



ANNUAL REPORT

2006



Selected financial data consolidated

(in PLN thousand)

	2005	2006
Net sales revenue	502 991	777 214
Sales result	13 672	32 011
Remaining operating activity result	746	-11 064
Financial activity result	-7 008	-3 758
Gross profit	7 410	17 189
Net profit	5 720	13 339
Financial result (net profit + depreciation)	15 820	24 087
Equity	223 676	236 767
Investment expenditure	10 482	19 293
Average yearly employment level	2 045	2 026
Number of shares	17 400 000	17 400 000
Book value per share (PLN)	12,51	13,25
Earnings per share (PLN)	0,30	0,73
Return on Assets - ROA	1,25%	1,94%
Return on Equity - ROE	2,56%	5,63%



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Letter from the President



Wiesław Różacki
President of Management Board

It is with a great pleasure that I submit to you the financial report of Rafako Boiler Engineering Company summarising its activities in a year 2006. This statement elaborated on the basis of International Accounting Standards and International Financial Reporting Standards has a great informative value. It is meant to provide you with an objective picture of results of our Company's activities.

This is yet another year of my work as a President of RAFAKO S.A. Management Board, another year of a consistent implementation of a strategy set forth by Management Board and another year of tangible results in the achievement of defined aims and objectives.

The most spectacular achievement of the Company in 2006, the one that confirms our strong market position consists in 55 % increase of Capital Group's revenues, which amounted to MPLN 777,2, i.e. MPLN 274,2 more than in 2005. Net profit generated equals MPLN 13,3, i.e. the value 230 % higher than in previous year.

Among the vents that marked the year 2006, it is worth mentioning the achievement of financial closure for the largest contract in Company's history: delivery of 833 MW supercritical power-generating unit for Bełchatów Power Plant. RAFAKO S.A., in co-operation with Alstom, shall perform lucrative deliveries including a boiler and a complete flue gas desulphurisation plant.

Signing of the contracts for manufacturing of supercritical boilers for a German market is of a strategic importance for Company's future. Such contracts make us a strong competitor on both German and European markets. The largest manufacturing potential on the continent (c.a. 1,5 million man-hours per annum) enables us to participate in the largest investment projects within the fields of power generation and environment protection. Having foreseen the current investment boom already in 2006 we have commenced the process focused on modernisation and improvement of efficiency of manufacturing potential featuring the purchase of a membrane walls welding line the acquisition that will directly affect production quality and output.

Modern technologies, experience and aforementioned large manufacturing potential make RAFAKO S.A. the leading company on a domestic market of flue gas desulphurisation plants. Currently, there are fifteen flue gas desulphurisation systems under construction or modernisation in seven power plants and combined heat and power plants, which, motivated by the newly implemented European Union emission standards were faced with a necessity to invest in environment protection.

European Union power generation and environment protection programs opened wonderful opportunities to increase our share in power generation investment market in Europe. They also enabled us to enrich our offer with a new product: general contracting of large projects.

Obviously, such development opportunities are not risk-free, especially within the field of competitive advantages and increase of manufacturing costs. Strong position on the supply market enabling the signing of financially profitable contracts may help to neutralise above-mentioned risks.

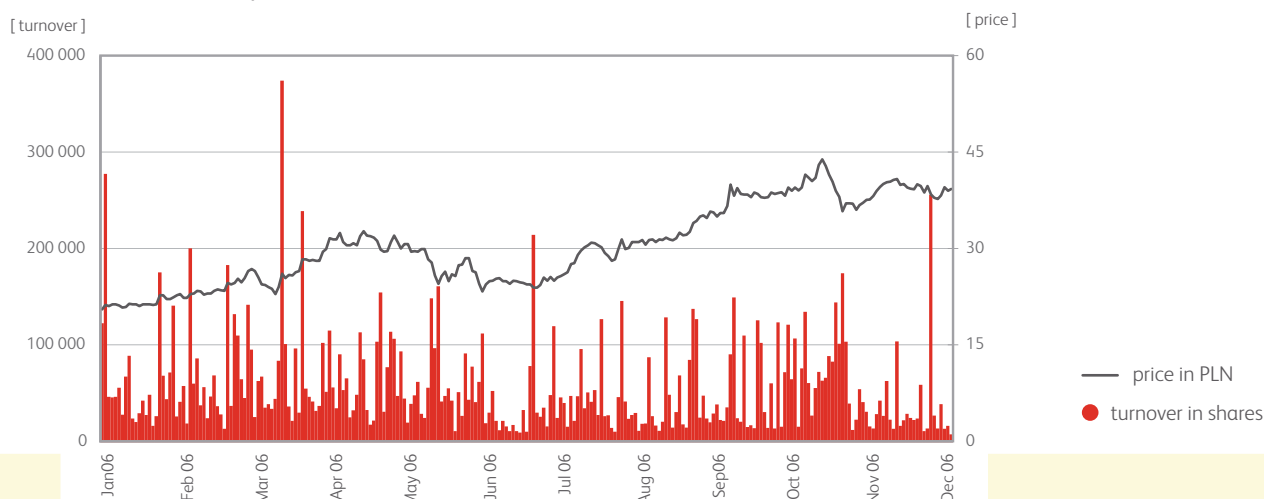
In order to use such favourable investment climate we have performed the emission of shares enabling us to acquire the capital worth almost MPLN 100. This revenue shall give us a competitive advantage in contracting within both engineering and manufacturing sectors, modernisation of existing manufacturing capacities and increase of acting capital needed for the execution of current future portfolio of orders.

As you may see, we are well prepared for competitive challenges both now and in future. We are initiating the activities that shall bear tangible effects already in the period 2007 - 2011, especially in form of a permanent growth of RAFAKO S.A. value to your greater satisfaction from the investment in our shares.

Wiesław Różacki
President of Management Board



RAFAKO SA share price in 2006



Stock Exchange and Shareholders

RAFAKO S.A. on Stock Exchange

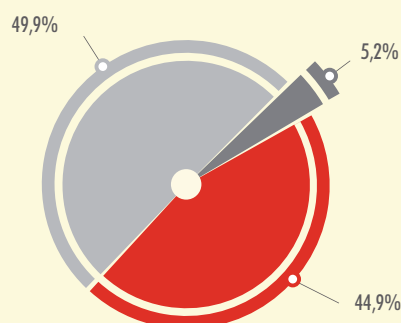
It is already more than thirteen years since RAFAKO Boiler Engineering Company is quoted on Warsaw Stock Exchange. Starting from its debut on March 7th, 1994, the Company is quoted on the primary market and starting from October 26th, 1998 RAFAKO S.A. is quoted within the framework of continuous quotation system.

Company's shares market value, as per December 31st, 2006, amounted to MPLN 683,0.

In 2006, RAFAKO shares price showed a growing tendency. Annual maximum of the Company's share price - taking into account the session closing price - was reached on November 3rd, 2006 and equalled PLN 43,85, while annual minimum was reached on January 2nd, 2006 and equalled PLN 20,50 per share. The difference between the highest and the lowest price of RAFAKO S.A. share amounts to PLN 23,35.

Shareholders structure as per December 31st, 2006

- Elektrim S.A. - 49,9%
- Fundusze BZ WBK AIB - 5,2%*
- Remaining shareholders - 44,9%



Capital market indices

Index		2005	2006
EPS	Net profit / Number of shares	0,03	0,73
P/E	Price** / Net earnings per share	66	54
MC/S	Market value*** / Income on sales		
	of goods and products	0,69	0,88
P./BV	Price** / Book value per share****	1,59	2,96

*) Shares status as per notification issued on April 5th, 2004.

**) Shares price as per closing session of a given year.

***) Market value is a product of the number of shares and their price from the last stock exchange session in a given year.

****) Book value equals the level of a balance day of a given year.

Company Management

RAFAKO S.A. Supervisory Board

as per March 15th, 2007

Krzysztof Pawelec	President of Supervisory Board
Leszek Wysłocki	Vice-President of Supervisory Board
Piotr Fugiel	Member of Supervisory Board
Witold Okarma	Member of Supervisory Board
Sławomir Sykucki	Member of Supervisory Board
Marek Wiak	Member of Supervisory Board
Marian Woronin	Member of Supervisory Board

RAFAKO S.A. Management Board



Wiesław Różacki
President
of Management Board



Roman Jarosiński
Vice-President
of Management Board



Eugeniusz Myszkowski
Vice-President
of Management Board



Jerzy Thamm
Vice-President
of Management Board

Company Profile

RAFAKO Boiler Engineering Company





Energy

for a Good Year

RAFAKO Boiler Engineering Company (hereinafter called "RAFAKO S.A." or "Company") is one of the largest Polish companies dealing with design, manufacturing, construction and servicing of power generation equipment and facilities. On the basis of both its own design office and acquired licences the Company develops boiler and environment protection plants technologies.

Years of experience and co-operation with well-known partners enabled the Company to modernise these solutions and enrich the offer with new ones such as circulating fluidised bed boilers, heat recovery steam generators for combined cycle units, biomass-fired boilers and boilers for incineration of municipal and industrial waste. Starting from the early Nineties, the Company's offer includes flue gas desulphurisation plants and especially those based on wet lime and semi-dry methods. RAFAKO S.A. is one of the few companies able to offer "turnkey" power-generating units and plants.

Company Profile

RAFAKO Boiler Engineering Company



Currently, RAFAKO S.A. offer includes:

- power generation boilers for sub- and supercritical steam parameters,
- fluidised bed boilers,
- stoker-fired boilers,
- heat recovery steam generators for combined cycle units,
- waste and biomass incineration boilers,
- flue gas desulphurisation plants based on absorption methods including wet lime and semi-dry methods,
- diagnostics, repair and modernisation of boilers, boiler equipment and FGD plants,
- general contracting of power-generating units and environment protection plants,
- manufacturing of boiler elements and boiler equipment,
- manufacturing of apparatuses and equipment for other industrial sectors.

Thanks to the strategic decisions focused on modernisation of manufacturing facilities and efficiency improvement the Company has a real opportunity to participate in the largest investment projects within the fields of power generation and environment protection. Having foreseen the growing market tendency we have purchased the membrane walls welding line, which shall directly affect both production quality and output.

RAFAKO S.A. is the Polish leader within the field of construction of flue gas desulphurisation plants. Currently, there are fifteen flue gas desulphurisation systems under construction or modernisation in seven power plants and combined heat and power plants. The list of our customers includes the largest Polish power plants and CHP plants, which, due to newly implemented European Union emission standards were

RAFAKO S.A. is the main supplier of boilers for Polish power generation sector and industry. Total capacity of the boilers manufactured by Racibórz-based Company accounts for a significant share in installed capacity of Polish utilities and industrial power generation plants. The most important plants operating the boilers manufacturing by the Company include the following power plants: Opole, Bełchatów, Siersza, Łagisza, Ostrołęka, Kozienice, Dolna Odra, Rybnik, Pątnów - Adamów - Konin, Turów, power plants grouped within Southern Poland Power Company as well as numerous other power plants and CHP plants in Poland. Our circulating fluidised bed boilers are installed in Żerań and Bielsko-Biała II CHP Plants, Siersza Power Plant and Polpharma Starogard Gdański Pharmaceutical Plant.

The contract for delivery of a 460 MW supercritical power-generating unit in Pątnów II Power Plant is currently under execution. In 2005 we have commenced the execution of a contract for delivery of an 833 MW supercritical power-generating unit for Bełchatów Power Plant. These units shall also be equipped with flue gas desulphurisation systems manufactured by RAFAKO S.A.

RAFAKO S.A. is a leader within the field of large flue gas desulphurisation plants installed in Poland. In 1996, in co-operation with a foreign partner, the Company has constructed the first Polish wet lime flue gas desulphurisation system in Jaworzno III Power Plant.

The year of 1998 saw the start-up of highly efficient semi-dry flue gas desulphurisation plant in Siersza PP. Within the period from 2000 to 2003, two wet method flue gas desulphurisation plants were put into operation in Bełchatów Power Plant. The year of 2004 saw the signing of another contract for subsequent two flue gas desulphurisation plants for power-generating units no. 3 and 4 in Bełchatów Power Plant. In 2006, the Company has signed the contract for a complex modernisation of existing flue

gas desulphurisation systems for power-generating units no. 8, 10, 11 and 12 in Bełchatów Power Plant. Within the period 2005 - 2006 the Company secured contracts for FGD systems to be installed in Pątnów, Ostrołęka, Jaworzno, Skawina power plants and in Łódź CHP plant.

We shall also mention the considerable share of export sales in RAFAKO S.A. overall sales figures (c.a. 34,2% in 2006). The largest boilers manufactured by the Company are operated in the power plants of ex-Yugoslavia, numerous large units were delivered to China, Turkey and India. Bubbling fluidised bed boilers operated in Komořany Power Plant (Czech Republic) are among the most important reference plants.

RAFAKO S.A. is also a well-known European market supplier of boiler elements. Company's traditional customers include the partners from Netherlands, Germany, Turkey, Finland, Serbia, Sweden, Austria, Lithuania, Italy, Belgium and Japan.





Company Profile

RAFAKO Boiler Engineering Company

RAFAKO S.A. is also gaining and maintaining the strong position on Western European market of boilers for municipal waste incineration plants. This success was achieved due to numerous contracts signed in 2000 - 2006 for delivery of waste incineration boilers to the facilities operated in Austria, Belgium, Germany, Sweden, Netherlands and United Kingdom. Up till now, RAFAKO S.A., in co-operation with various renowned companies, has exported several waste incineration boilers.

The equipment delivered by RAFAKO S.A. is covered with an extensive care programme including servicing, repairs, modernisation works focused on improvement of operational parameters and mitigating the environmental impact.

In our efforts to meet the customers' requirements and to maintain the good image of the company RAFAKO S.A. continuously obtains and updates the certificates in accordance with PN-EN ISO 9001:2001, PN-EN ISO 14001:2005 standards and in accordance with the European Directive 97/23/EC within the field of compliance assessment module H/H1. Strict observance of the stipulations of relevant Quality Assurance Systems guarantees the meeting of technical safety requirements applicable on a domestic, European and United States markets. Implementation of EMAS requirements proves and documents the reliability of RAFAKO S.A. environmental awareness.

Our technologies, manufacturing capacities and references enable the Company to provide comprehensive services and to meet the changing demands of customers from power generation sector. Company develops modern technical solutions especially within the field of supercritical boilers and heat recovery steam generators operated in highly efficient power-generating units with low emission of pollutants. Yet another challenge met by the Company consists in diversification of its market offer with complete municipal waste incineration plants and biomass-fired plants.



Milestones in Company's history and ownership transformations:

December 31st, 1949:

Ministry of Heavy Industry decides to establish in Racibórz a state-run company named "Technical Equipment Factory" and focused on manufacture of steam boilers.

January 12th, 1993:

Ministry of Ownership Transformation decides to transform a state-run company named "Racibórz Boiler Factory RAFAKO" into an individual State's Treasury Company.

After aforementioned transformation:

- RAFAKO Sp. z o.o. (limited liability company, which later changed its legal form and name into "ENERGO-INVESTMENT S.A.") has acquired 50% of Company's shares,
- State's Treasury has retained 25% of Company's shares to be later sold within a public offer to minor investors,
- In accordance with the stipulations of Privatisation Act, employees have bought 20% of Company's shares,
- Company's management personnel acquired 5% of Company's shares.

On February 12th, 1993, the Company was registered in a Trade Register maintained by Katowice District Court under the name of "RAFAKO S.A. Boiler Engineering Company".

March 7th, 1994:

"RAFAKO S.A." shares debut on Warsaw Stock Exchange.



December 10th, 1997:

ELEKTRIM S.A. enters as a strategic investor of the Company becoming the owner - as a result of a new issuance of shares (H series) - of 46,4% of Company's initial capital (Shareholding structure valid as per December 31st, 2006 is shown on page 3 of this Annual Report).

Major events

in Company activity in 2006





Energy

for a Good Year

Major contracts:

- Contract with BOT Bełchatów S.A. Power Plant for comprehensive modernisation of flue gas desulphurisation plants for power-generating units no. 8, 10, 11 and 12; contract value amounts to MEUR 43,0 (MPLN 167,6).
- Contract with Southern Poland Power Company S.A. for modernisation of existing flue gas desulphurisation plant and construction of a third desulphurisation line (for power-generating units no. 3 and 4) in Jaworzno III Power Plant; contract value amounts to MPLN 134,5.



Major events

in Company activity in 2006

- Contract with Skawina S.A. Power Plant for “turnkey” construction of a flue gas desulphurisation plant for power-generating units no. 8 - 11 in Skawina S.A. Power Plant; contract value amounts to MPLN 81,8.
- Contract with Hitachi Power Europe for manufacture of pressure parts of a supercritical boiler for 670MW power-generating unit in Boxberg Power Plant (Germany); contract value amounts to c.a. MEUR 17,8.
- Contract with Hitachi Power Europe for manufacture of pressure parts of two supercritical boilers for 2 x 820MW power-generating units in Moorburg Power Plant (Germany); contract value amounts to c.a. MEUR 16,0.
- Contract with Pątnów II Sp z o.o. Power Plant for design and “turnkey” construction of gypsum dewatering and storage system including a treatment plant for sewage originating from flue gas desulphurisation plant in Pątnów Power Plant; contract value amounts to MEUR 14,5.
- Contract with Visser Smit & Hanab Installatie bv (Papendrecht - Netherlands) for delivery and erection of pressure parts for two boilers in a municipal waste incineration plant EVI EUROPARK (Germany); contract value amounts to MEUR 14,5.
- Contract with Wrocław CHP Plants Group Kogeneracja S.A. for modernisation of OP-230/K1 steam boiler in Wrocław CHP Plant; contract value amounts to c.a. MPLN 40,0.
- Contract with Łódź CHP Plants Group S.A. for “turnkey” construction of flue gas desulphurisation plant for K2 and K3 boilers in Łódź 4 CHP; contract value amounts to MPLN 38,4.
- Contract with Hitachi Power Europe for manufacture of pressure parts of a supercritical boiler for 750MW power-generating unit in Walsum Power Plant (Germany); contract value amounts to c.a. MEUR 8,3.



- Several contracts signed within the period from April to October 2006 with BOT Belchatów S.A. Power Plant for modernisation of steam and feedwater piping in 370 MW power-generating unit no. 3 in BOT Belchatów S.A. Power Plant; total value of contracts amounts to MEUR 6,8.
- Contract with STSI Zagreb (Croatia) for design, delivery, trial run and start-up of a boiler for Sisak Refinery (Croatia); contract value amounts to c.a. MEUR 6,5.
- Contract with GAMA Power Systems and Contracting Inc. (Ankara - Turkey) for delivery of pressure parts for two oil-fired boilers in Isdemir Steel Mill (Iskenderun - Turkey); contract value amounts to c.a. MUSD 8,0.
- Contract with JP EPS TENT Obrenovac (Serbia) for delivery of pressure parts for 300MW boiler in 300MW power-generating unit A4 along with supervision of erection, start-up and trial run; contract value amounts to c.a. MEUR 5,7.
- Two contracts with Richard Kablitz & Mitthof GmbH (Germany) for a total value of MEUR 5,0. One of these contracts (c.a. MEUR 3,0) includes design, delivery and erection of pressure parts for wood biomass-fired boiler in Unter-Bernbach (Germany).
- Contract with Vitkovice Heavy Machinery a.s. for delivery of membrane walls for two boilers in Tusimice II Power Plant (Czech Republic); contract value amounts to c.a. MEUR 4,9.
- Contract with Skawina S.A. Power Plant for “turnkey” construction of flue gas desulphurisation plant (second line) for power-generating units no. 5 and 6 in Skawina S.A. Power Plant; contract value amounts to c.a. MPLN 34,0.



Major events

in Company activity in 2006

Other agreements and declarations

- Increase of credit limit set forth in an agreement concluded with ING Bank Śląski from MEUR 13,0 to MEUR 15,0. Postponement of credit repayment date till September 30th, 2007.
- Signing of a credit agreement - agreement value amounts to MPLN 20,0 - with NORD LB Bank Polska S.A. Credit use period expires on March 31st, 2007 and its validity extends till March 31st, 2007. On February 26th, 2007, an annex to the agreement was signed with DnB Nord Polska S.A. Bank (formerly NORD LB Bank Polska S.A.) increasing the maximum credit amount to the level of MPLN 26,0. Credit use period - in terms of cash credit - expires on February 28th, 2008 and its validity - in terms of bank guarantees and letters of credit - extends till February 28th, 2013. Other stipulations of the agreement remain unchanged.
- Statement issued by RAFAKO S.A. Management Board acknowledging that the Company observe the Rules of Corporate Order as elaborated and set forth in a document "Good Practice 2005".
- Signing of a sales contract concerning the real estate with buildings located in Gdańsk; sales contract value amounts to MPLN 18,0.

Development and quality systems

Major research and development works and quality management tasks completed in 2006 include:

- Audit of RAFAKO S.A. Integrated Quality Management System within the field of requirements of PN-EN ISO 9001:2001 standard.
- RAFAKO S.A. re-certification within the field of requirements of ASME CODE,
- Re-certification audit and award of a certificate within the field of requirements of Pressure Equipment Directive 97/23/EC, compliance assessment module H/H1.
- Audit of RAFAKO S.A. Integrated Management System carried out by Transport Technical Supervision Office (TDT) from Warsaw.
- Implementation of PN-EN ISO 14001:2005 standard in Integrated Management System within the field of Environmental Management.

- Certification of RAFAKO S.A. Integrated Quality Management System within the field of requirements of European Directives no. 761/2004 - EMAS 2004. European Eco-Management and Audit Scheme is a tool designed for all organisations aiming at improvement of their environmental indicators. Main principle of a system consists in reduction of adverse environmental impact through optimisation of activities carried out by organisations involved.
- Performance of testing and obtainment of certificates enabling the application of automatic submerged arc welding of austenitic steel grades.
- Elaboration of a conceptual design of bubbling bed boiler

Computerisation

RAFAKO S.A. has already implemented ERP class systems (BAAN), communication (Lotus Notes) and computer aided design CAD/CAM/CAE systems integrated at the level of basic business items (customer, project, supplier). This system enables the execution of a whole series of comprehensive analyses and creation of trustworthy information databases supporting the decision-making processes.

In 2006, due to increasingly higher requirements of customers within the field of quality and detailed information, RAFAKO S.A. has completed a task of evidencing the shipping elements within the ERP system. Moreover, the safety of Company's computer network was improved and safe WLAN - communication with RAFAKO S.A. construction site offices - was implemented.

Economic and financial standing

of RAFAKO Capital Group in 2006



Energy

for a Good Year

In 2006, no major changes were observed in RAFAKO S.A. shareholders structure. ELEKTRIM S.A. remains the largest shareholder of the Company.

As per December 31st, 2006, RAFAKO Capital Group consists of five companies active within the power generation sector (one if the companies is under liquidation and one has suspended its activities).

Group financial results as shown in a consolidated financial statement are related to RAFAKO S.A. as a dominant entity and include the following companies: ELWO S.A. and PGL DOM Sp. z o.o.

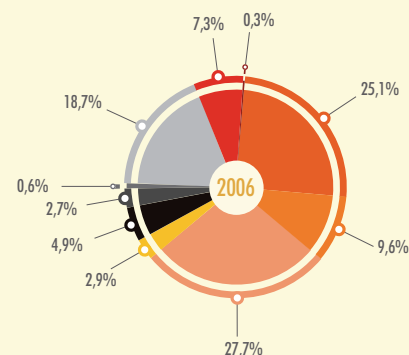
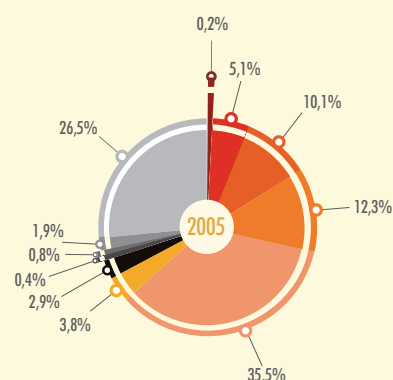
Economic and financial standing

of RAFAKO Capital Group in 2006

Capital structure

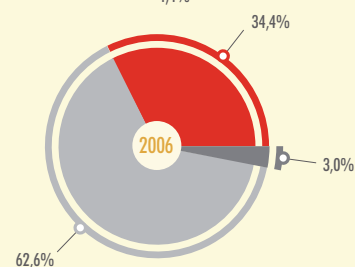
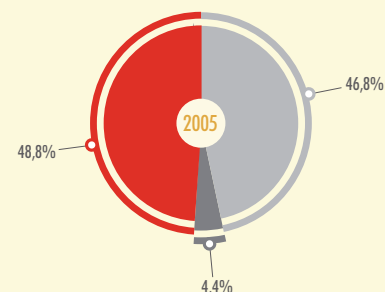
In 2006, the structure of assets remained unchanged. We observe a significant increase of short-term investment (by 15,0 percentage points). It is mainly due to the advance payments transferred by customers within the framework of delivery contracts. On the other hand, there is a decrease of share of material fixed assets (by 7,8 percentage points) and receivables related with deliveries and services along with remaining receivables (also by 7,8 percentage points).

Structure of assets	2005	2006
Material fixed assets	26,5 %	18,7 %
Investment real estate	1,9 %	0,0 %
Intangible assets	0,8 %	0,6 %
Financial assets	0,4 %	2,7 %
Deferred tax	2,9 %	4,9 %
Fixed assets	32,5 %	26,9 %
Inventory	3,8 %	2,9 %
Receivables related with deliveries and services and remaining receivables	35,5 %	27,7 %
Accruals and deferred income	12,3 %	9,6 %
Short-term investment	10,1 %	25,1 %
Cash and cash equivalents	5,1 %	7,3 %
Remaining	0,2 %	0,3 %
Acting assets	67,0 %	72,9 %
Long-term assets classified as assets for sale	0,5 %	0,2 %



The structure of liabilities in 2006 was affected most significantly by an increase of trade liabilities resulting from the Group turnover increase (by 8.1 p.p.) as well as by an increase of accruals and deferred income.

Structure of liabilities	2005	2006
Shareholders equity	48,8 %	34,4 %
Long-term liabilities	4,4 %	3,0 %
Short-term liabilities	46,8 %	62,6 %
including:		
- liabilities related with deliveries and services and remaining liabilities	16,8 %	24,9 %
- current part of bank credits and loans with interest rates	0,2 %	0,1 %
- accruals and deferred income	28,5 %	35,0 %
- remaining	1,3 %	2,6 %



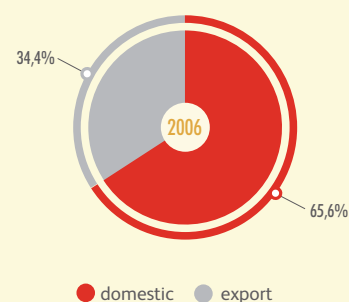
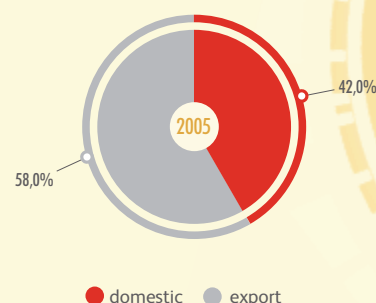
Sales income and sales income structure

In 2006, Capital Group income from sales of products, goods and materials amounted to TPLN 777 214 and were by TPLN 274 223 (i.e. by 54,5 %) higher when compared with previous year income.

Share of export sales in total sales volume amounted to 34,4 %, i.e. decrease by 23,6 percentage points when compared with previous year. In 2006, export sales volume amounted to TPLN 267 194 and was 8,4 % lower than in 2005 (i.e. TPLN 291 727).

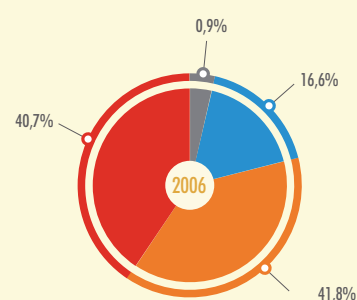
In 2006, RAFAKO S.A. main customers structure remains unchanged, i.e. it includes domestic and foreign suppliers of power generating facilities as well as domestic and foreign utility and industrial power generating sector.

In 2006, like in previous years, the core of Capital Group's offer included steam boilers along with components of power generation equipment and machines, environment protection equipment (mainly flue gas desulphurisation plants) and electrostatic precipitators. Some changes in sales structure were observed when compared with previous year: 25,5 percentage points increase of share of transactions related with environment protection equipment. We have also observed the decrease of sales of steam boilers and components of power generation equipment and machines (decrease by 18,3 percentage points) and electrostatic precipitators (by 6,6 percentage points).



Sales structure in 2006 may be summarised as follows:

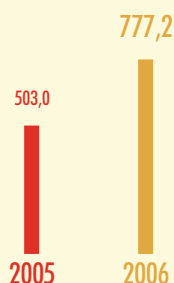
Boilers	40,7 %
Flue Gas Desulphurisation Plants	41,8 %
Electrostatic Precipitators	16,6 %
Remaining	0,9 %



Economic and financial standing

of RAFAKO Capital Group in 2006

Capital Group sales [in MPLN]

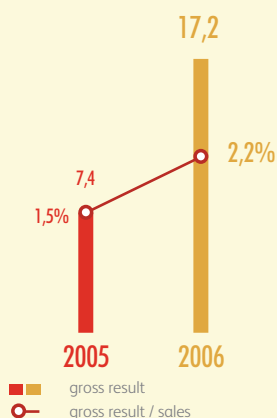


In 2006, the growing sales volume was combined with the increase of profit both before and after taxation.

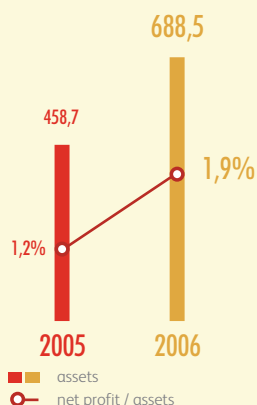
As a consequence of a net profit value higher than in 2005 (increase by TPLN 7 618), we have observed 3 percentage points increase in return on equity (from 2,6% to 5,6%). We may also note the increase of return on Company's assets (from 1,2% to 1,9%) and return on circulating equity (from 4,6% to 7,3%).

In 2006, the value of indices measuring Capital Group financial fluidity remained at a satisfactory level: "current fluidity" index equalled 1,2 and "instantaneous fluidity" index equalled 1,1.

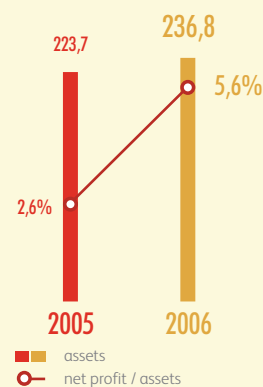
Gross result [in MPLN]



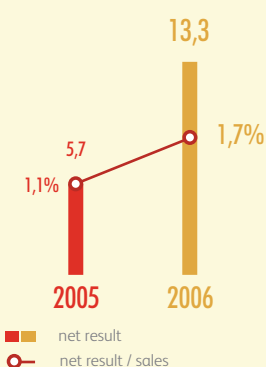
Return on Assets (RoA) [in MPLN]



Return on Equity (RoE) [in MPLN]



Net result [in MPLN]

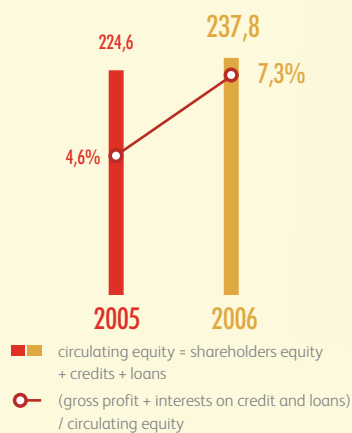


Shortening of receivables rotation period (by 18 days) was accompanied with shortening of inventory rotation period (by 4 days) and with increase of commercial liabilities rotation period (by 34 days). These factors have resulted in shortening of circulating capital rotation period (commercial receivables rotation + inventory rotation - commercial liabilities payment period) by 56 days (i.e. from 69 days in 2005 to 13 days in 2006).

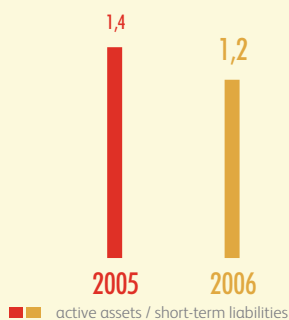
Fixed capital consisting of shareholders equity and long-term liabilities totally covered the value of fixed assets and 13,1% of active assets.



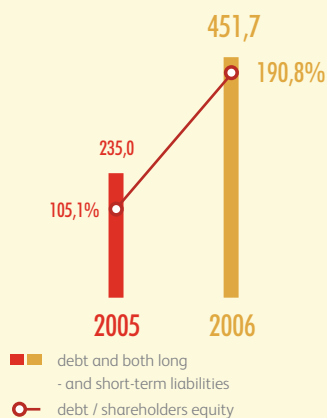
Return on Circulating Equity
(RoCE) [in MPLN]



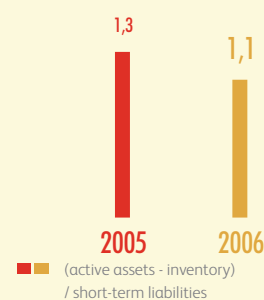
Current fluidity index



Debt index



Instantaneous fluidity index



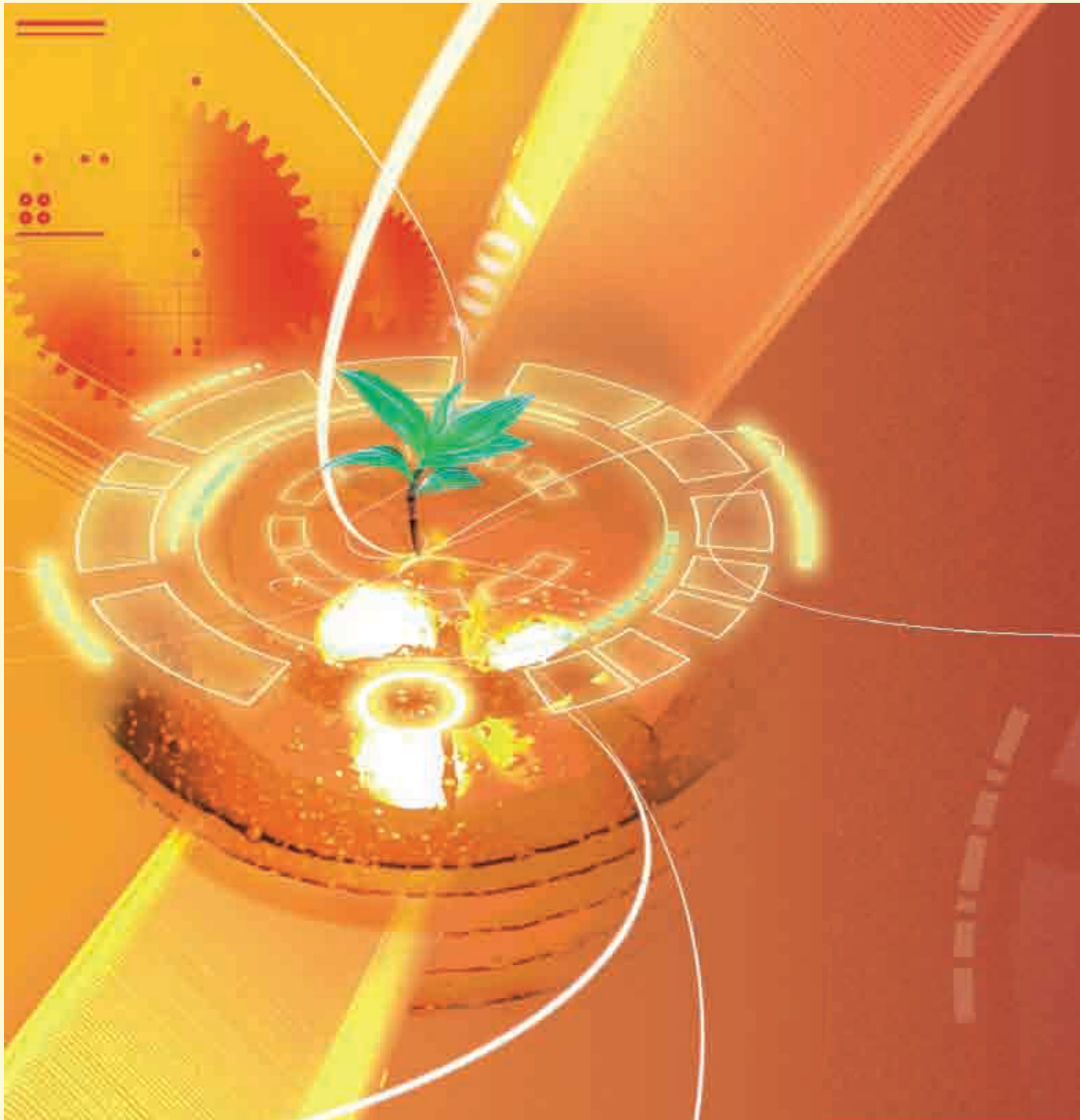
In 2006, the level of Capital Group liabilities towards its creditors has increased by TPLN 216 754.

As per December 31st, 2006, the cumulated amount of long- and short-term liabilities amounted to TPLN 451 740, while on December 31st, 2005 it equalled TPLN 234 986.

The main reason that lies behind the increase of liabilities is related with the increase of future periods revenues (by TPLN 109 711) resulting mainly from a greater correction of sales revenues from construction agreements (by TPLN 67 162), greater amount of advance payments related with future deliveries (by TPLN 23 971) and increased liabilities towards suppliers (by TPLN 94 922 as a result of the increased commercial turnover of Capital Group).

Major tasks

planned for 2007



Energy

for a Good Year

Major tasks to be completed in 2007 include further improvement of the quality of manufacturing, continuation of research and development activities, acquiring of companies having the similar profile of activity and consolidation of the offer in order to improve its response to current demands of RAFAKO S.A. customers.



Major tasks

planned for 2007

Development and modernisation activities

- Implementation of a process of welding of creep-resisting steel with the addition of Co;
- Implementation of head forming process in accordance with DIN 28013;
- Increase of tube bending range;
- Obtainment of new certificates authorising the application of welding HR3c steel tubes in both similar and dissimilar (with other steel grades used in power-generating equipment) weld joints;
- Performance of testing and obtainment of certificates related with welding and heat treatment of new steel grades used in boilers with supercritical steam parameters;
- Mechanisation of transport and alignment of neck-formed tubes;
- Performance of testing and elaborations focused on self-sufficiency within the field of design of wet lime flue gas desulphurisation plants;
- Performance of laboratory testing concerning the utilisation of semi-dry flue gas desulphurisation process waste as a specialised fertiliser and as a sorbent in wet method flue gas desulphurisation plants;
- Optimisation of mathematical modelling of semi-dry flue gas desulphurisation process on the basis of research performed on currently operated plants;
- Performance of laboratory testing focused on elaboration of a competitive process of catalytic reduction of NO_x emission in flue gas;
- Research concerning the effect of hydrogen chloride on kinetics of chemical reactions in semi-dry flue gas desulphurisation plants aiming at its application in cleaning of flue gas originating from industrial waste incineration plants;
- Elaboration of a conceptual design of dry slag removal in pulverised coal-fired boilers;
- Elaboration of guidelines for cleaning of flue gas originating from municipal and industrial waste incineration plants;
- Updating of design principles applied in designing of circulating fluidised bed furnaces;
- Numerical simulation of various types of furnaces on the basis of FLUENT software;
- Compilation of a library of typical boiler elements in parametric form suitable for CAD systems;
- Performance of operational testing of a coal register in operating plant environment;
- Elaboration of a design method for steam dryers in steam drums;
- Re-certification of Integrated Quality Management System within the field of requirements of PN-EN ISO 9001:2001, PN-EN ISO 14001:2005 standards, European Directive no. 761/2004 - EMAS 2001 and European Directive no. 97/23/EC.

Marketing activity

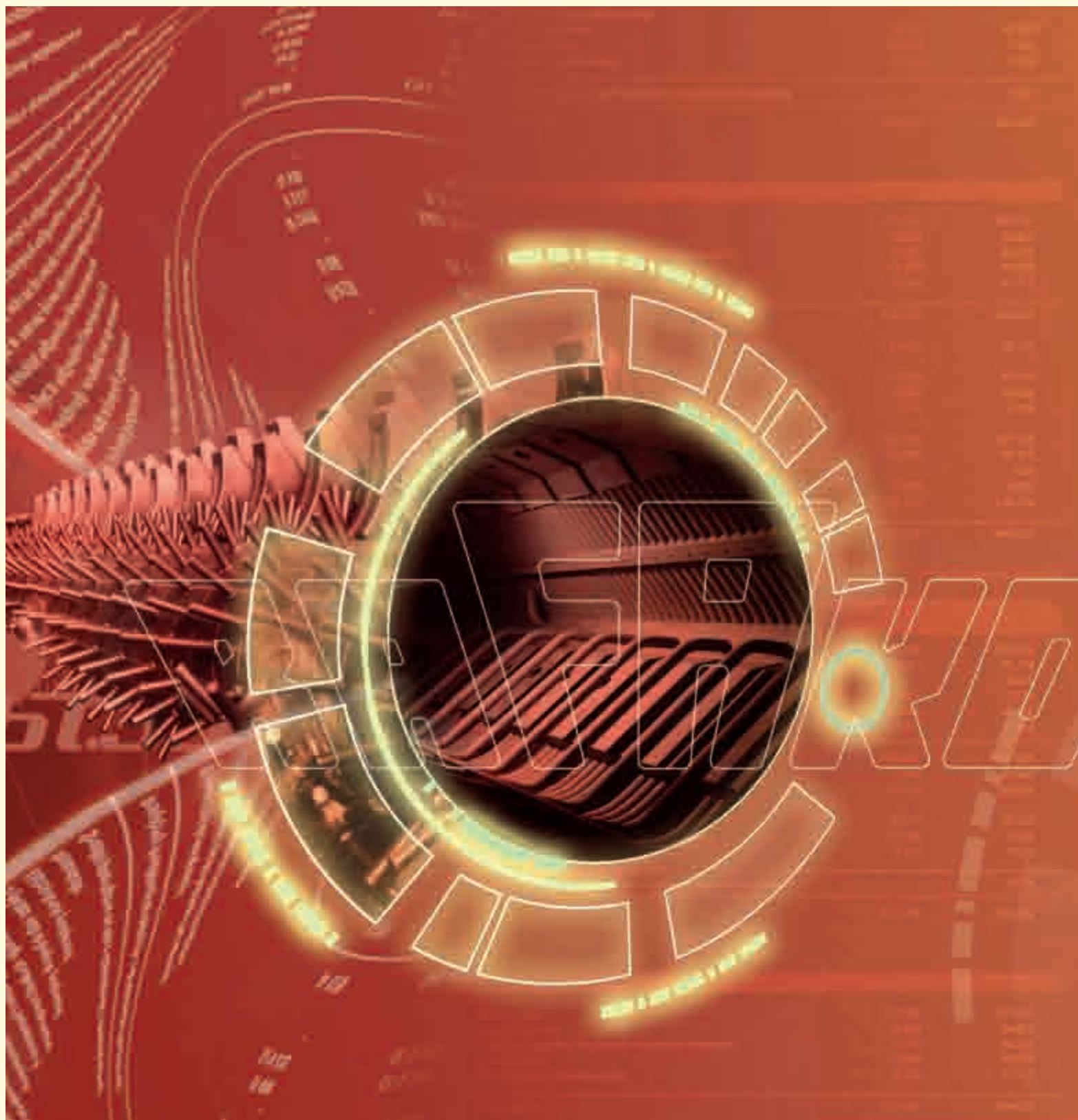
Most market analyses demonstrate that, for a period of coming 15 - 20 years we shall witness the investment boom in global power generation sector including the European market - the most interesting from RAFAKO S.A. perspective. Stagnation in development of power-generating capacities was especially visible in Europe and now the time has come to eliminate the deficiencies. On the other hand, thermal power generation, and especially its coal-based branch, faces the application of stringent requirements related with emission of greenhouse gases. This situation triggers the research focused on highly efficient steam cycles and sophisticated technologies such as combined cycle units with coal gasification or power-generating units with supercritical parameters. Two boilers with supercritical parameters currently constructed with RAFAKO S.A. involvement may be considered as a first step of Polish power generation sector towards highly efficient coal-fired power-generating units. RAFAKO S.A. intends to become a leading player on this market both in Poland and abroad. The Company shall continue to promote boilers for combined cycle units, modern stoker-fired boilers as well as fluidised bed boilers.

Within the field of environment protection equipment, RAFAKO S.A. is constantly strengthening its position of a leader in construction of flue gas desulphurisation plants. The Company continues to promote waste incineration plants considered as environment-friendly solution supplementing the segregation of waste. Our offer for existing boilers includes modernisation services based on comprehensive diagnostics. Europe is presently facing a challenge of development of long neglected power-generating capacities. RAFAKO S.A. efforts are visible also within this field. In 2007 we have opened new manufacturing workshops in Radomsko and Wry (both in Poland) thus increasing our competitive advantages of a European leader in manufacturing of boilers for power generation sector. Further activities focused on increase of both engineering and manufacturing capacities are planned.

In 2007, like in previous years, RAFAKO S.A. shall take part in Power Gen Europe, the largest power generation exhibition and conference in Europe as well as in VGB Congress, POLEKO Trade Fair and numerous other fairs, conferences, seminars and exhibitions. Like in previous years, we are organising our own annual conference. In 2007, it will be focused on stoker-fired boilers. We shall continue to act as proud sponsor of our talented cross-country skier, Justyna Kowalczyk, gaining increasingly higher rank in the World Cup overall classification.



Financial statement for 2006



Energy

for a Good Year

Financial statement

- Opinion of independent auditor
- Balance sheet
- Profit and loss account
- Cash flow account

Consolidated financial statement

- Opinion of independent auditor
- Consolidated balance sheet
- Consolidated profit and loss account
- Consolidated cash flow account

Financial Statement

Independent Auditor's Opinion

For the Supervisory Board and the General Meeting of Shareholders of Fabryka Kotłów RAFAKO SA.

1. We have reviewed the attached financial statements of Fabryka Kotłów RAFAKO SA, with its registered seat in Racibórz at ul. Łąkowa 33, including:
 - Introduction to the financial statements,
 - Balance sheet prepared as at 31 December 2006, reporting total assets and liabilities of PLN 610,517 thousand
 - Profit and loss account for the period from 1 January 2006 to 31 December 2006, reporting net profit of PLN 10,646 thousand
 - Statement of changes in equity for the period from 1 January 2006 to 31 December 2006, reporting an increase in equity by PLN 10,646 thousand
 - Cash flow statement, reporting an increase in net cash during the audited period by PLN 15,803 thousand
 - Additional statements and explanations.
2. It is the responsibility of the Management Board of the Company to prepare these financial statements. Our task was to audit the financial statements and express an opinion concerning their consistency, adequacy and clarity as well as the adequacy of the books of accounts on the basis of which these financial statements were prepared.
Our audit of the financial statements was performed in accordance with the following provisions:
 - Chapter 7 of the Act of 29 September 1994 on Accounting (uniform text Dziennik Ustaw of 2002 No. 76, item 694, with subsequent amendments),
 - Auditing standards adopted by the National Board of Certified Auditors in Poland,
 - International Financial Audit Standards in matters not regulated in the provisions specified above.
3. The audit of the financial statements was planned and performed so as to obtain a viable and sufficient basis on which to express a reliable opinion. In particular, the audit comprised verifying the adequacy of the accounting policies applied by the Company and material estimates, checking – largely on a test basis – the accounting records and evidence relating to the amounts and information reported in the financial statements, and the overall evaluation of the financial statements.
We believe that the audit has given us sufficient basis to express a reliable opinion.
4. It is our view that the audited financial statements, including numerical data and narrative:
 - present in a reliable and transparent manner all information significant for the assessment of the asset structure and financial standing of the Company as at 31 December 2006 as well as its financial performance during the period from 1 January 2006 to 31 December 2006,
 - was prepared, in all material aspects, in accordance with the accounting policies laid down under the above Act, based on accurately maintained books of accounts,
 - comply with the legal regulations and the provisions of the Company's Articles of Association affecting the substance of the financial statements.
5. Without making any reservations to the correctness and reliability of the audited financial statements, we wish to point out that the receivables overdue over 1 year from the Company's major investor totalling PLN 14,852 thousand were not included in the revaluation. On 28 September 2006 the Company's Management Board concluded an agreement with the debtor in which the debtor undertook to pay the dues; this payment, however, is dependent on other events that must occur during the set period. In the opinion of the Board, the risk of not collecting debt is marginal.
6. The information disclosed in the report on the Company's operations is complete within the meaning of Article. 49, paragraph 2 of the Act on Accounting, and the information contained therein, derived from the financial statements, is consistent with them.

Anna Żurek
Biegły rewident
nr ewid. 9954/7395
Żurek

Stefan Czerwiński
Prezes Zarządu
Biegły rewident
nr ewid. 9449/7406
Czerwiński

DORADCA
Zespół Doradców Finansowo-Księgowych Sp. z o.o.
GRUPA FINANS-SERVIS
20-011 Lublin Alj. Piłsudskiego 1a
nr ewid. 232

Balance sheet

(in PLN thousand)

ASSETS	31 December 2005	31 December 2006
Fixed assets (long-term)	132 965	170 465
Tangible fixed assets	84 109	92 683
Investment real property	8 805	-
Intangible assets	2 175	2 057
Financial assets	24 690	41 934
Deferred income tax assets	13 186	33 791
Current assets (Short term)	257 883	440 052
Inventories	15 530	17 654
Trade and other receivables	145 968	176 178
Income tax receivables	-	-
Prepayments and deferred costs	47 567	58 217
Short-term deposits	41 476	124 085
Cash and cash equivalents	7 342	23 145
Short-term investment	-	40 773
Long-term assets recognised as for sale	757	-
TOTAL ASSETS	391 605	610 517
LIABILITIES		
Shareholders equity	187 146	197 792
Initial capital	34 800	34 800
Capital from sales of shares above nominal value	36 778	36 778
Capital reserve	43 853	115 568
Retained profits/Uncovered loss	71 712	10 646
Liabilities	204 459	412 725
Long term liabilities	17 237	17 435
Interest bearing bank loans and credits	-	-
Provisions, including:	17 237	17 435
- long term	15 098	15 793
- short term	2 139	1 642
Short term liabilities	187 222	395 290
Trade and other liabilities	61 282	159 486
Current part of interest bearing bank loans and credits	900	-
Income tax liabilities	6 062	17 655
Accruals and deferred income	118 978	218 149
TOTAL LIABILITIES	391 605	610 517

Income Statement

(in PLN thousand)

	31 grudnia 2005	31 grudnia 2006
Revenue on sale	382 225	644 308
Revenue from sale of products and services	379 910	641 463
Revenue from sales of materials	2 315	2 845
Own cost of sales	(348 054)	(593 207)
Gross profit on sale	34 171	51 101
Other operating revenue	11 328	10 874
Sales costs	(11 477)	(13 462)
Management overheads	(15 961)	(14 459)
Other operating costs	(8 968)	(19 466)
Operating profit	9 093	14 588
Financial revenue	3 507	5 656
Financial costs	(9 085)	(6 945)
Gross profit	3 515	13 299
Income tax	(575)	(2 653)
Net profit for financial year	2 940	10 646
Profit per share		
– basic from profit for financial year	0,17	0,61

Cash flow statement

(in PLN thousand)

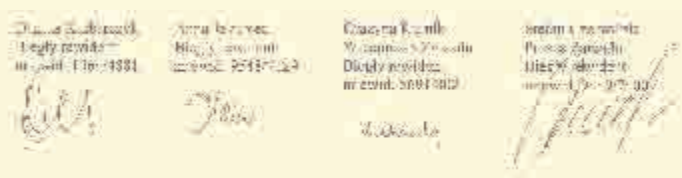
	31 December 2005	31 December 2006
Operating cash flow		
Gross profit/(loss)	3 515	13 299
Adjustment:		
Depreciation	7 556	7 942
Foreign exchange gains (losses)	250	38
Interest, commission and dividends, net	4 501	(1 258)
(Profit)/loss on investment	(286)	(9 945)
(Increase)/decrease in debtors	(8 791)	(33 685)
(Increase)/decrease in stock	(2 410)	(2 124)
Increase/(decrease) in creditors except loans and credits	2 154	96 354
Changes in prepayments and accruals	65 839	88 521
Changes in provisions	(3 046)	198
Income tax paid	(378)	(11 666)
Other	-	30
Net operating cash flow	73 724	147 704
Investment cash flow		
Sale of intangible and tangible fixed assets	39	902
Purchase of intangible and legal and tangible fixed assets	(3 590)	(14 112)
Sale of investment real property	-	18 000
Purchase of investment real property	-	-
Sale of financial assets	948	117 165
Purchase of financial assets	(41 476)	(257 046)
Dividends and interest received	659	4 459
Repayment of loans	6 146	2 926
Loans granted	(322)	(42)
Other	6 377	-
Net cash flow from investing activities	(31 219)	(127 748)
Cash flow from financing activities		
Cash inflow from issue of shares	-	-
Payments of financial lease contract liabilities	(46)	(135)
Inflow from loans/credits obtained	53 901	3 317
Repayment of loans/credits	(89 594)	(4 244)
Dividends paid to shareholders	-	-
Interest paid	(2 527)	(169)
Bank commission	(2 173)	(2 922)
Other	-	-
Net cash flow from financing activities	(40 439)	(4 153)
Increase of net cash and equivalents	2 066	15 803
Net exchange rate differences	-	-
Cash at beginning of period	5 276	7 342
Cash at end of period, including:	7 342	23 145
Restricted use	5 293	6 195

Consolidated Financial Statement

Independent Auditor's Opinion

For the General Meeting of Shareholders of the dominant entity in RAFAKO Group of Companies.

1. We have reviewed the attached consolidated financial statements of RAFAKO Group of Companies, with Fabryka Kotłów RAFAKO SA, seated in Racibórz at ul. Łąkowa 33, is its dominant entity, including:
 - Consolidated balance sheet prepared as at 31 December 2006, reporting total assets and liabilities of PLN 688,507 thousand,
 - Consolidated profit and loss account for the period from 1 January 2006 to 31 December 2006, reporting net profit of PLN 13,339 thousand,
 - Statement of changes in consolidated equity for the period from 1 January 2006 to 31 December 2006, reporting an increase in equity by PLN 13,091 thousand,
 - Consolidated cash flow statement, reporting an increase in net cash during the audited period by PLN 26,691 thousand
 - Additional statements and explanations.
2. It is the responsibility of the Management Board of the dominant entity to prepare these financial statements. Our task was to audit the consolidated financial statements and express an opinion concerning their consistency, adequacy and clarity. Our audit of the financial statements was performed in accordance with the following provisions:
 - Chapter 7 of the Act of 29 September 1994 on Accounting (uniform text Dziennik Ustaw of 2002 No. 76, item 694, with subsequent amendments),
 - Auditing standards adopted by the National Board of Certified Auditors in Poland,
 - International Financial Audit Standards in matters not regulated in the provisions specified above.
3. The audit of the consolidated financial statements was planned and performed so as to obtain a viable and sufficient basis on which to express a reliable opinion.
In particular, the audit comprised verifying the adequacy of the accounting policies applied by associated entities checking – largely on a test basis – the accounting records and evidence relating to the amounts and information reported in the consolidated financial statements, and the overall evaluation of the consolidated financial statements.
We believe that the audit has given us sufficient basis to express a reliable opinion.
It is our view that the audited financial statements, including numerical data and narrative:
 - present in a reliable and transparent manner all information significant for the assessment of the asset structure and financial standing of the audited Group of Companies as at 31 December 2006 as well as its financial performance during the period from 1 January 2006 to 31 December 2006,
 - was prepared in accordance with the requirements of the International Financial Reporting Standards, duly approved of by the European Union,
 - comply with the legal regulations binding on the Group of Companies affecting the substance of the consolidated financial statements.
4. We have read the report on the activity of RAFAKO Group of Companies prepared for the period from 1 January 2006 to 31 December 2006, and state that that the information included therein matches the audited consolidated financial statements. The information resulting from the report on the activity of the Group of Companies is presented with due consideration for relevant provisions of the Regulation by the Minister of Finance of 19 October 2005 on current and periodic information disclosed by securities issuers (Dziennik Ustaw No. 209, item. 1744).
5. Without making any reservations to the correctness and reliability of the audited consolidated financial statements, we wish to point out that the receivables overdue over 1 year from the Company's major investor totalling PLN 14,852 thousand were not included in the revaluation by the dominant entity. On 28 September 2006 the Management Board of the dominant entity concluded an agreement with the debtor in which the debtor undertook to pay the dues; this payment, however, is dependent on other events that must occur during the set period. In the opinion of the Board, the risk of not collecting debt is marginal.



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Zespół Doradców Finansowo-Księgowych Sp. z o.o.
GRUPA FINANS-SERVIS
20-011 Lublin Alj. Piłsudskiego 1a
nr ewid. 232

Consolidated balance sheet

(in PLN thousand)

ASSETS	31 December 2005	31 December 2006
Fixed assets (long-term)	148 897	185 210
Tangible fixed assets	121 660	128 660
Investment real property	8 805	-
Intangible assets	3 543	3 812
Financial assets	1 703	18 947
Deferred income tax assets	13 186	33 791
Current assets (Short term)	307 344	502 030
Inventories	17 585	20 275
Trade and other receivables	163 053	190 586
Income tax receivables	585	2 185
Prepayments and deferred costs	56 267	65 822
Short-term deposits	41 476	127 185
Cash and cash equivalents	23 544	50 235
Short-term investments	4 834	45 742
Long-term assets recognised as for sale	2 421	1 267
TOTAL ASSETS	458 662	688 507
LIABILITIES		
Shareholders equity	223 676	236 767
Share capital (of parent company shareholders)	217 748	230 530
Initial capital	34 800	34 800
Capital from sales of shares above nominal value	36 778	36 778
Capital reserve	45 373	132 127
Retained profits/Uncovered loss	100 797	26 825
Capital of minority shareholders	5 928	6 237
Liabilities	234 986	451 740
Long term liabilities	20 241	20 653
Interest bearing bank loans and credits	-	-
Provisions, including:	18 839	20 437
- long term	15 833	16 626
- short term	3 006	3 811
Provision for deferred income tax	1 402	216
Short term liabilities	214 745	431 087
Trade and other liabilities	76 838	171 760
Current part of interest bearing bank loans and credits	900	1000
Income tax liabilities	6 062	17 671
Accruals and deferred income	130 945	240 656
TOTAL LIABILITIES	458 662	688 507

Consolidated profit and loss account

(in PLN thousand)

	31 December 2005	31 December 2006
Revenue on sale	502 991	777 214
Revenue from sale of products and services	500 268	773 925
Revenue from sales of materials	2 723	3 289
Own cost of sales	(450 306)	(705 085)
Gross profit on sale	52 685	72 129
Other operating revenue	12 975	12 703
Sales costs	(15 459)	(17 730)
Management overheads	(23 554)	(22 388)
Other operating costs	(12 229)	(23 767)
Operating profit	14 418	20 947
Financial revenue	3 437	4 696
Financial costs	(10 445)	(8 454)
Gross profit	7 410	17 189
Income tax	(1 690)	(3 850)
Net profit for financial year	5 720	13 339
of:		
Parent company shareholders	5 218	12 782
Minority shareholders	502	557
	5 720	13 339
Profit per share		
– basic from profit for financial	0,30	0,73
– basic from profit on continued activity	0,30	0,73

Consolidated cash flow statement

(in PLN thousand)

	31 December 2005	31 December 2006
Operating cash flow		
Gross profit/(loss)	7 410	17 189
Adjustment:		
Depreciation	10 100	10 748
Foreign exchange gains (losses)	204	38
Net interest and dividend	5 244	(777)
(Profit)/loss on investment	(872)	(8 763)
(Increase)/decrease in debtors	20	(31 008)
(Increase)/decrease in stock	2 276	(2 690)
Increase/(decrease) in creditors except loans and credits		
kredytów i pożyczek	(3 712)	92 749
Changes in prepayments and accruals	78 667	100 167
Changes in provisions	(1 199)	1 598
Income tax paid	(3 610)	(15 632)
Other	(398)	78
Net operating cash flow	94 130	163 697
Investment cash flow		
Sale of intangible and tangible fixed assets	1 147	3 591
Purchase of intangible and legal and tangible fixed assets	(6 077)	(17 347)
Sale of investment real property	-	18 000
Purchase of investment real property	-	-
Sale of financial assets	1 893	118 952
Purchase of financial assets	(42 585)	(262 006)
Subsidiary acquisition, after cash taken over	-	-
Dividends and interest received	926	3 239
Repayment of loans	6 146	2 926
Loans granted	(322)	(42)
Other	2 256	-
Net cash flow from investing activities	(36 616)	(132 687)
Cash flow from financing activities		
Cash inflow from issue of shares	-	-
Payments of financial lease contract liabilities	(46)	(135)
Inflow from loans/credits obtained	49 291	4 317
Repayment of loans/credits	(89 594)	(4 244)
Dividend paid to minority shareholders	(170)	(248)
Interest paid	(3 081)	(264)
Bank commission	(2 629)	(3 745)
Other	-	-
Net cash flow from financing activities	(46 229)	(4 319)
Increase of net cash and equivalents	11 285	26 691
Net exchange rate differences	-	-
Cash at beginning of period	12 259	23 544
Cash at end of period, including:	23 544	50 235
Restricted use	6 310	22 105



Key figures

(in PLN thousand)

RAFAKO S.A.

RAFAKO GROUP

BALANCE SHEETS

	2005	2006	2005	2006
Fixed assets	132 965	170 465	148 897	185 210
Current assets	257 883	440 052	307 344	502 030
Long-term assets for sale	757	0	2 421	1 267
Total assets	391 605	610 517	458 662	688 507
Shareholders equity	187 146	197 792	223 676	236 767
Liabilities	204 459	412 725	234 986	451 740

PROFIT AND LOSS ACCOUNTS

Net sales	382 225	644 308	502 991	777 214
Operating profit	9 093	14 588	14 418	20 947
Gross profit	3 515	13 299	7 410	17 189
Net profit	2 940	10 646	5 720	13 339
Depreciation	7 556	7 942	10 100	10 748
Profit on operating activity + depreciation	16 649	22 530	24 518	31 695
Net profit + depreciation	10 496	18 588	15 820	24 087

CASH FLOWS

From operating activities	73 724	147 704	94 130	163 697
From investing activities	-31 219	-127 748	-36 616	-132 687
From financing activities	-40 439	-4 153	-46 229	-4 319
Net cash flows	2 066	15 803	11 285	26 691

OTHER

Investment	4 050	15 632	10 482	19 293
Average employment (in persons)	1 596	1 580	2 045	2 026

RATIOS

Return on assets ROA	0,75%	1,74%	1,25%	1,94%
Return on equity ROE	1,57%	5,38%	2,56%	5,63%
Net profit per ordinary share (in zloty) EPS	0,17	0,61	0,30	0,73



Boiler Engineering Company

ul. Łąkowa 33, 47-400 Racibórz Poland
phone.: (+48 32) 410 10 00,
fax: (+48 32) 415 34 27,
info@rafako.com.pl, www.rafako.com.pl