The cost also includes costs of replacement of machines and equipment parts, when incurred, provided that recognition criteria have been fulfilled. Costs incurred after the date of putting a fixed asset to use, such as costs of repairs and maintenance, shall be charged to profit and loss account, when incurred.

Company valuated a part of fixed assets on the basis of fair value and recognised that value as the assumed cost as on January 1 2004, which is the date of transfer to IFRS (see Note 7.1.1).

Fixed assets, when purchased, are divided into items of considerable value, which may have a separate economic life cycle period. Major overhauls costs are also part of this element.

Depreciation is calculated according to straight line method throughout an asset life cycle, which is:

Type	*Depreciation rate*	*Period*
Land (perpetual usufruct right)	-	-
Buildings and constructions	from 1.58% to 50.0%	from 2 to 65 years
Machines and equipment	from 6.67 % to 50.0%	from 2 to 15 years
Office equipment	from 10.00 % to 66.67%	from 1 to 10 years
Transport means	from 6.67% to 50.0%	from 2 to 15 years
Computers	from 10.00% to 50.0%	from 2 to 5 years

Company includes land perpetual usufruct right in tangible fixed assets. As there are no circumstances involving the possibility of withdrawal or refusal to renew the right of perpetual usufruct of land located mainly in the production unit area, it was decided to recognise the above mentioned right as an element of fixed assets excluded from depreciation, as in the case of lands.

If, during preparation of the financial report, circumstances occurred, which indicate that the balance sheet value of tangible fixed assets may not be recoverable, such assets will be reviewed for potential value impairment. If it could be assumed that there might have been some impairment and the balance sheet value exceeds the estimated recoverable value, then the value of these assets or cash generating units, which own these assets, is decreased to the level of recoverable value. Recoverable value shall be the higher of the two: fair value minus cost of sale or value in use.

At setting value in use, the estimated future cash flows are discounted to current value, applying gross discount rate which reflects current market estimates of monetary value in time and the risk related to a given asset type. In the case of an assets element, which does not generate cash inflow in an individual way, the recoverable amount is identified for the cash generating unit, which owns the asset. Revaluation write-downs for impairment of value are recognised in profit and loss account as own costs of sales.

An item of tangible fixed assets may be removed from balance sheet after sale or in the situation when no economic benefit is expected, resulting from the use of such an asset. Any gains or losses resulting from removal of such asset from balance sheet assets (calculated as a difference between the potential net income on sale and the balance sheet value of the item) shall be recognised in profit and loss account in the period when such removal was made.

Investments in progress relate to fixed assets under construction or assembly and they are recognised according to purchase of manufacturing prices. Fixed assets under construction shall not be depreciated until completion of construction and putting the fixed asset to use.

In the end of each financial year, Company carries out verification of fixed assets by impairment of value, accepted life cycle and the applied depreciation method and introduces accounting adjustments, which influence current or future periods, if necessary. If Company carries out an overhaul of a fixed asset, which fulfils the criteria for recognising in assets value, then the overhaul cost is recognised in the tangible fixed assets balance sheet value.

6.10. Costs of external financing

Costs of external financing are recognised as costs when incurred, according to the approach presented in IAS 23.

6.11. Investment real property

Investment real property is recognised at purchase price or manufacturing cost, including transaction costs. After initial recognition, the value of investment real property is reduced by depreciation and value impairment amounts.

Investment real property is deleted from balance sheet when sold or permanent withdrawal from use, when no future benefits from sales are expected. Any gains or losses resulting from deleting investment real property from balance sheet are recognised in profit and loss account in the period when the deletion was carried out.

Assets are transferred to investment real property only when their method of use changes, which is confirmed when owner ends use of the assets, an operating lease contract is signed, construction or manufacturing of investment real property is completed.

6.12. Intangible assets

Intangible assets purchased in a separate transaction, are initially valuated at purchase price or manufacturing cost. Purchase price of intangible assets within a merger-type transaction equals their fair value as on the merger date. Initially, intangible assets are recognised at purchase price or manufacturing cost, minus depreciation and value impairment write downs amounts. Expenses incurred for intangible assets manufactured by company, except the R&D related expenses, are not activated and are recognised in costs of the period when incurred.

Company valuated a part of intangible assets on the basis of fair value and recognised that value as the assumed cost as on January 1 2004, for the purpose of IFRS 1.

Company establishes whether intangible assets life cycle is definite or indefinite. Intangible assets with definite life cycle are depreciated throughout their life cycle and tested for value impairment each time when value impairment might have occurred. Period and method of depreciation of intangible assets with definite life cycle are verified at least in the end of each financial year. Changes in expected life cycle or the expected use of economic benefits from such an asset are recognised by changes of the period or method of depreciation respectively, and interpreted as changes to estimated values. Depreciation write down of intangible assets with definite life cycle is recognised in profit and loss account in the category, which reflects the function of a given intangible asset.

Intangible assets manufactured by company, except the R&D related expenses, are not included in assets and the expenses incurred for their manufacturing are recognised in profit and loss account for the year when incurred.

Intangible assets with indefinite life cycle and the unused ones are verified each year for potential value impairment, with reference to each asset or on the level of cash generating unit. In the case of other intangible assets, they are assessed each year for impaired value. Life cycles are also verified each year and, if necessary, their effect is adjusted from the beginning of financial year.

Straight line depreciation method is applied to intangible assets with definite life cycle.

Depreciation period for intangible assets is from 2 to 10 years.

Gains or losses resulting from deletion of intangible assets from the balance sheet are valuated according to the difference between net sales revenue and the balance sheet value of an assets and they are recognised in profit and loss account when written off.

The following table contains a summary of principles applied to Company intangible assets:

	Patent rights and licences	*Computer software*
Life cycles	For patent rights and licences used on the basis of a contract signed for definite period, such period is accepted , plus additional period of the use extension.	2-5 years
Applied method	Straight line depreciation	Straight line depreciation
Manufactured internally or purchased	Purchased	Purchased
Verification for value impairment / assessment of recoverable value	Annual assessment for value impairment symptoms.	Annual assessment for value impairment symptoms.

6.13. Fixed assets for sale

In the event when a fixed asset is held for sale in its current condition, considering the common practices of sales of such type of an asset and its sale is very much likely to be realised within one year, according to the sales plan, Company recognises an asset as held for sale. The value of such an asset recognised in Company financial statement is lower of the following: balance sheet value and fair value minus cost of sale.

IFRS 5 "Non-current Assets Held for Sale" is applied to annual periods starting from January 1 2005; Company followed recommendations of the standard related to earlier use and applied IFRS 5 as of January 1 2004.

6.14. Recoverable value of long-term assets

Company carries out evaluation of assets for signs of value impairment, on each balance sheet day. In the event such signs exist, Company carries out formal estimation of recoverable value. In the event when the balance sheet value of an asset or a cash generating unit is higher than its recoverable amount, value impairment is acknowledged and revaluation write down is carried out to the level of recoverable amount. Recoverable amount is the higher of the following two: fair value minus sales cost or value in use of an asset or a cash generating unit.

6.15. Financial instruments

Financial instruments are divided into the following categories:
- financial assets held to maturity,
- financial instruments appraised in fair value by financial result,
- loans and liabilities, and
- financial assets held for sale.

Financial assets held to maturity are investments with identified or identifiable payments and identified maturity date, which Company intends and is able to hold until that time. Financial assets held to maturity are appraised according to the amortised cost, with the use of the effective interest rate method.

Financial instruments purchased for profit generation due to short-term price fluctuations, are recognised as financial instruments, appraised in fair value by financial result. Financial instruments, appraised in fair value by financial result, are appraised in fair value on the basis of their market value as on the balance sheet date. Changes of fair value of these financial instruments are considered in financial revenue or costs.

Loans and liabilities are recognised according to the amortised cost.

All other financial assets are held for sale. Financial assets held for sale are recognised according to fair value, considering their market value as on the balance sheet date. In the case of lack of stock exchange quotations in the active market and no possibility of reliable assessment of fair value by alternative methods, financial assets held for sale are assessed at purchase price adjusted by value impairment write down.

Positive and negative difference between fair value and purchase price, minus deferred tax of assets held for sale, are recognised in capital reserves from revaluation (if a market price established in an active, regulated market exists or fair value may be identified in any other reliable way). Decrease of assets held for sale value, caused by value impairment, is recognised in profit and loss account as financial cost.

Financial assets held until maturity are recognised as non-current assets, if they are due over 12 months from the balance sheet date.

Financial assets evaluated according to fair value are recognised in financial report as current assets, if Management intends to realise them within 12 months from the balance sheet date.

Purchase and sale of financial assets are recognised as on the day of transaction. They are initially valuated at purchase price, i.e. fair value, including transaction costs.

Financial liabilities, which are not financial instruments valuated at fair value by financial result, are valuated at amortised cost with the use of the effective interest rate.

Financial instrument is deleted from the balance sheet when Company loses control over contractual rights making a financial instrument; this is carries out during sale of an instrument or when all cash flows related to the instrument are transferred to an independent, third party.

6.16. Embedded derivative instruments

Embedded derivative instruments are separated from contracts and treated as derivatives, if all of the following conditions have been fulfilled:

– economic type and the risk of an embedded instrument are not related to the economic type and risk of the contract, into which the instrument is embedded;
– an individual instrument with identical realisation conditions as the embedded instrument would fit the definition of a derivative instrument;
– a hybrid (complex) instrument is not recognised at fair value and changes of its fair value are not translated into profit and loss account.

Embedded derivative instruments are recognised similarly to individual derivatives, which are not considered as securing instruments.

According to IAS 39, the scope in which economic features and the risk of an embedded derivative in foreign currency are closely related to economic features and risk of the main contract also includes the situations, when currency of the main contract is the customary currency for sales or purchase contracts of non-financial items in the market for a given transaction.

6.17. Stock

Stock is valuated according to the lower value of the following two: purchase price/manufacturing cost and available net sale price.

The costs incurred to maintain each stock elements in its current place and condition – related both to current and previous years – are recognised as follows:

Materials	– at purchase price identified by "weighed average" method;
Finished products and products in progress	– cost of direct materials and labour as well as indirect production costs, identified assuming regular use of production capacity, excluding external financing costs.

The stock write down amount to the realisable net value and any stock losses are recognised as costs in the period when incurred.

Realisable net sales value is the estimated sales value in regular operation, minus preparation costs and estimated transaction costs.

6.18. Trade and other receivables

Trade receivables with maturity from 30 to 90 days are recognised according to originally invoiced amounts, considering provision for bad debts. Maturity of receivables resulting from the retained guarantee instalments expires after the end of guarantee period. Provision for bad debts is estimated when collection of full receivable amount is no longer likely. Bad debts are recognised in profit and loss account when pronounced such.

In the event when cash inflow in time is of importance, the value of receivables is estimated by discounting the forecasted cash flows to the current value, applying gross discount rate, which reflects current cash market value in time. If the method including discounting was applied, increase of receivables in time is recognised as financial revenue.

6.19. Cash and cash equivalents

Cash and short-term deposits shown in balance sheet include cash at bank and on hand as well as short-term deposits with original maturity period not more than three months.

The balance of cash and cash equivalents shown in cash flow report includes the above mentioned cash and cash equivalents, minus unpaid loans in current accounts.

Restricted cash are the amounts collected in the Company social fund and amounts in deposits, transferred as collateral for contracts realisation guarantees.

6.20. Interest bearing bank loans, credits and debentures

Initially, all bank loans, credits and debentures are recognised at purchase prices, reflecting fair value of the received means, minus costs of obtaining loans or credits.

After initial recognition, interest bearing loans, credits and debentures are valuated according to amortised cost, applying the effective interest rate method. When identifying amortised cost, the costs of obtaining loans or credits as well as discounts or bonuses received during settlements, are taken into consideration.

Gains and losses are recognised in profit and loss account when a liability is deleted from balance sheet as well as in the result of a write down reconciliation.

6.21. Provisions

Company establishes provisions when obliged (by law or custom), in view of future events and when it is likely that fulfilling such obligation shall result in outflow of economic benefits and that the amount of such liability may be reasonably estimated. If Company expects that the costs included in the provision will be reimbursed, e.g. based on an insurance policy, then such reimbursement shall be recognised as a separate assets element however only when such reimbursement is certain. Costs of a given provision are recognised in profit and loss account, minus all reimbursements. In the event when cash inflow in time is of importance, the amount of provision is estimated by discounting the forecasted cash flows to the current value, applying gross discount rate, which reflects current cash market value in time and the potential risk related to a liability. If the method including discounting was applied, increase of provision in time is recognised as financial cost.

6.22. Retirement payments and occasional bonuses

Pursuant to Company payroll system, employees are entitled to occasional bonuses, after having worked for a certain period, and to retirement/pension payments when retiring.
Pursuant to internal regulations, Company makes write-offs to social fund, for the Company pensioners.

Company recognises such costs based on ledger.

Bonus amounts depend on employment period and average monthly salary. Employees also receive a one-off payment for retirement. Employees pronounced permanently unfit to work are entitled to pension payment.
Payment amounts depend on employment period and average monthly salary
Company establishes a provision for future retirement payments and occasional bonuses in order to allocate costs to relevant periods. According to IAS 19, bonuses are other long-term employee benefits and retirement payments are post-employment benefits. Current value of such liabilities is calculated by an independent actuary, as on each balance sheet day. Recognised liabilities equal discounted future payments, considering employment rotation, and refer to the period prior to balance sheet date. Demographic and employment rotation information is based on historical data. Gains and losses from actuarial reconciliation are disclosed in profit and loss account.
Actuarial valuation of current and long-term benefits is carried out in the end of each financial year.

6.23. Trade and other liabilities

Trade liabilities with maturity from 30 to 90 days, are recognised according to originally invoiced amounts. Maturity of liabilities resulting from the retained guarantee instalments expires after the end of guarantee period. In the event when cash inflow in time is of importance, the value of liabilities is estimated by discounting the forecasted cash flows to the current value, applying gross discount rate, which reflects current cash market value in time. If the method including discounting was applied, increase of liabilities in time is recognised as financial cost.

6.24. Lease

Financial lease contracts, which transfer all risks and benefits from ownership of the lease subject to Company, are recognised in the balance sheet on the first day of lease, according to the lower value of the following: fair value of a fixed asset – the subject of lease, or current value of minimum lease fees. Lease fees are divided between financial costs and reducing the balance of lease liabilities, in order to allow for obtaining a fixed interest rate from the remaining amount payable. Financial costs are recognised directly in profit and loss account.

Fixed assets in use on the basis of financial lease contracts are depreciated during the shorter period of the following: estimated life cycle of a fixed asset or lease period.

Lease contracts, where Lessor retains all the risk and all loans resulting from ownership of the lease subject, are recognised as operating lease contracts. Lease fees from operating lease are recognised as costs in profit and loss account, according to straight line methods during the lease period.

6.25. Revenue

Revenue is recognised in the amount which is likely that Company shall receive economic benefits from a given transaction and when the revenue amount can be reasonably valuated. Revenue is recognised after deducting VAT and rebates. Revenue is recognised with application of the following criteria.

6.25.1 Sales of products and services

Revenue from sales of products and services includes received or due incoming benefits, minus the amounts deducted on behalf of third parties.
Revenue from sales of products is recognised, if material risk and benefits resulting from the right of ownership to goods and products were transferred to buyer and when the revenue amounts can be reasonably estimated.

6.25.2 Contracts for construction services

Contracts for construction services are commercial contracts related to the main scope of Company operations. Their subject is construction of a system of assets which are closely related or interdependent from the design, technological and functional point of view, as well as their final purpose or method of use. Most contracts are signed with fixed prices and settled according to the works progress method.

Total revenue from contracts includes initial revenue amount identified in a contract and adjustments effected during the contract implementation, such as indexation, claims, bonuses.
Changes to revenue from contracts are considered, if it is likely that they will be approved by customer, together with the resulting revenue amounts and the value of such revenue can be reasonably valuated.
Total contract costs include direct costs, justified indirect costs and all other costs, which can be charged to mandatory, pursuant to contract provisions.

Revaluation of total costs and revenue in a contract is carried out always, in the event of major changes in the contract financial terms and conditions, however not less often than once every six months.
Adjustments made in consequence of revaluation of total costs and revenue of a contract influence Company financial result in the reporting period when such revaluation was implemented.

Revenue in the end of reporting period is recognised pro rata to contract progress, after deducting the revenue, which influenced financial result in previous reporting periods.
Advances (prepayments) obtained for the contract and invoiced, pursuant to VAT regulations are recognised as accruals.

In order to calculate a contract works progress, the actual incurred costs are assumed, confirmed by appropriate accounting documents, and actual costs incurred until the end of a reporting period and not invoiced yet, if they can be reasonably valuated.
Difference between the costs recognised in financial result, comparable to revenue, and actually incurred costs, is recognised as stock adjustment (by relevant stock items) and (or) “Short term accruals” (for not invoiced costs).

A contract costs related to future activities within the contract, e.g. costs of materials delivered to construction site or prepared for use, which have not yet been installed, consumed or applied during contract works, - except for the materials manufactured for the purpose of the contract – shall be neglected during the works progress identification. Incurred costs do not include advances for subcontractors for works provided within the contract.

If the analysis shows that the total estimated contract costs will exceed reliable contract revenue (i.e. the total contract result will be loss), total contract loss is recognised in a given reporting period. Provisions for estimated losses are disclosed as “Other provisions” long or short term.
If a contract result cannot be estimated in a reliable way, the revenue shall be recognised only up to the incurred contract costs amount, which are likely to be reimbursed; a contract cost is recognised as the cost of period when incurred.

Reconciliation of contracts in currencies other than Polish zloty

Realised revenue and incurred costs in foreign currencies are disclosed in Polish zloty, based on average exchange rate at NBP on the date of invoice, or otherwise, pursuant to a contract.

On each balance sheet day, Company carries out an analysis of currency structure of the signed contracts, in order to identify which currency exchange rate ('forward' rate or average NBP exchange rate valid as on the balance sheet date) estimates total contract financial result in a more reliable way.

If a reliable estimation of a contract result is not possible, incurred costs are recognised in full amount and revenue in the amount not exceeding the recognised costs, which are likely to be reimbursed.

6.25.3 Interest

Revenue from interest is recognised as they accrue (effective interest rate method applied, which is the discount rate of future cash inflow in the estimated financial instruments use period) versus the net balance sheet value of each financial assets item.

6.25.4 Dividends

Dividends due are recognised as financial revenue on the day of passing the decision on profit distribution by Company appropriate body, unless the dividend date was defined otherwise in a resolution.

6.25.5 Revenue from lease

Revenue from lease of investment real property is disclosed by straight line method, during the lease period in open contracts.

6.26. Income tax

Current corporate income tax liabilities are calculated according to Polish tax regulations.

For the purpose of financial reporting, provision for income tax is established for all temporary differences disclosed on the balance sheet date, between tax value of assets and liabilities and their balance sheet value, disclosed in the financial report.

Provision for deferred tax is recognised in relation to all positive temporary differences:

- except for the situation when a provision for deferred tax is established as a result of initial recognition of goodwill or initial recognition of an asset or liability, within a transaction which is not a merger of business entities and, at the moment of realisation, does not influence gross financial result, taxable income or tax loss, and
- in the event of temporary positive differences resulting from investments in subsidiaries or affiliates and participation in joint ventures – except for the situation when the dates of reversals of temporary differences are under an investor's control and it is likely that in the foreseeable future, such temporary differences shall not reverse.

Assets from deferred tax are recognised versus all temporary negative differences, in such amount, which is likely the taxable amount, allowing for the use of the above mentioned differences, assets and losses:

- except for the situation when assets from deferred tax related to temporary negative differences originate as a result of initial recognition of an asset or liability, within a transaction which is not a merger of business entities and, at the moment of realisation, do not influence gross financial result, taxable income or tax loss, and
- in the event of temporary negative differences resulting from investments in subsidiaries or affiliates and participation in joint ventures, an asset from deferred tax is recognised in the balance sheet in the amount, which is likely to reflect the reversal of the above temporary differences in the foreseeable future, and taxable income will be obtained, allowing for deduction of temporary negative differences.

The balance sheet value of an asset from deferred tax is verified on each balance sheet day and is reduced by the amount , which is missing to achieve taxable income, sufficient for total or partial realisation of an asset, due to deferred income tax.

Provision and asset from deferred income tax are recognised in the balance sheet in set off values, if such setting off is justified.

Assets from deferred income tax and provisions for deferred income tax are valuated with application of taxation rates, which will be valid in the period when assets is realised or provision is released, assuming taxation rates (and regulations) in force on the balance sheet day or such, which are certain to be valid on the balance sheet day.

Income tax related to items recognised in equity capital is disclosed in equity capital and not in the profit and loss account.

6.27. Net profit per share

Net profit per share for each period is calculated by dividing net profit for the period by weighed average number of shares in a given reporting period. Company does not disclose diluted profit/loss per share, as there are no diluting common shares registered.

7. Effect of applying new accounting standards and changes in accounting policy

Below presented are types of adjustments introduced by Company, in order to fully apply IFRS and their influence on financial result and company capitals in comparable periods:

	Equity capital as on December 31 2004	*Equity capital as on January 1 2004*	*Net profit for the year ended December 31 2004*
Data disclosed in financial statement prepared according to Polish accounting standards	142 321	141 474	847
IFRS 1 application effect:	41 885	42 902	(1 017)
1. Fixed assets costs	34 336	35 556	(1 220)
2. Disclosing land perpetual usufruct right	6 563	6 563	–
3. Valuation of long-term receivables	(904)	(1 490)	586
4. Valuation of provided advances	(1 158)	(126)	(1 032)
5. Cost of intangible and legal assets	653	232	421
6. Valuation of long term liabilities	463	284	179
7. Cost of investment real property	1 932	1 883	49
Adjustment to correct asset from deferred tax	–	(421)	421
Data disclosed in this financial statement prepared according to IFRS	184 206	183 955	251

The disclosed adjustments amounts include the influence of deferred tax. In consequence of applying IFRS 1, assets from deferred tax have been reduced by PLN 10.4 million and PLN 9.7 million respectively as on January 1 2004 and December 31 2004.

	Assets as on December 31 2004	*Assets as on January 1 2004*
Data disclosed in financial statement prepared according to Polish accounting standards	303 785	330 526
IFRS 1 application effect:	42 955	42 551
1. Fixed assets costs	42 716	44 222
2. Disclosing land perpetual usufruct right	7 695	7 695
3. Valuation of long-term receivables	(1 116)	(1 840)
4. Valuation of provided advances	212	(156)
5. Cost of intangible and legal assets	806	282
6. Cost of investment real property	2 385	2 325
7. Deferred income tax assets	(9 743)	(9 977)
Adjustment to correct asset from deferred tax	–	(421)
Data disclosed in this financial statement prepared according to IFRS	346 740	372 656

In the Company approved financial report for the year ended on December 31 2004, according to Polish accounting standards, adjustment was made due to a basic error. The adjustment regarded the amount of capital reserves from revaluation, in relation to accumulated reserves, established according to Polish accounting standards; it results from an error, which originated in previous years in consequence of a faulty data transfer related to revaluated fixed assets in 1995, between different computer systems in Company. The adjustment involved reduction of capital reserves and simultaneous increase of accumulated reserves from revaluation, by the amount of kPLN 4 489 as on January 1 2005 (kPLN 4 449 as on January 1 2004). The above adjustment does not influence the value of equity capital presented in this financial report of Company.

7.1. IFRS 1 application effect

As explained in note 6.4, Company applied IFRS 1 in this financial report. According to IFRS 1 requirements, Company is to recognise all assets and liabilities, which should be recognised according to IFRS and to valuate these assets according to each IFRS. Transfer to IFRS was carried out on January 1 2004. Company prepared this financial report based on provisions of each IFRS, which was obligatory, as selected on December 31 2005.

7.1.1 Fair value of fixed assets, intangible assets and investment real property

According to IFRS 1, when first applying IFRS, a unit can appraise fixed assets, non-material assets and investment real property at fair value and assume the fair value as the cost on that date.

Company defined fair value of the selected fixed assets, non-material assets and investment real property as the assumed cost as on January 1 2004, i.e. for the first application of IFRS. Company revaluated fixed assets for the last time, according to Polish accounting standards (PSR), as on January 1 1995, in order to reflect consequences of inflation, by applying revaluation indexes established by Main Office of Statistics, for each group of fixed assets.

The effect of establishing the assumed cost of fixed assets, non-material assets and investment real property is presented in the following table:

	Balance sheet value acc. to PSR January 1 2004	*Balance sheet value acc. to IFRS January 1 2004*	*Value adjustment*	*Including adjustment from revaluation of fair value*
Intangible assets	2 921	3 203	282	282
Land, buildings and constructions	28 145	62 777	34 632	36 747
Machines, equipment and means of transport	14 452	29 622	15 170	15 170
Fixed assets under construction	709	709	–	–
Investment real property	4 365	8 805	4 440	2 325
	50 592	**105 116**	**54 524**	**54 524**

In consequence of establishing the assumed cost, charges in profit and loss account for amortisation of fixed and intangible assets also changed; however their economic life cycle in years did not change except for the cases where some components were separated.

Valuation of land perpetual usufruct right according to the assumed cost

According to "Conceptual Assumptions for preparation and Presentation of Financial Statements" prepared by RMSR, an asset is an element controlled by the unit, in consequence of past events, from which the unit shall possibly obtain economic benefits. Lands in Company perpetual usufruct fulfil the definition of assets. According to IFRS 1, Company recognised fair value of these assets and disclosed this value in books of accounts as the assumed cost, as on January 1 2004.
Fair value of lands perpetual usufruct right as on January 1 2004 was entered into Company books on the basis of valuation by an independent expert.
According to IFRS, the value of assets increases the unit retained profit whereas amortisation allowances are charged into profit and loss account. According to PSR, the value of assets is recognised in revenue of future periods and reconciled in time simultaneously with amortisation allowances of these assets. Recognition of perpetual usufruct rights does not influence deferred tax, according to PSR.

7.2. Valuation of advances

According to IFRS, provided and received advances, as non-monetary balance sheet items, are valuated at historical rate, from an advance provision or reception day. As on January 1 2004, Company financial report disclosed advances received in foreign currencies, valuated according to current exchange rate, in line with PSR. The effect of applying exchange rate from the day of advance provision, for the purpose of foreign currencies advances valuation, is shown in the following table:

	Balance sheet value acc. to PSR January 1 2004	*Balance sheet value acc. to IFRS January 1 2004*	*Value adjustment*	*Including adjustment from fair value valuation*
Advances granted	1 357	1 201	(156)	(156)

7.3. Valuation of receivables and liabilities

According to IFRS, long term receivables and liabilities should be valuated and recognised in the balance sheet according to current value (see Note 6.18.). As on January 1 2004, Company financial report showed long term receivables and liabilities recognised according originally invoiced amounts.

For the purpose of valuation of long term receivables and liabilities as on January 1 2004, Company applied interest rate equal to WIBOR 3M plus 2 percentage points, i.e. 7.6%. The effect of long term receivables and liabilities valuation to current value is shown in the following table:

	Balance sheet value acc. to PSR January 1 2004	*Balance sheet value acc. to IFRS January 1 2004*	*Value adjustment*	*Including adjustment from fair value valuation*
Long-term receivables	11 786	9 946	(1 840)	(1 840)
Long-term liabilities	1 922	1 571	(351)	(351)

7.3.1 Adjustment of estimates

Until December 31 2003, Company revaluated assets in foreign currencies according to the lower of the following: average day purchase rate of the Company bank or average exchange rate at National Bank of Poland ("NBP") and liabilities according the higher of the following: average day sales rate of the Company bank or average exchange rate at NBP. According to the new Polish accounting law, items expressed in foreign currencies as on the balance sheet day shall be revaluated according to the average exchange rate at NBP as on the balance sheet day, from January 1 2004.

According to PSR, changes in accounting policy regarding valuation of balances expressed in foreign currencies as on the balance sheet day are disclosed as adjustment to opening balance of retained profits. According to IFRS, the effect of change of the exchange rates applied to revaluate balances expressed in foreign currencies, as on the balance sheet day, is disclosed as the change of estimates and is charged to the relevant costs and revenues of the period when the changes were carried out.

7.4. Deferred tax consequences

As a result of the above presented adjustments to the financial report prepared according to PSR, deferred tax amount is changed. Values changes due to the above presented adjustments:

	Balance sheet value acc. to PSR January 1 2004roku	*Balance sheet value acc. to IFRS January 1 2004roku*	*Value adjustment*	*Including adjustment from fair value valuation*
Valuation of fixed assets	–	(9 798)	(9 798)	(9 798)
Valuation of investment real property	–	(442)	(442)	(442)
Valuation of intangible assets	–	(50)	(50)	(50)
Valuation of advances	(30)	–	30	30
Valuation of long term receivables	–	350	350	350
Valuation of long term liabilities	–	(67)	(67)	(67)
Adjustment to correct asset from deferred tax	–	(421)	(421)	–
	(30)	**(10 428)**	**(10 398)**	**(9 977)**

Moreover, items of financial report prepared according to PSR and IFRS may differ considerably. The scope of additional information to financial report according to PSR is different than the scope required by IFRS.

8. Information on types of operations

The basic division of Company reporting is based on types of operations and the additional division on geographical segments. Company is organised and managed according to division by type of the offered products and services. Each operations type is a strategic economic unit, offering different products and serving different markets.

The group settles transactions between types of operations in such a way as if they referred to unrelated entities – applying current market prices.

Operations segments

The following tables include data related to revenue and profit and certain assets and liabilities of each operations segment of the group, for the year ended December 31 2005 and December 31 2004.

Period ended December 31 2004 or December 31 2005	*Continued operations*			
	Boilers	*Exhaust desulphurisation installations (IOS)*	*Other operations*	*Total operations*
Revenue				
Segment total revenue	296 490	82 058	3 677	**382 225**
Cost of manufacturing	(262 266)	(81 427)	(4 361)	**(348 054)**
Result				
Profit (loss) of segment	34 224	631	(684)	**34 171**
Other revenue (cost) of segment	201	(771)		**(570)**
Not allocated costs	–	–	(24 508)	**(24 508)**
Profit (loss) from continued operations before tax and financial costs	34 425	(140)	(25 192)	**9 093**
Net financial costs	–	–	(5 578)	**(5 578)**
Income tax	–	–	(575)	**(575)**
Net profit (loss) for financial year	34 425	(140)	(31 345)	**2 940**
Assets and liabilities				
Assets of segment	116 497	55 795	–	**172 292**
Not allocated assets	–	–	219 313	**219 313**
Total assets	116 497	55 795	219 313	**391 605**
Liabilities of segment	42 806	112 009	–	**154 815**
Not allocated liabilities	–	–	49 644	**49 644**
Equity capital	–	–	187 146	**187 146**
Total liabilities and capitals	42 806	112 009	236 790	**391 605**
Other information on segment of operations				
Amortisation of tangible fixed assets	(6 402)	(46)	(574)	**(7 022)**
Amortisation of intangible assets	(127)	(81)	(326)	**(534)**
Costs incurred for purchase of assets of the segment	–	–	8 057	**8 057**
Non-monetary expenses:				
provision for guarantee repairs	(1 526)	(108)	–	**(1 634)**
provision for contractual losses	(1 138)	(327)	–	**(1 465)**
charged costs of penalties	(660)	–	–	**(660)**

Period ended December 31 2004 or December 31 2004	*Continued operations*			
	Boilers	*Exhaust desulphurisation installations (IOS)*	*Other operations*	*Total operations*
Revenue				
Segment total revenue	258 569	22 304	2 674	**283 547**
Cost of manufacturing	(219 012)	(22 330)	(1 003)	**(242 345)**
Result				
Profit (loss) of segment	39 557	(26)	1 671	**41 202**
Other revenue (cost) of segment	(6 378)	948	–	**(5 430)**
Not allocated costs	–	–	(23 610)	**(23 610)**
Profit (loss) from continued operations before tax and financial costs	33 179	922	(21 939)	**12 162**
Net financial costs	–	–	(11 796)	**(11 796)**
Income tax	–	–	(115)	**(115)**
Net profit (loss) for financial year	33 179	922	(33 850)	**251**
Assets and liabilities				
Assets of segment	153 767	8 966	–	**162 733**
Not allocated assets	–	–	184 007	**184 007**
Total assets	153 767	8 966	184 007	**346 740**
Liabilities of segment	79 263	10 383	–	**89 646**
Not allocated liabilities	–	–	72 888	**72 888**
Equity capital	–	–	184 206	**184 206**
Total liabilities and capitals	79 263	10 383	257 094	**346 740**
Other information on segment of operations				
Amortisation of tangible fixed assets	(6 868)	(66)	(584)	**(7 518)**
Amortisation of intangible assets	(270)	(45)	(535)	**(850)**
Costs incurred for purchase of assets of the segment	–	–	7 892	**7 892**
Non-monetary expenses:				
provision for guarantee repairs	(2 791)	(804)	–	**(3 595)**
provision for contractual losses	(4 206)	(914)	–	**(5 120)**
charged costs of penalties	(2 825)	–	–	**(2 825)**

Geographical segments

The following tables include data related to revenue from Company sales of each geographical segment, by type of operations, for the year ended December 31 2005 and December 31 2004.

- Domestic market

Product	*Sales for the year ended December 31 2005*	*Sales for the year ended December 31 2004*	*Dynamics in %*
boilers	54 648	74 931	-27,07%
exhaust desulphurisation installations	82 058	22 304	267,91%
other	335	507	-33,93%
Total	**137 041**	**97 742**	**40,21%**

- Foreign market:

Product	*Sales for the year ended December 31 2005*	*Sales for the year ended December 31 2004*	*Dynamics in %*
boilers	241 842	183 638	31,60%
other	3 342	2 167	54,22%
Total	**245 184**	**185 805**	**31,96%**

9. Information regarding contracts for building services

	year ended December 31 2005	*year ended December 31 2004*
Revenue from sale of products and services, including:	**379 910**	**281 626**
a) revenue from sale calculated by a contract progress realisation method, as on the balance sheet day	364 103	263 386
b) other revenue from sale of products and services related to basic segment of operations	15 807	18 240
Total amount of incurred costs and profits (minus losses) as on the balance sheet date	378 445	276 506
Advances received	37 336	5 236
Retained amounts	27 054	14 268
Gross amount due from Ordering parties for contractual works (asset)	44 424	41 137
Gross amount payable to Ordering parties for contractual works (liability)	69 408	22 122

The signed contracts for construction works may include contingent liabilities and receivables, connected with the following risks/opportunities:

1) risk of contractual penalties for missing the contract realisation deadline;
2) risk of additional costs and contractual penalties for inappropriate realisation of the contract subject;
3) risk of contractual penalties for not maintaining the contractual technical parameters of the contract subject;
4) risk of incurring potential costs of repairs, overhauls and modernisation works during the contractual guarantee period;
5) risk of assets realisation in the event of loss of liquidity (bankruptcy, liquidation, etc.) of the Ordering party;
6) risk of claims and penalties in consequence of potential suspension/termination of contract by one of the parties;
7) risk/opportunity of liabilities/receivables occurred in consequence of changes in taxation system, customs, etc. implemented during the contract period.
8) risk of penalties and claims in consequence of default in contract conditions regarding submission of the required bank guarantees/insurance, advance reimbursement and good contract realisation.
9) risk/opportunity of additional liabilities/receivables in consequence of final weight settlement for the realised contract subject.

10. Revenue and cost

10.1. Revenue from sale of products and services

Revenue from sale of products and services

	Year ended December 31 2005	*Year ended December 31 2004*
- net revenue from sale of products	364 188	270 565
- including from related companies	5 213	25 678
- net revenue from sale of services	15 722	11 061
- including from related companies	163	235
Total net revenue from sale of products	**379 910**	**281 626**
- including from related companies	5 376	25 913

Geographical structure of revenue from sale of products and services

	Year ended December 31 2005	*Year ended December 31 2004*
a) domestic	**135 101**	**96 356**
- including from related companies	5 376	25 913
- revenue from sale of products	127 840	86 052
- including from related companies	5 213	25 678
- revenue from sale of services	7 261	10 304
- including from related companies	163	235
b) export	**244 809**	**185 270**
- including to related companies	–	–
- revenue from sale of products	236 348	184 513
- revenue from sale of services	8 461	757
Total net revenue from sale of products	**379 910**	**281 626**
- including from related companies	5 376	25 913

Revenue from sales of materials

	Year ended December 31 2005	*Year ended December 31 2004*
- revenue from sale of materials	2 315	1 921
- including from related companies	–	–
Total net revenue from sale of goods and materials	**2 315**	**1 921**
- including from related companies		

Geographical structure of revenue from sale of materials

	Year ended December 31 2005	*Year ended December 31 2004*
a) domestic	1 940	1 386
- including from related companies	–	–
b) export	375	535
Total net revenue from sale of goods and materials	**2 315**	**1 921**

- including from related companies	–	–

Main customers for Company products and services are foreign and domestic providers of power installations, foreign and home professional and industrial power producers.

Sales revenue from related companies is presented in Note 38.

10.2. Sales costs

	Year ended December 31 2005	*Year ended December 31 2004*
a) amortisation	7 556	8 368
b) consumption of materials and energy	125 749	90 808
c) external services	163 988	107 820
d) taxes and fees	5 321	3 732
e) salaries	50 945	46 153
f) social security and other benefits	13 316	12 075
g) other costs by type	6 790	7 142
Total costs by type	**373 665**	**276 098**
Changes in stock, products and accruals	6 920	1 380
Cost of manufacturing products for the company own needs (negative value)	(7 358)	(9 200)
Costs of sale (negative value)	(11 477)	(12 742)
Management overheads (negative value)	(15 961)	(13 872)
Value of sold materials	2 265	681
Cost of manufacturing of sold products	**348 054**	**242 345**

10.3. Depreciation of fixed, intangible and legal assets, revaluation write-downs recognised in profit and loss account

	Year ended December 31 2005	*Year ended December 31 2004*
Items disclosed in own costs of sale (cost of sold goods and products):		
Amortisation of fixed assets	6 351	6 887
Permanent fixed assets impairment	–	–
Amortisation of intangible and legal assets	535	896
Items of management overheads:		
Amortisation of fixed assets	670	585

10.4. Costs of employees benefits

	Year ended December 31 2005	*Year ended December 31 2004*
Salaries	50 119	45 086
Cost of social insurance	13 316	12 075
Cost of retirement payments	808	844
Other benefits	18	223
	64 261	**58 228**

10.5. Other operating revenue

	Year ended December 31 2005	*Year ended December 31 2004*
Release of provision for guarantee repairs	1 961	2 703
Release of provision for receivables	470	2 811
Release of provision for long term contracts	3 655	–
Release of provision for foreseen contractual penalties	2 165	5 000
Release of other provisions	283	–
Profit on sale of fixed assets	109	–
Received contractual penalties and damages	363	1 930
Payment of off-balance liabilities	–	246
Revenue from post-guarantee repairs	1 635	–
Other	687	697
	11 328	**13 387**

10.6. Other operating costs

	Year ended December 31 2005	*Year ended December 31 2004*
Establishing provision for long term contracts	–	414
Establishing provision for unused leaves	–	12
Establishing provision for foreseen contractual penalties	–	–
Establishing provision for occasional bonuses	609	73
Establishing revaluation write down for materials	170	–
Loss on sale/liquidation of fixed assets	–	–
Costs of guarantee repairs	6 213	7 801
Costs of scrapped materials	–	1 588
Donations	130	241
Contractual penalties	344	4 039
Court fees	141	–
R&D costs	380	622
Other	981	1 023
	8 968	**15 813**

10.7. Net financial (costs) revenue

	Year ended December 31 2005	*Year ended December 31 2004*
Interest on bank loans and credits	2 521	2 455
Interest on other liabilities	190	430
Costs of bank commission	2 809	3 239
Financial costs of financial lease contracts	1	–
Negative exchange rate differences	3 551	9 925
Establishing provisions for uncertain interest	8	28
Discount of long term settlements	–	–
Other financial costs	5	17
Total financial costs	**9 085**	**16 094**
Interest on loans provided	319	853
Other interest	635	461
Revenue on investment	1 436	1 991
Positive exchange rate differences	–	–
Release of provision for interest on receivables	–	48
Discount of long term settlements	959	945
Other financial revenue	158	–
Total financial revenue	**3 507**	**4 298**

11. Income tax

The following are the main tax charges for the year ended December 31 2005 and December 31 2004:

	Year ended December 31 2005	*Year ended December 31 2004*
Profit and loss account		
Current income tax	(7 457)	(5 407)
Current income tax charge	(7 457)	(5 407)
Adjustments of current income tax from previous years	–	–
Deferred income tax	6 882	5 292
Related to occurrence and reversal of temporary differences	6 882	5 292
Tax charge recognised in profit and loss account	**(575)**	**(115)**

The following table shows reconciliation of income tax from financial result before tax, according to obligatory tax rate, with income tax calculated according to effective tax rate of Company for the year ended December 31 2005 and December 31 2004:

	Year ended December 31 2005	*Year ended December 31 2004*
Gross profit before tax on continued operations	3 515	366
Profit before tax on discontinued operations	–	–
Gross profit before tax	3 515	366
Tax according to obligatory tax rate in Poland of 19% (2004: 19%).	668	70
Non-tax deductible costs	773	1 675
Revenue deductible for tax purposes	(842)	(1 595)
Other	(24)	(35)
Tax according to enacted tax rate of 16% (2004: 31%)	575	115
Income tax (charge) recognised in profit and loss account	575	115
Income tax on discontinued operations	–	–

Deferred income tax as on December 31 2005

Deferred income tax as on December 31 2005 results from the following items:

	Balance sheet		*Profit and loss account for the year ended*	
	December 31 2005	*December 31 2004*	*December 31 2005*	*December 31 2004*
Provision for deferred income tax				
Adjustment of revenue on sale related to valuation of long term contracts	4 469	(4 339)	8 808	4 798
Discount of long term liabilities	(94)	(109)	15	(42)
Valuation of investment real property	(988)	(988)	–	(11)
Valuation of lands	(1 539)	(1 539)	–	56
Valuation of fixed assets	(7 769)	(7 973)	204	230
Valuation of intangible and legal assets	(250)	(153)	(97)	(103)
Amortisation of fixed assets covered by investment allowance	(295)	(368)	73	156
Surplus of unrealised positive exchange rate differences	(62)	(59)	(3)	1 403
Interest charged on provided loans	(8)	(35)	27	207
Value of leased fixed assets	(78)	–	(78)	–
Revenue on sale of fixed assets	(162)	–	(162)	–
Costs of guarantee and insurance	(472)	–	(472)	–
Costs of bank commission	(1)	–	(1)	–
Gross provision for deferred tax	**(7 249)**	**(15 563)**	**8 314**	**6 694**

	Balance sheet		*Profit and loss account for the year ended*	
	December 31 2005	*December 31 2004*	*December 31 2005*	*December 31 2004*
Deferred tax assets				
Revaluation write downs of receivables	3 266	3 676	(410)	(577)
Revaluation write downs of stock	671	639	32	
Provision for annual bonus	1 168	702	466	(1 040)
Provision for leaves	85	139	(54)	2
Discount of long term receivables	15	212	(197)	(138)
Revaluation write downs of long-term financial assets	2 347	2 487	(140)	(321)
Revaluation write down of real property	535	535		
Provision for long term contracts	278	973	(695)	79
Adjustment of product manufacturing costs related to valuation of long term contracts	7 376	8 573	(1 197)	1 060
Provision for guarantee repairs	310	683	(373)	(514)
Provision for retirement payments and occasional bonuses	2 997	2 881	116	14
Unpaid salaries	793		793	
Long term liabilities for lease	71		71	
Costs of sold fixed assets	151		151	
Interest on liabilities	175	169	6	34
Other	197	198	(1)	(1)
Gross assets from deferred tax	**20 435**	**21 867**	**(1 432)**	**(1 402)**
Charge from deferred income tax			**6 882**	**5 292**
Net assets/provision from deferred tax	**13 186**	**6 304**		

In the reporting period, Company id not incur any tax loss and did not settle a tax loss from previous years. The policy of establishing deferred income tax was described in note 6.26.

12. Discontinued operations

Company did not discontinue any operations in the year ended December 31 2005 and December 31 2004.

13. Social assets and company social fund obligations

According to the Law of March 4 1994 on company social benefits fund (ZFŚS), with subsequent amendments, all employers with more than 20 full-time employees are obliged to establish a company social benefits fund. Company establishes such a fund and carries out periodical write offs in the basic amount and for the retired and pensioners. The Fund purpose is to subsidise Company social activities, loans provided to employees and other social costs.

The Fund assets as on December 31 2005 include monetary means of kPLN 291 (on December 31 2004 – kPLN 7) and loans provided to employees, in the amount of kPLN 231 (on December 31 2004 – kPLN 329), whereas Company liabilities towards the Fund amount to kPLN 493 (on (on December 31 2004 – kPLN 286). Considering the above, settlement balance with the Fund as on December 31 2005 amounts to kPLN 29 (on December 31 2004 – kPLN 50).

14. Earnings per share

Basic earnings per share is calculated by dividing net profit of a period, for ordinary shareholders of Company, by weighed average number of issued ordinary shares during that period.

The following table includes data regarding profit and shares, which were used for calculation of basic earnings and profit per share:

	Year ended December 31 2005	*Year ended December 31 2004*
Net profit on continued operations	2 940	251
Net profit	2 940	251
Net profit for ordinary shareholders applied to calculate earnings per share	2 940	251

	Year ended December 31 2005	*Year ended December 31 2004*
Weighed average number of issued ordinary shares applied to calculate basic earnings per share	17 400 000	17 400 000
Dilution effect:	–	–
Shares options	–	–
Amortisable preferred shares	–	–
Adjusted weighed average of ordinary shares applied to calculate diluted earnings per share	17 400 000	17 400 000

	Year ended December 31 2005	*Year ended December 31 2004*
Profit/(loss) per share		
– basic from profit for financial year	0,17	0,01
– basic from profit on continued operations	0,17	0,01

In the period between the balance sheet date and this financial report date, there were no transactions implemented, related to ordinary or potential ordinary shares.

In the reporting period, Company did not discontinue any relevant operations. Company management do not plan to discontinue any relevant operations in the next period.

15. Dividends paid and offered

Company did not pay and do not plan to pay any dividend in the reporting period.

16. Tangible fixed assets

December 31 2005	*Land*	*Buildings*	*Machines and equipment*	*Transport means*	*Fixed assets under construction*	*Total*
Net value as on January 1 2005	**8 103**	**52 730**	**25 826**	**1 454**	**317**	**88 430**
Increase	42	785	2 580	418	4 050	7 875
Decrease	248	1 298	31	10	3 788	5 375
Revaluation	–	–	–	–	–	–
Revaluation write down due to impairment	–	–	–	–	–	–
Amortisation write off for the period	–	1 603	4 834	384	–	6 821
Net value as on December 31 2005	**7 897**	**50 614**	**23 541**	**1 478**	**579**	**84 109**
As on January 1 2005						
Gross value	8 103	54 298	31 304	1 761	317	95 783
Amortisation and revaluation write down due to impairment	–	1 568	5 478	307	–	7 353
Net value	**8 103**	**52 730**	**25 826**	**1 454**	**317**	**88 430**
As on December 31 2005						
Gross value	7 897	53 705	33 755	2 165	579	98 101
Amortisation and revaluation write down due to impairment	–	3 091	10 214	687	–	13 992
Net value	**7 897**	**50 614**	**23 541**	**1 478**	**579**	**84 109**

December 31 2004	*Land*	*Buildings*	*Machines and equipment*	*Transport means*	*Fixed assets under construction*	*Total*
Net value as on January 1 2004	8 103	53 912	28 540	1 082	709	92 346
Increase	–	386	2 772	679	3 834	7 671
Decrease	–	–	8	–	4 226	4 234
Revaluation write down due to impairment	–	–	–	–	–	–
Amortisation write off for the financial year	–	1 568	5 478	307	–	7 353
Net value as on December 31 2004	**8 103**	**52 730**	**25 826**	**1 454**	**317**	**88 430**
As on January 1 2004						
Gross value	8 103	53 912	28 540	1 082	709	92 346
Amortisation and revaluation write down due to impairment	–	–	–	–	–	–
Net value	**8 103**	**53 912**	**28 540**	**1 082**	**709**	**92 346**
As on December 31 2004						
Gross value	8 103	54 298	31 304	1 761	317	95 783
Amortisation and revaluation write down due to impairment	–	1 568	5 478	307	–	7 353
Net value	**8 103**	**52 730**	**25 826**	**1 454**	**317**	**88 430**

In 2005, Company purchased low-value fixed assets for the total amount of kPLN 200, which were amortised in total in 2005 (2004: kPLN 119).

As on December 31 2005, Company owned and used transport means on the basis of financial lease contracts, for the total gross amount of kPLN 418, as on the day of purchase of the lease subject. Use period of these assets is in line with the lease contract period, from 47 to 48 months. Company carries out amortisation write offs for these assets by the straight line method.

In the period ended on December 31 2004, Company did not own or use machines and equipment on the basis of financial lease contracts and lease contracts with purchase option.

As on December 31 2005 and December 31 2004 there was no mortgage established on any land or building owned by Company and disclosed as tangible fixed asset, for the purpose of collateral for the Company bank loans.

17. Non-current assets held for sale

On December 2005, Company management passed a resolution on the plan of sale of non-current assets and, as on the day of financial report, the status signifies that any changes to the plan or its termination are unlikely. As on December 31 2005, Company separated non-current assets held for sale, with the balance sheet value of kPLN 757. This value includes all non-current assets, which value will be recovered by sales transaction and not by continued use; management plan to sell these assets within 12 months from the balance sheet date. These assets fulfil all qualification criteria referred to in IFRS 5.

As on December 2004, Company did not own fixed assets, which would fulfil criteria of assets held for sale.

18. Investment real property

December 31 2005	*Land*	*Total*
Net value as on January 1 2005	8 805	8 805
Increase	–	–
Decrease	–	–
Revaluation write down due to impairment	–	–
Amortisation write off for the period	–	–
Net value as on December 31 2005	**8 805**	**8 805**
As on January 1 2005		
Gross value	8 805	8 805
Amortisation and revaluation write down due to impairment	–	–
Net value	**8 805**	**8 805**
As on December 31 2005		
Gross value	8 805	8 805
Amortisation and revaluation write down due to impairment	–	–
Net value	**8 805**	**8 805**

December 31 2004	*Land*	*Total*
Net value as on January 1 2004	8 805	8 805
Increase	–	–
Decrease	–	–
Revaluation write down due to impairment	–	–
Amortisation write off for the financial year	–	–
Net value as on December 31 2004	**8 805**	**8 805**
As on January 1 2004		
Gross value	8 805	8 805
Amortisation and revaluation write down due to impairment	–	–
Net value	**8 805**	**8 805**
As on December 31 2004		
Gross value	8 805	8 805
Amortisation and revaluation write down due to impairment	–	–
Net value	**8 805**	**8 805**

Company investment real property is a real estate with buildings, located in the centre of Gdańsk, purchased on December 28 2001. The real property includes perpetual usufruct right to the land of 13 822 m^2 area and office and industrial buildings with the total area of 6 438 m^2.

Company defined fair value of the investment real property as the assumed cost as on January 1 2004, i.e. for the first application of IFRS, according to the policy described in note 6.11 and 7.1.1.

The investment real property was valuated by Pracownia Inżynierska AKANT s.c. in Gliwice. Investment real property was valuated according to comparative method. Fair value of the investment real property did not change considerably by December 31 2005.

As on December 31 2004, a mortgage was established on land and buildings of the balance sheet value kPLN 8 805 as collateral for the provided guarantee of good construction contract works performance. On February 2 2005, Elektrownia Bełchatów released the guarantee providing bank from all obligations resulting from such guarantee. On February 18 2005, Company submitted an application to Regional Court in Gdańsk, on releasing the mortgage established for Kredyt Bank S.A. On September 8 2005, Company received the decision from Regional Court in Gdańsk on releasing the mortgage. The balance sheet value of real property as on December 31 2005 was kPLN 8 805.

19. Intangible assets

December 31 2005	*Patents and licences*	*Other intangible and legal assets*	*Total*
Net value as on January 1 2005	**2 528**		**2 528**
Increase	161	21	182
Decrease	–	–	–
Revaluation write down due to impairment	–	–	–
Amortisation write off for the period	514	21	535
As on December 31 2005	**2 175**	–	**2 175**
As on January 1 2005			
Gross value	3 378	46	3 424
Amortisation and revaluation write down due to impairment	850	46	896
Net value	**2 528**	**–**	**2 528**
As on December 31 2005			
Gross value	3 539	67	3 606
Amortisation and revaluation write down due to impairment	1 364	67	1 431
Net value	**2 175**	–	**2 175**

December 31 2004	*Patents and licences*	*Other intangible and legal assets*	*Total*
Net value as on January 1 2004	3 203	–	3 203
Increase	175	46	221
Amortisation and revaluation write down due to impairment	850	46	896
As on December 31 2004	**2 528**	**–**	**2 528**
As on January 1 2004			
Gross value	3 203	–	3 203
Amortisation and revaluation write down due to permanent impairment	–	–	–
Net value	**3 203**	**–**	**3 203**
As on December 31 2004			
Gross value	3 378	46	3 424
Amortisation and revaluation write down due to impairment	850	46	896
Net value	**2 528**	**–**	**2 528**

Intangible assets include patents, licences and software. The biggest item is the licence for waste-heat boilers. The balance sheet value of the above mentioned licence as on December 31 2005 amounts to kPLN 899 (on December 31 2004: kPLN 1 028). The remaining licence amortisation period from December 31 2005 is 7 years.

Description of collaterals established on intangible assets.

Intangible assets are not collateral for liabilities.

Intangible assets held for sale:

As on the balance sheet date, Company owns no intangible assets held for sale.

Goodwill:

In the reporting period, Company did not disclose goodwill.

In the year ended December 31 2005, patents and licences were amortised in equal amounts, throughout their life cycle, which is from 5 to 10 years.

In the year ended December 31 2005 or in the comparative periods, Company did not incur any R&D costs.

20. Mergers of business units

Company did not merge with any other business operations in the year ended December 31 2005 and December 31 2004.

21. Share in joint venture

Company did not participate in any joint ventures with any other business operations in the year ended December 31 2005 and December 31 2004.

22. Shares in not listed companies

In the period covered by this financial report, Company owned the following financial assets held for sale.

	December 31 2005	*December 31 2004*
Shares/stock in not listed companies	24 688	30 840
	24 688	**30 840**

Shares/stock in subsidiaries as on December 31 2005:

Company name	seat	type of operations	date of taking control	shares/stock value by purchase price	revaluation adjustments	balance sheet value of shares/stock	%share in capital	% share in total number of votes
DOM Sp. z o.o.	Racibórz	management of housing communities	29.02.1996	12 700	(1 586)	11 114	100,00%	100,00%
ELWO S.A.	Pszczyna	production of filters and ash-removal devices	25.04.1994	12 958	–-	12 958	86,90%	86,90%
Rafako-Eko Sp. z o.o. w likwidacji	Nędza	production of pre-insulated pipes	21.07.1998	31	(31)	–	100,00%	100,00%
Rafako-Handels AG	Zurich	trade in power generating equipment	02.11.1993	551	(309)	242	99,50%	99,50%
				26 240	**(1 926)**	**24 314**		

The value of share in DOM Sp. z o.o. decreased due to decreasing its equity by PLN 4.6 million in 2005. On February 18, 2005, court registered decrease of DOM Sp. z o.o. company equity from the amount of PLN 17 330 000 to the amount of 15 000 000; on November 3 2005 court registered decrease of company equity from PLN 15 000 000 to the amount of PLN 12 700 000.

Financial data of subsidiaries as on December 31 2005*:

Company name	Equity capital	Equity	Net profit (loss)	Liabilities	Receivables	total assets	Revenue on sale	unpaid value of shares/stock	dividend paid or due
DOM Sp. z o.o.	14 263	12 700	143	1 000	2 047	15 263	4 293	–	–
ELWO S.A.	45 254	6 000	3 788	30 027	16 123	75 281	130 056	–	1 130
Rafako-Eko Sp. z o.o. w likwidacji	(136)	466	(43)	136	–	22	–	–	–
Rafako-Handels AG**	12	554	(47)	4	2	16	7	434	–

* - financial information of Rafako-Eko Sp. z o.o. w likwidacji and Rafako-Handels AG are presented according to PSR

** - company does not continue operations, as on 31.12.1996

Shares/stock in subsidiaries as on December 31 2004

Company name	seat	type of operations	date of taking control	shares/stock value by purchase price	revaluation adjustments	balance sheet value of shares/stock	%share in capital	% share in total number of votes
DOM Sp. z o.o.	Racibórz	management of housing communities	29.02.1996	17 330	(2 162)	15 168	100,00%	100,00%
ELWO S.A.	Pszczyna	production of filters and ash-removal devices	25.04.1994	12 958	–	12 958	86,90%	86,90%
Rafako-Eko Sp. z o.o. w likwidacji	Nędza	production of pre-insulated pipes	21.07.1998	31	(31)	–	100,00%	100,00%
Rafako-Handels AG	Zurich	trade in power generating equipment	02.11.1993	551	(309)	242	99,50%	99,50%
				30 870	**(2 502)**	**28 368**		

Financial data of subsidiaries as on December 31 2004*:

Company name	Equity capital	Equity	Net profit (loss)	Liabilities	Receivables	total assets	Revenue on sale	unpaid value of shares/stock	dividend paid or due
DOM Sp. z o.o.	18 241	17 330	(255)	1 217	2 534	19 458	4 679	–	–
ELWO S.A.	42 720	6 000	2 654	40 217	29 146	82 937	118 129	–	1 086
Rafako-Eko Sp. z o.o. w likwidacji	(94)	466	158	116	–	22	–	–	–
Rafako-Handels AG*	12	554	(47)	4	2	16	7	463	–

* - financial information of Rafako-Eko Sp. z o.o. w likwidacji and Rafako-Handels AG are presented according to PSR

** - company does not continue operations, as on 31.12.1996.

The following tables present share of RAFAKO S.A. in other companies:

December 31 2005*

name (firm) of company, legal status	seat	type of operations	balance sheet value of shares/stock	company equity, including:		%share in capital	% share in total number of votes
					- equity		
APC Metalchem S.A. w upadłości**	Opole	design and production of chemical installations	–	(10 306)	49 000	0,12%	0,12%
CBKK S.A.	Tarnowskie Góry	design of power boilers	21	2 681	501	2,55%	2,55%
Energo-Investment S.A. w likwidacji***	Racibórz	debt reduction and debt trade	–	831	831	12,82%	12,82%
Energotechnika-Energorozruch S.A.	Gliwice	realisation of complete start-up projects in power industry	121	4 055	558	8,67%	8,67%
Engorem Sp. z o.o.	Łódź)	overhauls in power industry	232	9 219	1 165	19,99%	19,99%
MORFEO S.A. w upadłości	Ozorków	cotton and cotton-like fabrics production	–	(44 178)	2 311	0,03%	0,03%
WISTOM S.A. w upadłości	Tomaszów Mazowiecki	production of chemical fabrics	–	(108 849)	59 371	0,67%	0,67%
			374				

* - financial information according to PSR

** - data as on June 30 2005

*** - decrease of shares value was the consequence of payment, in the first half of 2005, of advance of the liquidation amount due to RAFAKO S.A. for distribution of assets of the liquidated entity, in the amount of kPLN 2 041.

December 31 2004*

name (firm) of company, legal status	seat	type of operations	balance sheet value of shares/stock	company equity, including:	- equity	%share in capital	% share in total number of votes
APC Metalchem S.A.	Opole	design and production of chemical installations	–	(3 410)	49 000	0,12%	0,12%
CBKK S.A.	Tarnowskie Góry	design of power boilers	21	2 575	501	2,55%	2,55%
Energo-Investment S.A. w likwidacji	Racibórz	debt reduction and debt trade	2 098	15 859	15 415	12,82%	12,82%
Energotechnika-Energorozruch S.A.	Gliwice	realisation of complete start-up projects in power industry	121	3 700	558	8,67%	8,67%
Engorem Sp. z o.o.	Łódź)	overhauls in power industry	232	9 130	1 165	19,99%	19,99%
MORFEO S.A. w upadłości	Ozorków	cotton and cotton-like fabrics production	–	(43 621)	2 311	0,03%	0,03%
WISTOM S.A. w upadłości	Tomaszów Mazowiecki	production of chemical fabrics	–	(108 988)	59 371	0,67%	0,67%
			2 472				

* - financial information according to PSR

Decrease of the balance value of shares was the consequence of sale, in the second half of 2004, of all owned shares of ENERGIA-NOVA S.A., with the balance value of kPLN 2.

23. Investments in affiliates

Investments in affiliates are valuated by Company according to accounting policy described in note 6.7.

As on December 31 2005, Company disclosed investment in subsidiary – value of shares in SANBEI-RAFAKO sp. z o.o. with the seat in Zhangjiakou, China, in which company owns 26.23% shares. The main scope of operations of SANBEI-RAFAKO is production and sale of boilers for medium sized and small power plants. Shares in the company, with the value according to purchase price kPLN 4 644, are wholly covered by revaluation write down due to permanent impairment.

SANBEI-RAFAKO prepare financial reports pursuant to Chinese accounting standards.

The following table shows brief information regarding investment in SANBEI-RAFAKO sp. z o.o.*:

	December 31 2005	*December 31 2004*
Share in balance of affiliate	6 256	6 051
Current assets	41 322	37 468
Fixed assets (long term)	9 255	9 425
Current liabilities	26 726	23 821
Long-term liabilities	–	–
Net assets	24 851	23 072

	Year ended December 31 2005	*Year ended December 31 2004*
Share in income and profit of affiliate:	(504)	4
Income	–	–
Profit	(1 920)	14

* financial information pursuant to Chinese accounting standards applied by SANBEI-RAFAKO

24. Other long-term financial assets

	December 31 2005	*December 31 2004*
Loans provided	–	3 104
Long term deposits	–	–
Other long-term assets	2	2
Management loan	–	–
Other	–	–
	2	**3 106**

Company provided a loan for realisation of contract to JP Elektroprivreda from Bosnia and Herzegovina, for delivery and assembly of electrofilter as well as overhaul of a boiler in Tuzla power plant, for the amount of kEUR 7 609. As on December 31 2004, the value of unpaid loan instalments plus interest due for 2004, amounted to kEUR 2 336, i.e. kPLN 9 527 (kPLN 3 104 – long term loan liabilities; kPLN 6 423 – short term – see note 27.). As on December 31 2005, the value of unpaid loan instalments, together with interest due for 2005, amounted to kEUR 778.5, i.e. kPLN 3 005 (disclosed in current liabilities in note 27.)

The loan bears interest at 6% p.a. Calculated and unrealised interest from the provided loan as on December 31 2005 amounted to kPLN 68 (December 31 2004: kPLN 215) and calculated and realised in 2005 amounted to kPLN 461 (in 2004: kPLN 608).

Calculated interest maturity is within 3 months. The provided loan is repaid in instalments and interest in 6 months instalments. Loan maturity date is on August 15 2006. Collateral for the provided loan is an irrevocable bank letter of credit.

25. Employees benefits

25.1. Pension benefits and other post-employment benefits

Details of accounting policy regarding pension benefits were described in note 6.22. On the basis of valuation carried out in the end of each financial year by an independent actuary, Company establishes provision for the current value of liability related to pension benefits. The amount of the provision and reconciliation showing changes during a financial period are shown in the following table:

	Year ended December 31 2005	*Year ended December 31 2004*
Beginning of period	15 163	15 090
Provision established	792	201
Cost of paid benefits	(183)	(128)
Release of provision	–	–
End of period	**15 772**	**15 163**

Main assumptions accepted by actuary as on the day and in the year ended December 31 2005 and December 31 2004, in order to calculate the amount of liability are as follows:

	2005	*2004*
Discount rate (%)	5	5
Estimated inflation rate (%)*	–	–
Employees rotation index*	–	–
Estimated salaries increase rate (%)	3	3

* No data in actuarial report

25.2. Redundancy payments

Company does not establish provision for benefits due to redundancy.

26. Stock

	December 31 2005	*December 31 2004*
Materials (at purchase price)	15 530	17 940
Finished products:		
At purchase price/cost of manufacturing	–	–
According to realisable net value	–	–
Total stock, according to the lower value of the following two: purchase price (cost of manufacturing) and realisable net sale price.	15 530	17 940

In 2005 Company established revaluation write down of stock value in the amount of kPLN 170, which amounted to kPLN 3 535 in the end of 2005 and kPLN 3 365 in the end of 2004.

Stock of materials with the book value of kPLN 5 000 was collateral for the provided guarantee as on December 31 2005, whereas no stock category was collateral in loans or borrowings in 2004.

27. Trade and other receivables

	December 31 2005	*December 31 2004*
Trade receivables	**108 977**	**54 169**
- up to 12 months	108 428	53 643
- more than 12 months	549	526
Trade receivables from related companies	**15 794**	**58 763**
- up to 12 months	15 794	51 436
- more than 12 months	–	7 327
Budget receivables	–	11 693
Income tax receivables	–	1 018
Other receivables from third parties, including:	21 197	15 320
- receivables for paid advances	16 964	8 048
- short term loans provided	3 005	6 423
- other	1 228	849
Rother receivables from related companies	–	–
Total receivables (net)	**145 968**	**140 963**
Revaluation write down of receivables	19 170	21 484
Gross receivables	**165 138**	**162 447**

Gross trade receivables – maturing on other day than balance sheet:

	December 31 2005	*December 31 2004*
a) up to 1 month	51 940	30 178
b) from 1 to 3 months	38 448	17 009
c) from 3 to 6 months	2 270	3 361
d) from 6 months to 1 year	425	6 626
e) over 1 year	554	7 853
f) overdue receivables	49 781	67 902
Total trade receivables (gross)	**143 418**	**132 929**
g) revaluation write downs of trade receivables	(18 647)	(19 997)
Total trade receivables (net)	**124 771**	**112 932**

Trade receivables with the balance value of kPLN 23 872 were collateral for loans and borrowings as on December 31 2005 and December 31 2004: kPLN 17 570.

Trade receivables overdue (gross) – by unpaid items in the period:

	December 31 2005	*December 31 2004*
a) up to 1 month	11 259	2 714
b) from 1 to 3 months	9 382	1 589
c) from 3 to 6 months	498	3 349
d) from 6 months to 1 year	3 746	46 098
e) over 1 year	24 896	14 152
Total trade receivables overdue (gross)	**49 781**	**67 902**
f) revaluation write downs of trade receivables, overdue	(18 647)	(13 749)
Total trade receivables, overdue (net)	**31 134**	**54 153**

As on December 31 2005, from the overdue receivables amount of kPLN 23 015 were receivables from related companies (December 31 2004: kPLN 54 548).

Conditions of transactions with related companies are described in point 38.5 of additional information.

Current receivables gross (by currency)

	December 31 2005	*December 31 2004*
a) in Polish currency	119 293	106 826
b) in foreign currencies (by currency after translation into PLN)	45 845	55 621
b1. unit/currency thousand/USD	875	1 189
thousand PLN	2 852	3 555
b2. unit/currency thousand/EUR	10 930	12 655
thousand PLN	42 187	51 622
b3. unit/currency thousand/SEK	1 404	981
thousand PLN	575	444
b4. unit/currency thousand/GBP	41	–
thousand PLN	231	–
b5. other currencies in thousand PLN	–	–
Total current receivables	**165 138**	**162 447**

Trade receivables do not bear interest and are usually 30 days payment term. However, for some customers, payment term is established based on separate contract and is within 1 to 3 months. Company also has receivables with longer term of payment, related to guarantee instalments in long term contracts.

Company maintains policy to sell only to verified customers. Thanks to that policy, according to management, there is no additional credit risk, over the level defined by provision for bad debts, appropriate to Company commercial operations.

28. Short-term accruals

	December 31 2005	*December 31 2004*
Prepayments:		
- insurance	2 482	–
- other	360	711
- adjustment of revenue on sale related to valuation of long term contracts	44 725	40 829
	47 567	**41 540**

29. Short-term deposits

	December 31 2005	*December 31 2004*
Short-term deposits, including:	41 476	1 008
- collaterals for contingent liabilities (see note 37).	579	1 008
	41 476	**1 008**

30. Cash and cash equivalents

	December 31 2005	*December 31 2004*
Cash at bank and on hand	7 342	5 251
Short-term deposits	–	25
	7 342	**5 276**

Cash at bank and on hand bears interest according to variable interest rates, depending on interest rate of one-day bank deposits. Short term deposits are established for different periods, from one day to one month, depending on Company current cash requirements and bear interest according to bank's arrangement. Fair value of cash and cash equivalents as on December 31 2005 amounts to kPLN 7 324 (December 31 2004: kPLN 5 276).

As on December 31 2005, RAFAKO S.A. held unused loans in the amount of PLN 51.0 million (December 31 2004: kPLN 34 778).

31. Initial capital and capital reserves

31.1. Initial capital

In the reporting periods presented herein, Company initial capital did not change. Share capital is divided into 17 400 000 ordinary shares with nominal value of PLN 2.00 each, in the following series:

Share capital	*Number of shares*	*Shares in kPLN)*
Shares A series	900 000	1 800
Shares B series	2 100 000	4 200
Shares C series	300 000	600
Shares D series	1 200 000	2 400
Shares E series	1 500 000	3 000
Shares F series	3 000 000	6 000
Shares G series	330 000	660
Shares H series	8 070 000	16 140
	17 400 000	**34 800**

Company share capital did not change in the reporting period and no changes are planned for the next period.

Nominal value of shares

All issued shares have nominal value of PLN 2.00 and were taken over in return for financial contribution.

Rights of shareholders

Shares of all series have the same preference as to dividend and return from capital.

Major shareholders

	December 31 2005	*December 31 2004*
ELEKTRIM S.A.		
share in capital	49,90%	49,90%
share in number of votes	49,90%	49,90%
Arka Zrównoważony Fundusz Inwestycyjny Otwarty, Arka Akcji Fundusz Inwestycyjny Otwarty managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.		
share in capital	5,23%	5,23%
share in number of votes	5,23%	5,23%

As on the date of this report, Company does not have any information regarding agreements, which would change shareholding structure in future.

31.2. Capital from sales of shares above nominal value

Capital from sales of shares above the nominal value was established from the excess of the issue value over the nominal value, in the amount of kPLN 77 947. On May 15 2000, General Shareholders Meeting passed a resolution on allocation of kPLN 41 169 to cover unsettled losses from previous years. In the year ended December 31 2004 and December 31 2005 there were no events, which would cause change in capital from sales of shares above their nominal value.

31.3. Reconciliation of retained profits recognised, pursuant to IFRS, as capital in the approved financial report prepared according to PSR for the year ended on December 31 2004.

Retained profits, disclosed according to IFRS methodology, include in the reported periods the following types of equity, disclosed in Company financial report fro previous year, prepared according to Polish Accounting Standards (PSR):

	Capital reserves from revaluation, according to PSR	*Profit from previous years and net profit*	*Total retained profits*
As on January 1 2005	26 887	44 311	71 198
Distribution of result for 2004	–	(847)	(847)
Distribution of result generated by change of accounting principles	–	(1 579)	(1 579)
Result of the period	–	2 940	2 940
As on December 31 2005	26 887	44 825	71 712
As on January 1 2004	14 170	9 204	23 374
IFRS adjustments	–	42 902	42 902
Adjustment of capital reserves from revaluation	12 717	–	12 717
Adjustment to correct asset from deferred tax	–	(421)	(421)
Result distribution	–	(7 625)	(7 625)
Result of the period	–	251	251
As on December 31 2004	26 887	44 311	71 198

32. Interest bearing bank loans and credits

	Curren cy	*Effective interest rate %*	*Redemption date*	*December 3 200*	*December 31 2004*
Short-term					
Credits in current account					
ING Bank Śląski S.A.	PLN	Wibor 1M+1,1%	31.03.2006	–	–
ING Bank Śląski S.A.	EUR	Euribor 1M+1,3%	31.03.2006	–	283
BRE BANK S.A.	PLN	Wibor 1M+1%	31.05.2006	–	–
BRE BANK S.A.	PLN	Wibor 1M+1%	29.08.2006	–	–
Bank Millenium S.A.	PLN	Wibor 1M+1,2%	23.12.2006	–	6 877
PeKaO S.A.	PLN	Wibor 1M+1 %	30.06.2006	–	6 169
DZ BANK S.A.	PLN	Wibor 1M+1%	30.11.2006	–	11 515
				–	**24 844**

	Currency	*Effective interest rate %*	*Redemption date*	*December 3 200*	*December 31 2004*
Other credits:					
Bank credit received from BOŚ S.A. in the amount of kPLN 10 000 (2004: kPLN 10 000)	PLN	Wibor 1M+1%	21.06.2006	–	10 000
				–	**10 000**

	Currency	*Effective interest rate %*	*Redemption date*	*December 3 200*	*December 31 2004*
Loans received:					
Loan secured up to kPLN 800, interest bearing at 0.8 refinancing credit rate			30.06.2006	850	800
Loan secured up to kPLN 100, interest bearing at 0.6 bonds discount rate, not less than 13%			30.09.2005	50	100
				900	**900**
				900	**35 744**

	Currency	*Effective interest rate %*	*Redemption date*	*December 3 200*	*December 31 2004*
Long-term					
Loans received:					
Loan secured up to kPLN 800, interest bearing at 0.8 refinancing credit rate			20.12.2006	–	850
Loan secured up to kPLN 100, interest bearing at 0.6 bonds discount rate, not less than 13%			31.03.2006	–	50
				–	**900**

* redemption date provided for the last period when the liability occurred
** received loans contracts do not include commissions or additional fees

The value of loans an credits disclosed in this financial report, according to the amortised cost, reflects fair value as on the balance sheet day. In the year ended December 31 2005 there was decrease of liabilities from loans and credits by kPLN 35 744. The bank debt index, which is a proportion of loans and credits and company capital, as on December 31 2005 was 0.48% and was 19.41 percentage point lower than the index in the end of 2004.

33. Provisions

33.1. Changes in provisions

	Provision for foreseen contractual losses	*Provision for retirement payments and occasional bonuses*	*Total*
As on January 1 2005	5 120	15 163	20 283
Established during the financial year	2 697	792	3 489
Used	–	(183)	(183)
Release	(6 352)	–	(6 352)
As on December 31 2005	1 465	15 772	17 237
Short term as on December 31 2005	1 226	913	2 139
Long term as on December 31 2005	239	14 859	15 098
	1 465	**15 772**	**17 237**

	Provision for foreseen contractual losses	*Provision for retirement payments and occasional bonuses*	*Total*
As on January 1 2004	**4 706**	**15 090**	**19 796**
Established during the financial year	4 331	201	4 532
Used	–	(128)	(128)
Release	(3 917)	–	(3 917)
As on December 31 2004	**5 120**	**15 163**	**20 283**
Short term as on December 31 2004	3 983	927	4 910
Long term as on December 31 2004	1 137	14 236	15 373
	5 120	**15 163**	**20 283**

33.2. Provision for foreseen contractual losses

Company establishes provisions for foreseen contractual losses according to the methodology described in point 6.25.2. If the analysis shows that the total estimated contract costs will exceed reliable contract revenue (i.e. the total contract result will be loss), total contract loss is recognised in a given reporting period.

33.3. Provision for retirement payments and occasional bonuses

Company establishes provision for occasional bonuses and retirement payments according to the policy described in note 6.21.

34. Liabilities for financial lease contracts and lease contracts with purchase option

In 2005, Company entered into seven finance lease contracts for passenger cars. The following data summarises these contracts:

	Contract date	*Initial value of fixed asset (in kPLN)*	*Contract period*	*Contract currency*	*Liability from lease as on December 31, 2005 in kPLN*
Passenger car lease contract	September 26 2005	103	48 months	EUR	89
Five passenger cars lease contracts	December 7, 2005	247	47 months	EUR	223
Passenger car lease contract	December 9, 2005	68	48 months	EUR	61
Total		**418**			**373**

35. Current trade and other liabilities

	December 31 2005	*December 31 2004*
Trade liabilities		
To related companies	606	4 832
- up to 12 months	606	4 832
- more than 12 months	–	–
To other companies	43 418	42 600
- up to 12 months	40 505	39 611
- more than 12 months	2 913	2 989
	44 024	**47 432**
For taxes, customs duties, insurance and other		
VAT	5 764	–
Corporate income tax	6 062	–
Personal income tax	1 322	729
Liabilities for social insurance	3 257	3 596
Other	–	42
	16 405	**4 367**
Other liabilities		
Liabilities to employees for salaries	2 205	2 670
Liabilities to related companies	434	463
Company social fund	493	286
Other liabilities	3 783	3 277
	6 915	**6 696**

In the year ended December 31 2005, there was decrease of liabilities to suppliers by kPLN 3 408.

Trade liabilities are not interest bearing and are settled in 30-day periods. Other liabilities do not bear interest and have an average 30-day payment terms.

The difference between liabilities and receivables from VAT is paid to relevant authorities in monthly periods.

Interest liabilities are settled monthly during the whole financial period.

Conditions of transactions with related companies are described in point 38.5 of additional information.

36. Costs accruals and deferred revenue

	December 31 2005	*December 31 2004*
Costs accruals related to:		
Unused leaves	448	731
Bonuses	6 148	3 696
Guarantee repairs	1 634	3 595
Charged costs of penalties	660	2 825
Costs of audit	165	165
Other	18	28
	9 073	**11 040**
Deferred revenue from:		
Received advances for future deliveries	37 336	5 236
Valuation of long term contracts	70 356	28 329
Contractual penalties	1 335	1 629
Other	878	878
	109 905	**36 072**

36.1. Provision for unused leaves

Provision for unused leaves is calculated monthly, based on actual unused leaves days for the end of each month. During a financial year, one twelfth of due leave for each year is calculated, plus all unused days from previous periods. The number of days is multiplied by the average daily rate for an employee, established on the basis of monthly salary, for which the provision is calculated, plus social insurance charges.

36.2. Provision for bonus

Company pays to employees an annual bonus, which amount depends on the Company operating profit realisation. According to common agreement with employees, within 30 days from approving Company financial report, Management, considering trade unions opinion, makes a decision to pay bonus to Company employees. During the financial year Company established provision fro annual bonus in the amount defined in the common agreement with employees, unless Company management decides otherwise.

36.3. Provision for guarantee repairs

Provision for guarantee repairs are established for estimated costs of supervision, repairs, works and guarantee repairs related to Company contractual obligations resulting from construction contracts realisation. The amount of the established provision is the sum of estimated costs (Company and external deliveries and services) minus estimated revenue from reimbursement of these costs (e.g. from suppliers and subcontractors).

37. Contingent liabilities

37.1. Other contingent liabilities

	December 31 2005	*December 31 2004*
Liabilities from bank guarantees provided mainly as collateral of trade contracts	185 224	161 037
Bank guarantees, including:	265	621
- to related companies	265	621
Liabilities for court proceedings	–	–
Liabilities related to unresolved disputes with revenue authorities	–	–
Bills issued as collateral, including:	104 670	77 890
- to related companies	2 419	5 641
Letters of credit	6 923	–
Total contingent liabilities	**297 082**	**239 548**

Investment liabilities

As on December 31 2005, Company did not have any contracts regarding the planned investment expenses. As on December 31 2005, within the next 12 months, Company plans to incur expenses fro tangible fixed assets, in the amount of kPLN 16 941. These amounts will be used to purchase new production machines and equipment.

37.2. In court

As on December 2005, total value of receivables for Company amounted to:
- kPLN 3 486 in domestic proceedings,
- kEUR 7 682 (kPLN 29 655) in foreign companies bankruptcy proceedings, The largest amounts of receivables, i.e. kEUR 4 469 relates to bankruptcy proceedings of SEGHERS BETTER TECHNOLOGY FOR SOLIDS+AIR N.V. with the seat in Willebroek, Belgium, which Company related in previous reports.

37.3. Guarantees

As on December 31 2005, Company had contingent liabilities resulting from bank guarantees and insurance, of the total value of kPLN 185 224, including:

1. good performance guarantees provided by ING Bank Śląski S.A. with the total amount of kPLN 43 834, with collateral including transfer of receivables and pledge on shares of a subsidiary ELWO S.A.,
2. good performance guarantee and repayment of advance, with the total value of kPLN 27 794 provided by Bank Millennium S.A., with collateral of stand-by credit and a deposit,
3. good performance guarantee and repayment of advance, with the total value of kPLN 16 752 provided by BRE Bank S.A., with collateral of receivables transfer, own bills in blanco and deposits,

4. good performance guarantee, proper removal of faults and defects, from participation in tenders, with the total value of kPLN 1 239, provided by TUiR WARTA S.A., with collateral of own bills in blanco,
5. good performance guarantee, proper removal of faults and defect, payment of customs and tax obligations, with the total value of kPLN 13 287 provided by GERLING Polska S.A., with collateral of credit facility and own bill in blanco,
6. good performance guarantee for the value of kPLN 79 provided by ERGO HESTIA S.A., with collateral of bill in blanco,
7. advance reimbursement guarantee, good performance and timely repair of faults, for the total amount of kPLN 742, provided by T.U. Allianz Polska S.A. with collateral of credit facility,
8. good performance guarantee and repair of faults, with the total value of kPLN 32 217 provided by PZU S.A., with collateral of cession of receivables, stock ownership transfer contract and own bills in blanco,
9. good performance guarantee and repayment of advance, with the total value of kPLN 11 871 provided by Bank PeKaO S.A., with collateral of receivables transfer,
10. good performance guarantee and repayment of advance and participation in tender with the total value of kPLN 10 859 provided by BOŚ S.A., with collateral of receivables transfer, own bills in blanco,
11. good performance guarantee, with the value of kPLN 1 205, provided by Generali, with collateral in own bills in blanco,
12. good performance guarantee and repayment of advance, with the total value of kPLN 19 843 provided by PTU S.A., with collateral of own bill in blanco,
13. guarantees for participation in tenders with the total value of kPLN 502, provided by DZ Bank S.A., with collateral of credit agreement.

37.4. Tax reconciliation

Tax reconciliation and other regulated sectors of operations (e.g. customs or foreign currency issues) may be the subject of inspection of administrative organs, which are entitled to impose high fines and sanctions. The lack of reference to fixed legal regulations in Poland causes some unclear and difficult issues. Frequent differences of opinions regarding legal interpretation of tax regulations both within the state organs and companies, cause these unclear and ambiguous situations. This issues make the tax risk in Poland considerably greater than the regular risk in the countries with more developed revenue systems.

Tax reconciliation may be the subject of inspection for five years, from the beginning of the year when tax was paid. As a result of inspections, current tax reconciliation of the Group may be increased with additional tax obligations.

In the year ended December 31 2005, tax inspection regarding VAT took place, realised by Revenue Office II in Bielsko Biała. The inspection covered the period from November 2004 to April 2005. The inspection showed no nonconformities.

38. Affiliates

The following table presents total amounts of transactions with related companies for a given financial period (information regarding overdue liabilities and receivables for the end of financial period are shown in point 27 of additional information):

Related company	*Year ended December 31*	*Sales to related companies*	*Purchases from related companies*	*Receivables from related companies*	*Liabilities to related companies*
Entities with considerable influence on Company:					
ELEKTRIM S.A.	*2005*	–	38	–	6
	2004	–	–	–	–
Entities from Capital Group ELEKTRIM S.A.:					
ELEKTRIM-MEGADEX S.A.	*2005*	5 213	11	15 771	17
	2004	25 123	1 370	58 687	17
PAK S.A.	*2004*	555	3	–	–
Polska Telefonia Cyfrowa Sp. z o.o.	*2005*	–	804	–	106
	2004	–	787	–	159
Subsidiaries:					
ELWO S.A.	*2005*	11	13 342	–	473
	2004	56	11 762	–	4 656
PGL-DOM Sp. z o.o.	*2005*	163	78	23	4
	2004	179	74	76	–
RAFAKO-HANDELS AG	*2005*	–	–	–	434
	2004	–	–	–	463
Affiliated entity:					
SANBEI-RAFAKO Sp. z o.o.	*2005*	–	–	–	–
	2004	–	–	–	–

Realisable receivables from ELEKTRIM-MEGADEX S.A. (subsidiary of ELEKTRIM S.A.)

As on the date of this report, net receivables of RAFAKO S.A. from ELEKTRIM-MEGADEX S.A. amounted to PLN 15.8 million.

As on the date of this report, according to RAFAKO S.A. management, accumulation of receivables from ELEKTRIM-MEGADEX S.A. may have negative influence on Company financial situation. Considering the above, Company continues activities aiming at securing the above mentioned receivables by, among others, establishing collaterals on debtor's assets. As on the date of this report, Company management did not make a decision to establish revaluation write down for these receivables, promoting these effective activities.

In the year ended December 31 2005 there were no transactions with related companies, which single value would exceed the equivalent of EUR 500 000.

38.1. Company dominating entity

Company does not have a dominating entity.

38.2. Entity with considerable influence on Company

ELEKTRIM S.A. with the seat in Warsaw. ELEKTRIM S.A. owns 49.90 % of Company ordinary shares (December 31 2004: 49.90%).

38.3. Associated entity

SANBEI-RAFAKO Sp. z o.o. with the seat in Zhangjiakou, China.

Company owns 26.23 % share in SANBEI-RAFAKO Sp. z o.o. December 31 2004: 26,23 %).

38.4. Joint –venture where Company is partner

Company does not participate in joint ventures.

38.5. Terms of transactions with affiliates

All transactions with affiliates are realised on terms and conditions applied by Company in transactions with not affiliated entities. Remuneration is set in tender procedure; standard payment conditions are defined. Affiliated company must guarantee service provision according to documentation, provide guarantee for a set period and submit guarantee in the form of good performance bank guarantee. Contractual penalties, confidentiality clauses, industrial property, collaterals, force majeure and dispute solving procedures also apply to transactions with affiliates.

38.6. Loan granted to Management Board and Supervisory Board members

There were no loans granted to Management Board and Supervisory Board members in the reporting period.

38.7. Transactions with participation of other members of Management Board

There were no transactions with Management Board and Supervisory Board members in the reporting period.

The following table presents number of Company shares owned by members of managing and supervisory bodies as well as number of shares in affiliates, as in the end of December 2005:

Management member	*Company name*	*Total number of shares (stock)*	*Nominal value of shares (stock) in PLN*
Jerzy Thamm	RAFAKO S.A.	2 100	4 200,00
Roman Jarosiński	ELEKTRIM S.A.	5	5,00

Supervisory members	*Company name*	*Total number of shares (stock)*	*Nominal value of shares (stock) in PLN*
Sławomir Sykucki	ELEKTRIM S.A.	5	5,00

38.8. Remuneration of directors

	Year ended December 31 2005	*Year ended December 31 2004*
Current benefits (remuneration and charges)	3 941	3 876
Post-employment benefits	–	–
Redundancy payments	–	–
Employee benefits – own shares	–	–
Total remuneration to directors	**3 941**	**3 876**

The following table presents remuneration paid to members of Management Board and Supervisory Board of Company in the year ended December 31 2005:

	Base salary	Remuneration paid as bonus	Other remuneration
Management Board	1 378	384	867
Roman Jarosiński	336	37	–
Ryszard Kapluk	81	41	867
Eugeniusz Myszka	272	–	–
Wiesław Różacki	352	102	–
Jerzy Thamm	337	204	–
Supervisory Board	458	–	–
Witold Okarma	62	–	–
Krzysztof Pawelec	77	–	–
Sławomir Sykucki	62	–	–
Marian Woronin	62	–	–
Piotr Fugiel	62	–	–
Marek Wiak	62	–	–
Leszek Wysłocki	71	–	–
Supervisory Board – subsidiaries or affiliates	55	–	–
Jerzy Thamm	55	–	–
Total	**1 891**	**384**	**867**

The following table presents remuneration paid to members of Management Board and Supervisory Board of Company in the year ended December 31 2004:

	Base salary	Remuneration paid as bonus	Other remuneration
Management Board	1 025	398	–
Roman Jarosiński	160	–	–
Ryszard Kapluk	529	263	–
Jerzy Thamm	336	135	–
Supervisory Board	445	–	–
Witold Okarma	60	–	–
Andrzej Kowalski	29	–	–
Krzysztof Pawelec	75	–	–
Monika Hałupczak	64	–	–
Roman Jarosiński	57	–	–
Sławomir Sykucki	60	–	–
Piotr Fugiel	31	–	–
Marian Woronin	60	–	–
Marek Wiak	4	–	–
Leszek Wysłocki	5	–	–
Supervisory Board – subsidiaries or affiliates	53	–	–
Jerzy Thamm	53	–	–
Total	**1 523**	**398**	**–**

38.9. Participation of directors in employees' stock program

Company does not run employee's stock program.

39. Objectives and principles of financial risk management

The objective of risk management in RAFAKO S.A. is reducing fluctuation of generated cash flows and achieved financial results to the acceptable level. Company actively manages financial risk by applying natural securities, in line with financial risk management strategies. Thanks to active risk management, Company aims at optimisation of financial result, reducing simultaneously future potential losses. In previous period, 86% of Company revenue were in foreign currencies, mainly in EUR. Therefore Company focused mainly on currency risk management which, - in Company opinion – is the most significant one.

39.1. Interest rate risk

Company is exposed to interest rate risk from financing of base operations by current bank credits with variable interest rate. Approximately 85% of nominal credits of Company are in PLN, therefore Company currently monitors the situation related to Board of Monetary Policy decisions, which directly influence domestic interest rates market. Company is aware of the existing risk, however the continuing stabilisation of interest rates and possibility of further reduction of the rates by the Board make the Company opinion rather neutral.

39.2. Currency risk

Currency risk is directly related to changes of exchange rate, which cause concerns regarding future cash flows in foreign currencies. Exchange rate exposure of Company results form the fact that considerable part of Company cash flows is expressed in foreign currencies. In previous period, 86% of Company revenue were in foreign currencies, mainly in EUR. Exchange rate risk is less important with regard to bank credits in EUR and USD, due to relatively low value of such credits.

Currency risk management strategy assumes to use mainly the natural security, i.e. natural currency hedging. In order to minimise the risk, Company aims at keeping balance between receivables and liabilities in foreign currencies in order to minimise currency risk exposure.

Regarding net exchange risk exposure, Company uses securities in the form of derivatives, such as forward transactions or currency options.

39.3. Goods price risk

Company is exposed to prices increase risk, especially of the strategic raw materials. The level of this risk is largely influenced by global raw materials markets – steel, metals, fuels and energy, caused both by exchange rate fluctuations and consolidation of producers in order to control prices. Management strategy of goods prices risk involves entering into contracts with sub-suppliers of goods and materials in the main contract currency, consignment of materials as well as entering into contracts with fixed prices. Company does not enter into long term contract with sub-suppliers; deliveries scope and suppliers are selected individually, depending on Company requirements.

39.4. Credit risk

Credit risk of RAFAKO S.A. is strictly related to Company basic operations. It results from the signed commercial contract and is related to potential events causing illiquidity of customer, partial or considerably delayed payments of receivables. Providing the so called 'commercial credit' to customers is currently an indispensable element of business operations; Company undertakes a number of actions in order to minimise risks related to possible cooperation with an unreliable customer. All customers applying for commercial credit undergo an initial verification procedure. Customers, which in Company opinion based on verification, are not financially credible, are obliged to submit relevant collaterals, which minimise the risk of bad debts. Moreover, thanks to continuous monitoring of receivables status and immediate collection of overdue amounts, Company exposure to credit risk is low.

39.5. Liquidity risk

Company is exposed to liquidity risk in the event of maladjustment of cash flow schedule within the realised contracts. Company aims at securing the so called positive cash flows, which eliminates the liquidity risk, assuming timely receivables inflow. Nominal value of credit facilities available to Company prevents negative events related to delayed receivables.

40. Financial instruments

40.1. Fair values

As on December 31 2005 or in comparative periods Company did not use derivatives or securities.

All Company financial instruments were disclosed in financial report at fair value.

Fair value of financial instruments was established by discounting the forecasted cash flows, applying current interest rates.

40.2. Interest rate risk

The following tables present balance sheet value of Company financial instruments exposed to interest rate risk, by age:

Year ended December 31 2005

Fixed interest rate	*<1year*	*1-2 years*	*2-3 years*	*Total*
Cash assets	41 476	–	–	41 476
Loan of kEUR 7 609	3 005	–	–	3 005

Variable interest rate	*<1rok*	*1-2 years*	*2-3 years*	*Total*
Credit in current account for the amount kEUR 13 000	–	–	–	–
Credit in current account for the amount kPLN 10 000	–	–	–	–
Credit in current account for the amount kPLN 5 000	–	–	–	–
Credit in current account for the amount kPLN 5 000	–	–	–	–
Credit in current account for the amount kPLN 2 000	–	–	–	–
Bank loan of kPLN 1 000	–	–	–	–
Bank loan of kPLN 10 000	–	–	–	–
Loan from NFOŚIGW of kPLN 5 211	850	–	–	850
Loan from NFOŚIGW of kPLN 1 072	50	–	–	50

Year ended December 31 2004

Fixed interest rate	*<1year*	*1-2 years*	*2-3 years*	*Total*
Cash assets	1 008	–	–	1 008
Loan of kEUR 7 609	6 423	3 104	–	9 527

Variable interest rate	*<1year*	*1-2 years*	*2-3 years*	*Total*
Credit in current account for the amount kEUR 13 000	283	–	–	283
Credit in current account for the amount kPLN 10 000	6 877	–	–	6 877
Credit in current account for the amount kPLN 10 000	6 169	–	–	6 169
Bank loan of kPLN 10 000	10 000	–	–	10 000
Credit in current account for the amount kPLN 18 000	11 515	–	–	11 515
Loan from NFOŚIGW of kPLN 5 211	800	850	–	1 650
Loan from NFOŚIGW of kPLN 1 072	100	50	–	150

Interest on financial instruments with variable rate is revaluated within one year periods. Interest on financial instruments with fixed interest rate is stable until maturity date of these instruments. Other Group financial instruments, not disclosed above, do not bear interest and therefore are not exposed to interest rate risk.

41. Employment structure

The following table present the average headcount in Company in the period January – December:

	2005	*2004*
Management Board	4	3
Office	178	178
Trade office	177	179
Production	1 237	1 240
Total	**1 596**	**1 600**

In the 12-month period ended December 31 2005, the average headcount decreased by 4 employees versus the same period of pervious year (decrease by 0.25%).

As on December 31 2005, university and secondary education employees were 59.0% of Company employees; university graduates – 30.4% of total employees.

Age structure: up to 40 years of age – 40.5%, 41 – 50 – 33.8%, over 50 years of age – 25.7%. Employees with employment period in RAFAKO S.A. up to 10 years – 11.9%, from 11 to 20 years – 23.7% and over 20 years – 64.4%.

42. Events after balance sheet date

After the balance sheet date there were no events , which could influence Company financial situation.

Management Board members signatures:

March 30 2006 Wiesław Różacki Chairman of Management Board ....

March 30 2006 Roman Jarosiński Deputy Chairman of Management Board ....

March 30 2006 Eugeniusz Myszka Deputy Chairman of Management Board ....

March 30 2006 Jerzy Thamm Deputy Chairman of Management Board ....

Signature of the person responsible for managing the books of accounts

March 30 2006 Wiesława Skrzynecka Chief Accountant ....