RAFAKO GROUP

CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED ON 31 DECEMBER 2010
INCLUDING AUDITOR'S OPINION AND REPORT

Consolidated total income statement

for the year ended on 31st December 2010 and the year ended on 31st December 2009 (in thousands of zlotys)

Consolidated profit and loss account	*Note*	*Year ended on 31 Dec. 2010*	*Year ended on 31 Dec. 2009*
Continued operations			
Revenue from sales		**1 188 053**	**960 345**
Revenue from sale of products and services	9.1	1 168 639	945 997
Revenue from sale of materials	9.1	19 414	14 348
Costs of product and material sales	9.2	(1 002 123)	(842 196)
Gross profit/(loss) on sales		**185 930**	**118 149**
Other operating income	9.5	11 065	4 222
Cost of sales		(48 615)	(25 559)
Overhead costs		(31 017)	(32 037)
Other operating costs	9.6	(57 204)	(11 350)
Profit on continued operations		**60 159**	**53 425**
Financial revenues	9.7	8 063	11 150
Financial expenses	9.8	(11 651)	(12 378)
Share in associated company income		–	–
Gross profit		**56 571**	**52 197**
Income tax	10	(12 285)	(13 367)
Net profit on continued operations		**44 286**	**38 830**
Discontinued operations		–	–
Gross (loss) on discontinued operations per financial year	11	–	–
(Loss) on discontinued operations per financial year	11	–	–
Net profit/(loss) per financial year, including:		**44 286**	**38 830**
Net profit/(loss)of parent company shareholders		43 623	37 749
Profit/(loss) on non-controlling shares		663	1 081
Other total income per period		**(336)**	**(191)**
Exchange variations from foreign currency translation		(320)	(198)
Exchange variations from foreign currency translation falling to non-controlling shares		(16)	7
Total income per period, including:		**43 950**	**38 639**
Total income of parent company shareholders		43 303	37 551
Total income of non-controlling shares		647	1 088
Weighted average number of shares		69 600 000	69 600 000
Profit (loss) per one share in zlotys	13	0,63	0,54

Racibórz, 21st March 2011

Wieslaw Różacki	Krzysztof Burek	Maciej Kaczorowski	Piotr Wawrzynowicz	Jolanta Markowicz
President of the Board	Vice-president	Vice-president	Member of Supervisory Board delegated to act temporarily as member of Managing Board	Chief accountant

Consolidated financial statement
as at 31st December 2010 and 31st December 2009 (in thousands of zlotys)

	Note	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008
ASSETS				
Long-term fixed assets				
Tangible fixed assets	16	162 973	164 250	163 785
Investment properties	18	–	–	–
Intangible assets	19	8 742	6 973	7 279
Company value from consolidation	21	4 263	4 263	4 263
Investments in associated companies assessed by property right method	24	–	–	–
Long-term financial assets		3 988	4 189	4 559
Shares in subsidiaries	23	–	–	242
Shares in other entities	23	516	534	534
Long-term deposits	25	3 452	3 645	3 772
Granted long-term loans	25	–	–	–
Other long-term assets	25	20	10	11
Deferred tax assets	10.3	43 301	31 403	41 118
		223 267	**211 078**	**221 004**
Short-term current assets				
Inventories	26	31 707	28 298	61 355
Trade and other receivables	27	274 075	232 650	208 579
Trade and other receivables		223 994	162 375	180 213
- up to 12 months		222 932	161 567	179 411
- over 12 months		1 062	808	802
Granted short-term loans		–	–	–
Other receivables		50 043	68 949	23 455
Income tax receivables		38	1 326	4 911
Prepayments and accruals based on cost valuation of construction contracts	28	212 992	64 332	58 143
Short-term financial assets	29	206 832	255 853	268 230
Derivative instruments		2 357	888	–
Short-term investments		27 304	38 235	31 896
Short-term deposits		2 160	149 028	163 747
Cash and cash equivalents		175 011	67 702	72 587
		725 606	**581 133**	**596 307**
Fixed assets available for sale	17	466	236	–
TOTAL ASSETS		**949 339**	**792 447**	**817 311**

Racibórz, 21st March 2011

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President of the Board	Vice-president	Vice-president	Member of Supervisory Board delegated to act temporarily as member of Managing Board	Chief accountant

Consolidated financial statement
as at 31st December 2010 and 31st December 2009 (in thousands of zlotys)

	Note	*31 Dec. 2010*	*31 Dec. 2009*	*31 Dec. 2008*
LIABILITIES				
Shareholders' equity (allocated to parent company shareholders)	30			
Share capital		139 200	139 200	139 200
Share premium		36 778	36 778	36 778
Supplementary capital		180 241	149 236	142 867
Exchange rate variations resulting from conversion of foreign currencies		391	711	909
Retained profits / uncovered losses		33 489	37 354	16 414
		390 099	**363 279**	**336 168**
Non-controlling shares capital	31	**9 726**	**13 927**	**12 839**
Total shareholders' equity		**399 825**	**377 206**	**349 007**
Long-term liabilities				
Interest bearing bank credits and loans	32	–	–	–
Employee benefits liabilities	33	21 142	21 651	19 819
Deferred income tax provision	10.3	3 255	3 043	3 589
		24 397	**24 694**	**23 408**
Short-term liabilities				
Trade and other liabilities	35	290 966	166 814	186 539
Trade liabilities		181 620	109 350	147 954
- up to 12 months		167 596	97 519	139 189
- over 12 months		14 024	11 831	8 765
Investment liabilities		2 622	4 616	3 728
Other liabilities		102 041	52 848	34 825
Income tax liabilities		4 683	–	32
Current part of interest bearing bank credits and loans	32	–	4 500	9 643
Other financial liabilities	36	4 743	11 637	18 782
Subsidies and deferred income		229 404	207 592	229 932
Deferred income	38	229 319	207 489	229 932
Subsidies	37	85	103	–
		525 113	**390 543**	**444 896**
Liabilities concerning fixed assets available for sale		4	4	–
Total liabilities		**549 514**	**415 241**	**468 304**
TOTAL LIABILITIES		**949 339**	**792 447**	**817 311**

Racibórz, 21st March 2011

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President of the Board	Vice-president	Vice-president	Member of Supervisory Board delegated to act temporarily as member of Managing Board	Chief accountant

Consolidated cash flow statement

for the year ended on 31st December 2010 and the year ended on 31st December 2009 (in thousands of zlotys)

	Note	*Year ended on 31 Dec. 2010*	*Year ended on 31 Dec. 2009*
Cash flows from operating activities			
Gross profit /(loss)		56 571	52 197
Adjustment for items:		(71 390)	(40 556)
Depreciation	9.3	11 900	13 629
Foreign exchange variations (profit) /loss		19	(302)
Net interest and dividends		(2 320)	(4 800)
(Profit)/loss on investment		(2 448)	214
Increase / (decrease) of settlement status through derivative instruments		(8 320)	(7 856)
(Increase)/ decrease in receivables		(42 842)	(22 614)
(Increase)/ decrease in inventories		(3 409)	33 057
Increase / (decrease) in liabilities except credits and loans		120 954	(22 598)
Changes in prepayments and accruals		(126 830)	(28 632)
Income tax paid		(18 000)	(640)
Other		(94)	(14)
Net cash from operating activities		**(14 819)**	**11 641**
Cash flows from investing activities			
Sale of tangible fixed assets and intangible assets		1 093	997
Purchase of tangible fixed assets and intangible assets		(15 035)	(14 432)
Sale of financial assets		178 570	426 216
Purchase of financial assets		(19 157)	(417 624)
Dividends and interest received		2 647	4 983
Repayment of loans		–	196
Loans granted		–	–
Other		57	39
Net cash from investing activities		**148 175**	**375**

Racibórz, 21st March 2011

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Consolidated cash flow statement

for the year ended on 31st December 2010 and the year ended on 31st December 2009 (in thousands of zlotys)

		Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Cash flows from financing activities			
Proceeds from share issue		–	–
Repayment of finance lease liabilities		(346)	(483)
Inflow from loans / credits obtained		8 000	42 106
Repayment of loans / credits		(12 500)	(47 275)
Dividends paid to parent company shareholders		(20 880)	(10 440)
Dividends paid to non-controlling shares		–	–
Interest paid		(55)	(479)
Bank commissions		(202)	(125)
Other		191	–
Net cash flows from financing activities		**(25 792)**	**(16 696)**
Net changes of cash and cash equivalents		107 564	(4 680)
Net exchange variations		(255)	(205)
Cash at the beginning of the period	29.4	**67 702**	**72 587**
Cash at the end of the period, including:	29.4	**175 011**	**67 702**
cash with restricted use		32	25

Racibórz, 21st March 2011

Wiesław Różacki	Krzysztof Burek	Maciej Kaczorowski	Piotr Wawrzynowicz	Jolanta Markowicz
President of the Board	Vice-president	Vice-president	Member of Supervisory Board delegated to act temporarily as member of Managing Board	Chief accountant

Consolidated statement of shareholders' equity changes
for the year ended on 31st December 2010 and the year ended on 31st December 2009 (in thousands of zlotys)

	Allocated to parent company shareholders							
	Share capital	*Share premium*	*Supplementary capital*	*Exchange rate variations resulting from conversion foreign currency*	*Retained earnings / uncovered losses*	*Total*	*Non-controlling shares*	*Total shareholders' equity*
As at 1st January 2010	**139 200**	**36 778**	**149 236**	**711**	**37 354**	**363 279**	**13 927**	**377 206**
Appropriation of profit for previous years	–	–	31 005	–	(31 005)	–	–	–
Total income for the reporting period	–	–	–	(320)	43 623	43 303	647	43 950
Dividend on profit for 2009	–	–	–	–	(20 880)	(20 880)	–	(20 880)
Donation of shares in subsidiary	–	–	–	–	–	–	(4)	(4)
Acquisition of shares in subsidiary	–	–	–	–	–	–	(447)	(447)
Capital increase in subsidiary	–	–	–	–	4 397	4 397	(4 397)	–
As at 31st December 2010	**139 200**	**36 778**	**180 241**	**391**	**33 489**	**390 099**	**9 726**	**399 825**
As at 1st January 2009 before adjustment	**139 200**	**36 778**	**142 867**	**909**	**15 845**	**335 599**	**12 601**	**348 200**
Error adjustment	–	–	–	–	569	569	238	807
As at 1st January 2009 after adjustment	**139 200**	**36 778**	**142 867**	**909**	**16 414**	**336 168**	**12 839**	**349 007**
Appropriation of profit from previous years	–	–	6 369	–	(6 369)	–	–	–
Total income for the reporting period	–	–	–	(198)	37 749	37 551	1 088	38 639
Dividend on profit for 2008	–	–	–	–	(10 440)	(10 440)	–	(10 440)
As at 31st December 2009	**139 200**	**36 778**	**149 236**	**711**	**37 354**	**363 279**	**13 927**	**377 206**

Racibórz, 21st March 2011

Wiesław Różacki	Krzysztof Burek	Maciej Kaczorowski	Piotr Wawrzynowicz	Jolanta Markowicz
President of the Board	Vice-president	Vice-president	Member of Supervisory Board delegated to act temporarily as member of Managing Board	Chief accountant

Additional information and clarifications

1. General information

The parent company of RAFAKO Group is RAFAKO S.A. having the registered office in Raciborz.

RAFAKO S.A. ("the Company", "parent company") is a joint stock company having the offices in Raciborz, ul. Łąkowa 33. The Company was established by notarial deed of 12th January 1993. On 24th August 2001 it was entered into the register of entrepreneurs under number KRS 34143 run by the District Court in Gliwice, X Economic Department of National Court Register. The parent company was given the statistical number REGON 270217865.

The duration of the parent company and companies comprising the Group is for undetermined time.

The consolidated financial statement of the Group covers the year that ended on 31st December 2010 and comprises consolidated comparable data for the year completed on 31st December 2009 for the consolidated total income statement and consolidated cash flows statement as well as consolidated comparable data as at 31st December 2009 for the consolidated financial statement and consolidated statement of changes in shareholders' equity.

The basic object of the Company's operations is:

- Manufacture of steam generators, except for hot water boilers for central heating (PKD 25.30.Z),
- Repair and maintenance of finished metal goods (PKD 33.11.Z),
- Mounting of industrial machines, equipment and outfit (PKD 33.20.Z),
- Production of metal structures and their components (PKD 25.11Z),
- Other specialist construction works, not classified anywhere else (PKD 43.99.Z),
- Manufacture of industrial cooling equipment and fans (PKD 28.25.Z),
- Production of other metal vessels and tanks (PKD 25.29.Z),
- Mechanical working of metal components (PKD 25.62.Z),
- Machining of metals and applying coats on metals (PKD 25.61.Z),
- Production of machine tools for metals (PKD 28.41.Z),
- Repair and maintenance of machines (PKD 33.12.Z),
- Architectural activities (PKD 71.11.Z),
- Engineering and related technical consultancy (PKD 71.12.Z),
- Manufacture of ovens, furnaces and furnace burners (PKD 28.21.Z),
- Wholesale trade of other machines and equipment (PKD 46.69.Z),
- Wholesale trade of metals and metal ores (PKD 46.72.Z),
- Production of other machines of general use, not classified anywhere else (PKD 28.29.Z),
- Manufacture of tools (PKD 25.73.Z),
- Generation of electric energy (PKD 35.11.Z),
- Transmission of electric energy (PKD 35.12.Z),
- Distribution of electric energy (PKD 35.13.Z),
- Electric energy trading (PKD 35.14.Z),
- Production and supply of steam, hot water and air for air conditioning systems (PKD 35.30.Z),
- Wholesale trade of metal products, equipment and extra hydraulic and heating accessories (PKD 46.74.Z),
- Rental and management of own or leased immovable property (PKD 68.20.Z),
- Other tests and technical analyses (PKD 71.20.B),

(in thousand zlotys)

- Other forms of extra-school education, not classified anywhere else (PKD 85.59.B),
- Sewage disposal and treatment (PKD 37.00.Z),
- Hotels and similar accommodation facilities (PKD 55.10.Z),
- Tourist hostels and accommodation of short duration (PKD 55.20.Z),
- Restaurants and other permanent catering facilities (PKD 56.10.A),
- Other catering activities / services (PKD 56.29.Z),
- Operation of cultural facilities (PKD 90.04.Z),
- Entertainment and recreation (PKD 93.29.Z),
- Organization of fairs, exhibitions and conferences (PKD 82.30.Z),
- Scientific research and development work in other fields of science and technical areas (PKD 72.19.Z).

The parent Company own a Division in Turkey that draw up independent financial statements according to Turkish law, as an independent legal entity.

2. Composition of the Group

As at 31st December 2010 RAFAKO Group is composed of following companies subsidiaries under consolidation:

Company	*Office*	*Type of activities*	*Percentage share of the Group in capital*	
			31 Dec. 2010	*31 Dec. 2009*
PGL-DOM Sp. z o.o.	Racibórz	Management of housing communities	100.00%	100.00%
FPM S.A.	Mikołów	Production of ovens, furnaces and furnace burners	82.19 %	70.50 %
PALSERWIS Sp. z o.o.*	Mikołów	Production of ovens, furnaces and furnace burners	82.19 %	70.50 %
RAFAKO Engineering Sp. z o.o.	Racibórz	Construction engineering, urban development and technological services	100.00%	100.00%
RAFAKO Engineering Solution doo	Belgrade	Technological engineering, consultancy and supervision for building industry, industry and protection of the environment	77.00%	75.00%

* - 100 % subsidiary of FPM S.A., indirect subsidiary to RAFAKO S.A.

A list of subsidiaries, whose financial statements were not included by consolidation because of the present legal status of these companies restricting substantially the control over them:

Company	*Office*	*Basic operations (acc. to PKD)*	*Reason for withdrawing from consolidation*	*Total assets on 31 Dec. 2010***	*Net revenues from sales for 2010 ***
ELWO S.A. in bankruptcy *	Pszczyna	manufacture of other general purpose machines, not classified elsewhere, except for services (29.24.A)	Loss of operational control	67 052	20 486

*- company in bankruptcy by court decision of 26 February 2010
** - data of 31 December 2009

As at 31st December 2010 the share in overall number of votes held by the Group in subsidiaries was equal to the Group share in capital of these entities.

(in thousand zlotys)

As at 31st December 2009 the share in overall number of votes held by the Group in subsidiaries was equal to the Group share in capital of these entities.

In the year that ended on 31st December 2010 changes took place in the composition of RAFAKO Group:

- on 1 June 2010 under the share transfer (without indemnification) agreement, the parent company took over from the company DEKOTRA Inzenjering d.o.o. 2% of shares in RAFAKO Engineering Solution doo., and on the day of this financial statement RAFAKO S.A. hold 77% shares in this company;
- in 2010 the parent company purchased 9 337 common shares in FPM S.A. from employees and former employees of the company for 180 714.55 zlotys, that is 0.89% share in nominal capital and the same number of votes at the company General Meeting;
- on 16 July 2010 the company RAFAKO S.A. exchanged 14 781 shares held of the company Południowy Koncern Energetyczny S.A. having the offices in Katowice for 73 219 shares in TAURON Polska Energia S.A.;
- on 20 October 2010 the subsidiary FPM S.A. increased share capital by 1 999 731.10 zlotys, to 5 308 799.00 zlotys, by way of issue of 630 830 bearer's shares, series B, nominal value 3.17 zloty and price of issue 8.00 zlotys. On 26 October 2010 the company RAFAKO S.A. under an agreement acquires 630 830 shares of the company FPM S.A. for 5 046 640.00 zlotys;
- on 30 November 2010 the District Court in Gliwice, X Economic Department of the National Court Register registered a decrease in the share capital of the subsidiary PGL-DOM Sp. z o.o. by 6.630.000 zlotys. Following the decrease in capital by way of redemption of 663 shares, the share capital of PGL-DOM Sp. z o.o. amounts to 6.070.000 and is divided into 607 shares, 10.000 zlotys each;
- on 7 December 2010 the company RAFAKO S.A. under a sale agreement sold to Polimex-Mostostal S.A. 88 shares of the company Centralne Biuro Konstrukcji Kotłów S.A. having their offices in Tarnowskie Góry for 242 thousand zlotys.

In the year that ended on 31st December 2009 the following changes took place in the composition of RAFAKO Group:

- the subsidiary RAFAKO-HANDELS AG, that have not done any business since 1996, was removed from the Swiss Trade Register in Zurich,
- on 30 January 2009 the company Energo Investment S.A. in liquidation by the decision of the District Court in Gliwice, X Economic Department of the National Court Register, was deleted from the register of trade companies,
- on 26 February 2009 the parent company received a notification from the subsidiary ELWO S.A. on serving the decree by the Katowice-Wschód District Court in Katowice, X Economic Department of 26 February 2010, on declaration of bankruptcy of the company ELWO S.A., that comprises liquidation of their assets.

3. Composition of the parent company Managing Board

Within the 12-month period that ended on 31st December 2010 the composition of the Company Managing Board changed. On 9th May 2010 the mandate of Vice-president Mr Roman Czerwiński expired because of his death. The composition of the Managing Board changed on 12th May 2010 and on the day of submitting this financial statement for 2010 it is as follows:

Wiesław Różacki	President of the Board
Krzysztof Burek	Vice-president
Maciej Kaczorowski	Vice-president *
Piotr Wawrzynowicz	Member of Supervisory Board delegated to act temporarily as member of Managing Board

*- on 7 March 2011 the Supervisory Board of RAFAKO S.A. increased the number of the Company Board members to four persons and appointed Mr Maciej Kaczorowski to the Vice-president position.

Within the 12-month period that ended on 31st December 2010 the composition of the Supervisory Board changed. On 15 July 2010 Mr Marek Wiak handed in his resignation from the post of a member of the Supervisory Board of RAFAKO S.A. The Annual General Meeting of RAFAKO S.A. on 15 July 2010 appointed Mr Maciej Stradomski to the position of a member of the Supervisory Board of RAFAKO S.A.

On the day of submitting this financial statement the composition of the Supervisory Board is as follows:

Krzysztof Pawelec	Chairman of the Supervisory Board
Roman Jarosiński	Vice-chairman of the Supervisory Board
Witold Okarma	member of the Supervisory Board
Maciej Stradomski	member of the Supervisory Board
Sławomir Sykucki	member of the Supervisory Board
Piotr Wawrzynowicz	Member of Supervisory Board delegated to act temporarily as member of Managing Board
Leszek Wysłocki	member of the Supervisory Board

4. Approval of financial statement

This consolidated financial statement was approved to be published by the Board of the parent company on 21st March 2011.

5. Essential values based on professional judgement and estimates

5.1. Professional judgement

In the process of application of accounting principles (policy) against the issues stated below, professional judgement of the Management, apart from estimations made by accountants, was of highest significance.

Classification of lease agreements in which the Group act as lessee

Companies composing the Group act as parties in lease agreements. Every lease agreement signed is analysed in respect of risk and advantages resulting from the use of assets acquired under the agreement and according to its valuation in conformity with MSSF requirements, it will be classified as operational or financial lease.

Classification of construction contracts

As soon as a construction contract is concluded, the management shall make an estimate regarding the manner of entering income and costs from the contracts and shall decide if the contract is settled according to progress degree method or income identification to costs incurred method.

Identification of embedded derivative instruments

At the end of each reporting period the management of companies that compose the Group evaluate if under the contracts signed there are economic features and risk appropriate for the embedded derivative instrument in foreign currency, which would be closely related to economic features and risk appropriate for the main contract.

Classification of financial assets

At the end of each reporting period the management of companies that compose the Group evaluate if the financial assets they hold are investments maintained until maturity date.

(in thousand zlotys)

5.2. Uncertainty of estimates

Basic assumptions concerning the future and other key sources of uncertainty occurring at the end of the reporting period, to which essential risk of significant adjustment of assets and liabilities values in the following financial year is related, are discussed below.

Impairment of assets

At the end of the financial year companies that compose the Group test impairment of assets. This requires an estimate of functional value of the centre that works out cash, to which these assets belong. An estimate of functional value consists in determining future cash flows generated by the centre working out cash and to determine the discount rate to be applied for calculation of current value of these flows. Details regarding assets write-offs at the end of the reporting period, were presented in notes: 16, 18, 19, 23, 24, 26, 27 of the consolidated financial statement of the Group.

Provisions for anticipated loss under the contract

At the end of each reporting period companies that compose the Group update estimates of total income and costs under construction contracts, settled according to contract progress degree method. The Group shall enter the forecasted loss under the contract as cost in conformity with MSSF. Details regarding accounting for income and costs under construction contracts for the financial year were presented in notes: 7, 8, 28, 35, 38 of the consolidated financial statement of the Group.

Provisions for expenses caused by delays in contract performance

The Group shall make provisions for contractual penalties due to delays in contract performance, if there is high probability of inflicting penalties for delay in contract performance and this delay was caused through the fault of companies of the Group, as the contractors. The amount of provisions shall result from the value of contractual penalties for delay stipulated in the given contract. Details regarding estimated provisions were presented in note 35.3 with additional information and clarifications.

5.3. Presentation adjustment

The Group verified methods of financial data presentation in the total income statement and financial statement. In order to adjust presentation methods to the Group operations, changes were made in presentation of certain financial data that have no impact on the financial result.

Main changes in the presentation manner of financial data in the consolidated total income statement:

- recognition of realized and calculated exchange rate variations for trade receivables in sales income,
- recognition of realized and calculated exchange rate variations for trade liabilities in manufacturing cost,
- recognition of revenues/costs from realization and valuation of financial derivatives in revenues from sales or manufacturing cost,
- specification of increase /(decrease) in foreign exchange contract liabilities, which were presented in (profit)/loss on investing activities.

Comparable financial data in items of the total income statement for 2009, the presentation of which was changed in comparison to data presented in the financial statement for 2009, were adjusted as stated below:

Sales revenue prior to adjustment	**949 316**
Profit on realization of derivatives	(4 486)
Profit on valuation of derivatives	7 906
Exchange rate variations concerning discharged trade receivables	(631)
Exchange rate variations from valuation of trade receivables	(6 108)
Sales revenues after adjustment	**945 997**

Cost of sold goods and materials prior to adjustment	**(845 003)**
Exchange variations concerning discharged trade liabilities	(879)
Exchange variations from valuation of trade liabilities	3 686
Cost of sold goods and materials after adjustment	**(842 196)**

Financial revenues prior to adjustment	**19 055**
Revenues from valuation of derivatives – included in sales revenues /cost of goods sold	(7 905)
Financial revenues after adjustment	**11 150**

Financial expenses prior to adjustment	**(20 740)**
Recognition of exchange rate variations regarding trade receivables and liabilities in revenues from sales /cost of goods sold	4 061
Recognition of exchange rate variations regarding investing operations in other operating costs	55
Loss on realization of derivatives – presented in revenues from sales	4 246
Financial costs after adjustment	**(12 378)**

Other operating revenues	4 167
Recognition of exchange rate variations regarding investing operations	55
Remaining operating revenues after adjustment	**4 222**

6. Substantial accounting rules

6.1. Basis for drawing up the consolidated financial statement

The consolidated financial statement was drawn up in conformity with historical cost principle, modified in case of financial instruments.

The consolidated financial statement is presented in Polish zlotys („PLN"), and all values, unless indicated otherwise, are given in thousands of zlotys.

The consolidated financial statement was drawn up with the assumption to proceed business activity by companies in the Group in foreseeable future, except for operations of the subsidiary ELWO S.A. in bankruptcy. On the day of approval of this consolidated financial statement no circumstances were found that indicate threat to continuation of business activity by the Group.

6.2. Conformity declaration

This consolidated financial statement was drawn up according to International Financial Reporting Standards („IFRS") and IFRS approved by the European Union. On the day of approval of this consolidated financial statement for publication, taking into account the process of introduction of IFRS standards in the European Union and business activity conducted by the Group, within the scope of accounting principles applied by the Group there is no difference between IFRS standards which were enforced, and IFRS standards that were approved by the European Union.

IFRS comprise standards and interpretations accepted by the Council of International Accounting Standards („RMSR") and the Committee for Interpretation of International Financial Reporting („KIMSF").

The subsidiary having their business premises in Serbia keep their accounts in conformity with accounting policy (principles) valid in the country of their business premises. This consolidated financial statement contains adjustments not included in the company books, reported in order to make financial statements conforming to MSSF.

The Group applied IFRS according to the status in force on 31st December 2010.

6.3. Measurement currency and financial statement currency

The measurement currency of the parent company and other companies included in this consolidated financial statement and the reporting currency of this consolidated financial statement is the Polish zloty.

6.4. Changes in applied accounting principles

This consolidated financial statement and comparable financial data for 2010 and 2009 were drawn up in conformity with IFRS standards. No alterations of applied accounting rules occurred in 2010.

6.5. New standards, changes and interpretations that were published but haven't taken effect yet

The Council of International Accounting Standards or the Committee for Interpretation of International Financial Reporting issued the following standards, alterations and interpretations, that either were not approved by the European Union or have not taken effect on 31st December 2010:

- MSSF 9 „Financial Instruments"

MSSF 9 was published by the Council of International Accounting Standards on 12th November 2009 and is in force for annual periods beginning on 1st January 2013. This standard introduces new requirements for classification and valuation of financial assets and will replace the currently valid MSR 39 „ Financial Instruments: recognition and valuation". According to the new standard all included financial assets currently within the range of MSR 39 will be assessed at depreciated cost or fair value. MSSF 9, contrary to MSR 39, does not anticipate the obligation of separation and individual valuation of embedded instruments. Up to the day of drawing up this financial statement MSSF 9 was not approved by the European Union.

- Alterations to MSSF 1 „Application of MSSF for the first time – Serious Hyperinflation and removal of fixed dates for entities applying MSSF for the first time"

The modification plan to MSSF 1 was published by the Council of International Accounting Standards on 30th September 2010. Alterations published contain guidelines for making financial statements by an entity compliant with MSSF after the period, in which they were unable to fulfil conditions included in Standards because of serious hyperinflation of their functional currency. Up to the day of drawing up this financial statement alterations to MSSF 1 were not approved by the European Union.

- Alterations to MSSF 7 „Financial Instruments: disclosure of information"

On 7 October 2010 the Council of International Accounting Standards issued the document „Disclosure of information on financial assets transfers" (alterations to MSSF 7) that tightens requirements for disclosure of information on transfers of financial assets without writing off and introduces new requirements for disclosure of assets components, which were written off, however the commitment of the entity in these components was unchanged in spite of sales. Up to the day of drawing up this financial statement alterations to MSSF 1 were not approved by the European Union.

- Alterations to MSR 12 „Deferred tax: realization of assets"

Modification plan to MSR 12 was published by the Council of International Accounting Standards on 10th September 2010. The plan proposes exemption from provisions of MSR 12, which require valuation of assets and liabilities on account of deferred tax resulting from definite assets, with the assumption that carrying value a given component will be fully restored at sale, unless there are distinct premises that economic benefits generated by the given component of assets will be consumed within the period of its economic utility. Up to the day of drawing up this financial statement alterations to MSSF 1 were not approved by the European Union.

- Annual amendments to MSSF

Amendments to MSSF 2010, which contain amendments to seven International Financial Reporting Standards, were published by the Council of International Accounting Standards on 6th May 2010. The objective is to introduce necessary alterations to MSSF. Up to the day of drawing up this financial statement annual amendments to MSSF were not approved by the European Union.

On the day of drawing up the statement the enforcement of the above standards, alterations and interpretations does not cause any changes in the financial statement being effect of applied above standards, alterations or interpretations for the first time.

6.6. Error adjustment

In the consolidated financial statement for the year ended on 31st December 2010 and the year ended on 31st December 2009 error of the past years was adjusted.

A detailed description of adjustments made is included in note 30.9 with additional information and clarifications.

6.7. Consolidation rules

RAFAKO S.A. is the parent company of RAFAKO Group and they draw up the consolidated financial statement.

The consolidated financial statement includes the financial statement of the parent company and financial statements of their subsidiaries, made every time for the year that ended on 31 December. Financial statements of subsidiaries are drawn up for the same reporting period as the financial statement of the parent company, applying coherent accounting rules, based on uniform accounting rules used for deals and economic events of similar character. In order to eliminate any discrepancies in applied accounting rules, adjustments are introduced.

All significant balances and deals between companies of the Group, including unattainable profits resulting from deals within the Group, were completely eliminated. Unattainable losses are eliminated, unless they prove impairment.

Subsidiaries fall under consolidation in the period from the day of taking control over them by the Group, and they are no longer consolidated as soon as the control ceases. Control by the parent company takes place when it has directly or indirectly, through its subsidiaries, more than half of the votes in a company, unless it is possible to prove that such ownership does not account for exercising control. Control is exercised also if the parent company may control the financial and operating policy of a given entity.

6.8. Investing activities in associated companies

Investing activities in associated companies are investments in entities on which the parent company has significant impact directly or through subsidiaries, and which are neither its subsidiaries nor joint ventures. The financial year is identical in associated companies and the parent company.

Investing activities in associated companies are reported in the financial statement according to purchase price increased by later changes in the share in net assets by the parent company, reduced by allowances for impairment losses, if any. The carrying value of the investment on the day when the Group cease to affect significantly the entity and it ceases to be an associated company, is deemed the purchase price at the moment of its initial valuation as an assets component.

6.9. Conversion of items expressed in foreign currency

Transactions expressed in currencies other than the Polish zloty are converted into Polish zlotys applying the exchange rate valid on the day of the transaction.

At the end of reporting period the consolidated assets and liabilities in cash expressed in currencies other than Polish zloty are converted into Polish zlotys applying the average rate in force at the end of the reporting period, laid down by the given currency by the National Bank of Poland. Exchange rate variations that arose from conversion are expressed in items:

- Revenues from sales – if they refer to trade receivables,
- Cost of goods sold – if they refer to trade liabilities,
- Other revenues /operating costs – if they refer to liabilities or receivables on account of sale /purchase of tangible fixed assets and intangible assets,
- Net financial revenues / costs – in case of other assets or liabilities.

Consolidated non-monetary assets and liabilities presented according to historical cost expressed in foreign currency are reported at historical rate of the transaction day. Non-monetary assets and liabilities presented according to fair value expressed in foreign currency are converted at the rate of the fair value valuation date.

(in thousand zlotys)

The following exchange rates were assumed for balance sheet valuation needs:

	31st December 2010	*31st December 2009*
USD	2.9641	2.8503
EUR	3.9603	4.1082
GBP	4.5938	4.5986
CHF	3.1639	2.7661
SEK	0.4415	0.4000
TRY	1.9227	1.9121

The functional currency of the foreign subsidiary is RSD (Serbian dinar). At the end of the reporting period assets and liabilities of these foreign subsidiaries are converted to the presentation currency of the Group at the rate valid at the end of the reporting period, and total income statements are translated at the weighted average exchange rate for a given financial period. Exchange rate variations arising out of such conversion are reported directly in shareholders' equity as it separate component. As soon as the foreign entity is sold, the accumulated deferred exchange rate variations reported in shareholders' equity, concerning a given foreign entity, are expressed in the profit and loss account.

The weighted average exchange rates for individual periods are as follows:

	31 December 2010	*31 December 2009*
RSD	0.0387	0.0459

6.10. Tangible fixed assets

Tangible fixed assets are reported according to purchase price / manufacturing cost decreased by depreciation and any impairment losses. Original value of fixed assets comprises their purchase price increased by all costs directly related to purchase and adaptation of the asset to be fit for use. The cost comprises also replacement cost of machine and equipment parts at the moment it is incurred, if recognition criteria are met. Costs incurred after the date of commissioning of fixed assets, such as maintenance and repair costs, will debit the profit and loss account at the moment they are incurred.

The Group made valuation of part of fixed assets according to fair value and recognized this value as assumed cost for the day of 1st January 2004, which is the day of changeover to MSSF application.

When purchased fixed assets are divided into components that are items of substantive value, to which a separate period of economic utility can be assigned. Cost of general overhauls are also their component.

Depreciation is calculated by linear method for the estimated period of use of a given component of assets, i.e.:

Type	*Depreciation rate*	*Period*
Land (right of perpetual usufruct of land)	-	-
Buildings and structures	from 1.54 % to 50.00 %	from 2 to 65 years
Machines and technical equipment	from 3.33 % to 50.00%	from 2 to 30 years
Office facilities	from 10.00 % to 66.67%	from 1 to 10 years
Transportation means	from 6.67 % to 50.00 %	from 2 to 15 years
Computers	from 10.00 % to 50.00 %	from 2 to 5 years

The Group count the right of perpetual usufruct of land among tangible fixed assets. Owing to absence of premises indicating withdrawal or lack of possibility to resume the right of perpetual usufruct of land located mainly in the production plant area of the companies, the decision was made to classify the above mentioned right as component of tangible fixed assets that do not fall within depreciation, as in case of land.

If in drawing up the consolidated financial statement there were circumstances which indicate that carrying value of tangible fixed assets may not be recoverable, a review of these assets is made in respect of their impairment, if any. If there are premises indicating that impairment could have occurred, and carrying value exceeds the estimated recoverable value, then the value of these assets or centres working out cash, to which these assets belong, is decreased to the level of recoverable value. Recoverable value corresponds to the higher of the following two values: fair value reduced by selling costs or utility value.

At determination of utility value, estimated future cash flows are discounted to present value using the gross discount rate, reflecting current market valuation of cash value in time and risk related to a given component of assets. In case of the assets component that does not generate cash proceeds in an independent way, the recoverable value is determined for the centre working out cash to which this component belongs. Allowances for impairment losses are presented in profit and loss account in cost of goods sold item.

A given item of tangible fixed assets may be removed from the financial statement after its sale or if no economic profit resulting from further use of such component of assets is expected. Any profit or loss resulting from removal of such component of assets from the financial statement (calculated as difference between net sale proceeds, if any, and net carrying value of a given item) is presented in profit and loss account in the period in which such removal was done.

Investments started concern fixed assets that are under construction or erection and are reported according to acquisition cost or manufacturing cost. Fixed assets under construction do not fall within depreciation until construction is completed and the fixed asset is commissioned.

At the end of each financial year the Group verify fixed assets in respect of impairment, assumed period of economic use and applied depreciation method and, if necessary, they make appropriate accounting adjustments, having impact on the current period or next years. If the Group repair fixed assets, that meet the criteria of being presented in assets value, then repair / overhaul cost is included in carrying value of tangible fixed assets.

6.11. External financing costs

External financing costs, that can be directly assigned to purchase, construction or manufacture of adapted assets component, are part of purchase price or manufacturing cost of this component. Other external financing costs are presented as financing cost of the period.

6.12. Intangible assets

Intangible assets purchased in a separate transaction are assessed at first at the acquisition cost or manufacturing cost. The acquisition cost of intangible assets purchased in a transaction of merger of economic entities, is equal to their fair value on the merger day. After initial recognition, intangible assets are presented in the purchase price or manufacturing cost reduced by depreciation and allowances for impairment losses. Expenditures incurred on intangible assets manufactured on their own, except for expenditures borne on development, are not activated and are presented in costs of the period in which they were incurred.

As at 1st January 2004 the Group valuated parts of intangible assets according to fair value and recognized this value as assumed cost for MSSF 1 requirements.

The Group shall determine whether the usage period of intangible assets is limited or indefinite. Intangible assets with limited usage period are depreciated through the usage period and tested for impairment every time, when there are premises indicating their impairment. The period and depreciation method of intangible assets with limited usage period are verified at least at the end of every financial year. Changes in anticipated usage period or expected way of consuming economic benefits coming from a given component of assets are expressed through change of depreciation period or method, as appropriate, and treated as changes of estimated values. Depreciation write-off of intangible assets components with limited usage period is expressed in the profit and loss account in the category which corresponds to the function of a given component of intangible assets.

Except for development works, intangible assets generated by the company on their own are not expressed in assets, and expenditures borne for their manufacture are expressed in the profit and loss account for the year in that they were incurred.

Intangible assets with indefinite usage period and these that are not used, are subjected to verification in respect of impairment, if any, every year, with reference to individual assets or at the level of the centre working out cash. In case of other intangible assets, it is assessed every year if premises occurred that may prove their impairment. Usage periods are also verified every year, and if necessary, corrected with effect from the beginning of the financial year.

For intangible assets with definite usage period linear depreciation method is applied.

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

Profit or loss resulting from removal of intangible assets from the financial statement are evaluated according to the difference between net sales proceeds and carrying value of a given assets component and they are expressed in the profit and loss account at the very moment of its writing off.

Costs of research and development works

Costs of research works are written off in the profit and loss account as soon as they are incurred. Expenditures borne on development works within the scope of a given undertaking are carried over to another successive period, if it can be stated that they will be recovered in the future. After initial recognition of expenditures for development works, a historical cost model is applied that requires to express assets components according to purchase prices /manufacturing costs reduced by accumulated depreciation and accumulated impairment losses. Any expenditures carried forward to a successive period are depreciated through the anticipated period of gaining sales revenues from a given undertaking.

Costs of development works are evaluated in respect of impairment, if any, every year – if the component of assets has not been commissioned yet, or more frequently – if within the reporting period impairment premises occur indicating that their carrying value may not be recoverable.

A summary of rules applied towards intangible assets of the Company is as follows:

	Patents and licenses	**Computer software**
Usage periods	For patents and licenses used under agreements concluded for definite time, this period is assumed with taking into consideration an extra period, for which usage can be extended.	2-5 years
Method applied	Depreciation by linear method for the period of the agreement (5 – 10 years)	Depreciation by linear method
Manufactured internally or purchased	Purchased	Purchased
Verification in respect of impairment / testing recoverable value	Annual valuation if there are premises proving the occurrence of impairment.	Annual valuation if there are premises proving the occurrence of impairment.

Company value

The Company value on account of takeover of a business entity is initially expressed according to the purchase price that is a surplus of merger costs of business entities over the share of the taking over company in net fair value of identifiable assets, liabilities and contingent liabilities. Following an initial recognition, the company value is reported according to the purchase price reduced by any accumulated impairment losses. The impairment test is conducted once a year or more often, if relevant premises occur. The company value does not undergo depreciation.

On the takeover day the purchased company value is allocated to each of the centres working out cash, that can use the merger synergy. Each centre or group of centres to which the company value was assigned:

- corresponds to the lowest level within the Group, at which the company value is monitored for internal managerial needs, and
- is not larger than one segment of operations in conformity with the definition of basic or supplementary formula of financial reporting of the Company defined according to MSSF 8 *Operating segments*.

An allowance for impairment losses is determined through estimation of recoverable value of the centre working out cash, to which the given company value was allocated. If the recoverable value of the centre working out cash is lower than carrying value, an allowance for impairment losses will be recognized. If the company value forms part of the centre working out cash and part of operations within this centre is sold, at determination of profits or losses on sale of such operations, the company value related to the sold operation is included in its carrying value. In such circumstances the sold company value is determined on the basis of relative value of sold operations and retained value of part of the centre working out cash.

6.13. Fixed assets available for sale

In a situation when a component of tangible fixed assets is available for sale in its current status considering customarily accepted terms of sale for this type of assets and its sale, in conformity with the selling schedules held, is highly probable within a year, then the Group shall classify the given component of assets as available for sale. The carrying value of such component of assets presented in the consolidated financial statement of the Group is the lower of two values: carrying value and fair value reduced by selling costs.

6.14. Recoverable value of long term assets

At the end of each reporting period companies included in the Group shall evaluate assets in respect of premises indicating their impairment. If such premises occur, a formal assessment of recoverable value is made. If the carrying value of a given component of assets or a centre working out cash exceeds its recoverable value, this is considered to be impairment, and an allowance is made to update its value to recoverable value level. The recoverable value is one of two values according to which value is higher: fair value reduced by selling costs or utility value of given component of assets or a centre working out cash.

6.15. Financial assets

Financial assets are divided into the following categories:

– financial assets kept until maturity date,
– financial assets valuated in fair value through financial result,
– loans and receivables,
– financial assets available for sale.

Financial assets kept until maturity date are investments with determined or possible to determine payments and defined maturity date, that the Group intend to keep and hold till this time. Financial assets kept until maturity date are assessed according to depreciated cost using the effective interest rate method.

Financial instruments acquired in order to generate profit owing to short-term price fluctuations are classified as financial instruments valuated in fair value through the financial result. Financial instruments valuated in fair value through the financial result are valuated in fair value, taking into consideration their market value at the end of the reporting period. Changes in fair value of these financial instruments are accounted for in revenues or financial costs.

Loans and receivables are recognized according to depreciated cost.

Any other financial assets are financial assets available for sale. Financial assets available for sale are expressed according to fair value, not deducting the deal expenses, taking into consideration their market value at the end of the reporting period. In case of absence of stock exchange listing on active market and shortage of reliable determination their fair value by alternative methods, financial assets available for sale are valuated in purchase price adjusted by allowance for impairment losses.

A positive and negative difference between fair value and purchase price, after reduction by deferred tax, of assets available for sale (if market price determined on active adjustable market exists or whose fair value may be determined in another reliable way), refers to supplementary capital from revaluation. Depreciation of assets available for sale caused by impairment refers to the profit and loss account as financial cost.

Financial assets kept until maturity date are classified as long-term assets, if their maturity exceeds 12 months from the end of the reporting period.

Financial assets evaluated at fair value through the financial result are counted among current assets, if the Managing Board intend to realize them within 12 months from the end of the reporting period.

Purchase and sale of financial assets is recognized on the transaction day. When initially recognized they are evaluated at the purchase price, i.e. fair value, including transaction costs.

Financial liabilities which are not financial instruments evaluated at fair value through the financial profit, are evaluated according to depreciated cost, applying the effective interest rate method.

A financial instrument is removed from the financial statement, when the Group lose control over contractual rights that make up a given financial instrument; it usually happens in case of sale of a financial instrument or if all cash flows attributed to a given financial instrument are transferred to an independent third party.

6.16. Impairment of financial assets

At the end of each reporting year the Group estimate if there are objective premises for impairment of a component of financial assets or group of financial assets.

6.10.1 Assets classified according to depreciated cost

If there are objective premises that loss was suffered due to impairment of loans granted and receivables evaluated at depreciated cost, then the allowance for impairment loss equals the difference between the carrying value of a financial assets component and present value of assessed future cash flows (except for future losses due to bad debts, that were not incurred yet), discounted with the use of primary effective interest rate (i.e. determined at initial recognition). The carrying value of an assets component is decreased directly or through an updating write-off. The loss amount is expressed in the profit and loss account.

At first the Group estimate if there are objective premises for impairment of individual components of financial assets, that are individually significant, and also premises for impairment of financial assets, that are individually insignificant. If from the analysis it follows that there are no objective premises for impairment of individually assessed components of financial assets, irrespective whether it is significant or not, then the Group include this component of financial assets in the group of financial assets with similar credit risk characteristics and evaluate it jointly for impairment. Assets that are evaluated individually for impairment and for which an allowance for impairment losses was presented or recognized, that the current write-off will not change, are not considered for joint evaluation of the impairment of assets group.

If within the following period the allowance for impairment loss decreased, and this decrease can be objectively related to the event following the recognition of allowance, then the previously recognized allowance reverts. Later reversal of the allowance for impairment loss is expressed in the profit and loss account in the scope, in which the carrying value of reversal of the assets component does not exceed its depreciated cost.

6.10.2 Financial assets reported according to cost

If there are objective premises that an impairment of a capital instrument not listed on the stock exchange occurred, which is not reported according to fair value because its fair value cannot be determined reliably, or derivative that is related and must be settled through the delivery of such not listed capital instrument, then the allowance for impairment loss is fixed as the difference between carrying value of a component of financial assets and present value of estimated future cash flows, discounted by applying the current market rate of return for similar financial assets.

6.10.3 Financial assets available for sale

If there are objective premises that an impairment of a component of financial assets available for sale occurred, then the amount being the difference between the its purchase price (reduced by any capital payback and interest) and its present fair value, decreased by any allowances for impairment loss of this component presented previously in the profit and loss account, will be written off from shareholders' equity and transferred to the profit and loss account. Reversal of allowance for impairment loss of capital instruments classified as available for sale cannot be presented in the profit and loss account. If in the following period the fair value of a debt instrument available for sale increases, and this increase can be objectively related to the event following the recognition of allowance for impairment loss in the profit and loss account, then the amount of the reversible allowance is expressed in the in the profit and loss account.

6.17. Derivative financial instruments

Derivatives that the Company use in order to secure themselves against risk related to variation of currency exchange rates, are primarily forward currency contracts. Such financial derivatives are valuated to the fair value. Derivatives are reported as financial assets, if their value is positive, and as financial liabilities - if their value is negative.

Profit and loss due to changes in derivatives fair value, that do not meet accounting principles of security pertain directly to net financial result of the financial year. Result on realization and valuation of financial derivatives adjusts revenues from sales or cost of goods sold accordingly.

Valuation of financial derivatives in fair value is conducted at the end of every reporting period basing on valuations carried out by banks that deal transactions. Any profit or loss because of valuation of financial derivatives pertain to revenues or costs of operating activities.

Fair value of forward currency contracts is determined through reference to current forward rates occurring with contracts of similar maturity date.

6.18. Inventories

Inventories are valuated according to the lower of two values: acquisition cost /manufacturing cost and the net selling price possible to reach.

Material purchased in order to be used in manufacture, that is at the moment of purchase explicitly identified with the performed construction contract, or other supply or services contracts is valuated in the financial year by applying the detailed identification method of individual purchase prices for a specific contract. On the last day of reporting period materials are valuated in conformity with construction contracts' valuation principles (MSR 11), i.e. value and costs related to purchase of these materials are included in the manufacturing cost.

Other manufacturing materials are valuated according to purchase price or manufacturing cost. Consumption of material is included in the manufacturing cost according to weighted average price.

Inventories are reported in net value (reduced by updating write-offs). Updating write-offs for inventories are created in relation to their impairment in order to bring the value of inventories to recoverable net value level. The amount of write-offs for inventories value to obtainable net value level and any loss in inventories are expressed as cost of the period in which the write-off or loss has taken place.

The obtainable net sale price is the estimated sale price obtained in ordinary business activity, reduced by finishing costs and estimated costs necessary to bring the sale in effect.

6.19. Trade and other receivables

Trade receivables for which the maturity date is usually from 30 to 90 days, are recognized and reported according to primarily invoiced amounts, taking into consideration the allowance for bad debts. The maturity date for receivables resulting from retained guarantee instalments expires on completion of the guarantee period. The allowance for doubtful receivables is estimated when collection of the full amount of receivables ceased to be likely. Bad debts are written off in the profit and loss account at the very moment they are found to be uncollectible.

If the impact of money value in time is essential, the value of receivables is determined by discounting of forecasted future cash flows to present value, using the gross discount rate that reflects the current valuation of money value in time. If the method lying in discounting is applied, increase in receivables because of passage of time is expressed as financial revenues.

Other receivables include in particular prepayments transmitted on account of future purchases of tangible fixed assets, intangible assets and inventories. Prepayments are presented in conformity with the character of assets. As non-monetary assets prepayments do not fall within balance sheet valuation.

Budgetary receivables are presented under other non-monetary assets, except for income tax receivables from legal entities, which form a separate item in the financial statement.

The Group present prepaid expenses in receivables, except for prepaid expenses because of equivalence of calculated sales revenues, related to valuation of construction contracts in conformity with MSR 11 (Construction contracts).

6.20. Cash and cash equivalents

Cash reported in the financial statement includes cash in a bank, in the cash box and short-term deposits with primary maturity date not exceeding three months.

The balance of cash and cash equivalents reported in the consolidated cash flows statement consists of the above stated cash and cash equivalents, reduced by outstanding credits on current accounts.

Among cash with limited disposing possibilities the Group count cash on cash deposits placed as security for guarantees granted on behalf of the Group.

6.21. Interest bearing bank credits, loans and debt securities

At the moment of initial recognition all bank credits, loans and debt securities are expressed according to purchase price corresponding to fair value of received cash, reduced by costs related to obtaining a credit or loan.

After initial recognition interest bearing bank credits, loans and debt securities are valuated at depreciated cost, using the effective interest rate method. In determination of the depreciated cost, costs related to obtaining a credit or loan, discount or premiums obtained at the settlement of the liability are taken into consideration.

Revenues and expenses are recognized in the consolidated profit and loss account as soon as the liability is removed from the financial statement, also in consequence of calculating an allowance.

6.22. Provisions

Provisions are made if the Group has an obligation (legal or customarily anticipated) resulting from past events, and when it is probable that meeting this obligation will involve the necessity of inflow of economic benefits and a reliable assessment of the liability can be made. If the Group expect that costs included by the provision will be paid back, for instance under an insurance contract, then this repayment is expressed as a separate component of assets, however only if it is absolutely certain that such repayment will really occur. Costs concerning a given provision are reported in the profit and loss account reduced by any repayments.

If the impact of monetary value in time is essential, the provision amount is determined by discounting of forecasted future cash flows to present value, using the net discount rate that reflects current market valuations of money in time and risk related to a given obligation (liability), if any. If the discounting method was applied, an increase of the provision with the time passing is expressed as financial costs.

6.23. Retirement severance pays and jubilee awards

According to the company remuneration systems, employees of companies that constitute the Group are entitled to jubilee awards after a definite length of service and to retirement severance pay when they go into retirement.
According to internal regulations the companies also make write-offs for the Company Social Benefits Fund for pensioners coming from the companies.

The Group recognize these costs on accrual basis.

The amount of jubilee awards depends on length of service and average monthly remuneration. Employees receive also a one-time retirement severance pay. Employees, who are permanently incapable to work, are entitled to get a pension severance pay. The amount of the severance pay depends on length of service and average monthly remuneration.

The Group recognize liabilities on account of retirement severance pays and jubilee awards in order to assign costs to periods they refer to. According to MSR 19 jubilee awards are other long-term employee benefits, however retirement severance pays are programmes of specific benefits after the employment period. Present value of these liabilities at the end of each reporting period is calculated by an independent actuary. The calculated liabilities are equal to discounted payments, to be made in the future, taking into consideration labour turnover and they concern the period until the end of the reporting period. Demographic information and information on labour turnover are based on historical data. Profits and losses from actuarial calculations are recognized in the profit and loss account.

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

6.24. Trade and other liabilities

Trade liabilities for which the maturity date is usually from 30 to 90 days, are presented and reported according to amounts primarily invoiced. The maturity date for liabilities resulting from retained guarantee instalments expires after the end of the guarantee period. In case the impact of monetary value in time is essential, the value of liabilities is determined by discounting of forecasted future cash flows to present value, applying the discount rate that reflects current market assessment of monetary value in time. If the discounting method was applied, an increase in liabilities because of passing of time is expressed as financial costs.

Other financial liabilities, that are not financial instruments valuated in fair value through the financial result, are valuated according to depreciated cost using the effective interest rate method.

The Group exclude from their financial statement financial liabilities, if the liability expired – i.e. when the obligation stipulated in the contract was fulfilled, remitted or expired. Replacement of a current debt instrument by an instrument of significantly different terms made between the same entities is recognized by the Group as expiry of the primary financial liability and recognition of a new financial liability. Similar significant modifications of contract terms for an existing financial liability is recognized by the Group as expiry of the primary financial liability and expressed as a new financial liability. Differences in carrying value that arose because of the replacement are reported in the profit and loss account.

Other non-financial liabilities include in particular accrued expenses, public-legal liabilities and remunerations. Other non-financial liabilities are expressed in the amount demanding payment.

6.25. Lease

Finance lease agreements that basically transfer the entire risk and all benefits resulting from holding the lease subject on companies that are members of the Group, are presented in the financial statement on the day of the lease beginning according to the lower of the two following values: fair value of fixed assets of the subject of lease or present value of minimum lease charges. The lease charges are divided between financial costs and decrease of the balance of lease liability, so that a fixed interest rate can be obtained on the remaining due liability. Financial costs are expressed directly in the profit and loss account.

Fixed assets used under lease agreements are depreciated through the shorter of two periods: estimated period of use of the fixed asset or period of lease.

Lease agreements under which the lessor takes substantially the entire risk and any benefits from holding the lease subject, are counted among operating lease agreements. Lease charges for operating lease agreements are recognized as costs in the profit and loss account by linear method during the lease period.

6.26. Revenues

Revenues are expressed to such amount, that it is probable that the companies that constitute the Group will gain economic profits related to a given deal and when revenues can be evaluated in a reliable way. Revenues are recognized at fair values of payments received or due, after reducing by value added tax (VAT) and rebates. When expressing revenues the criteria presented below shall also apply.

6.10.4 Sale of products and goods

Revenues are expressed if considerable risk and profits resulting from the property right to goods and products were transferred to the purchaser and when the amount of revenues can be evaluated in a reliable way.

6.10.5 Services

The progress of services in percentage points is determined as the ratio of costs incurred to costs assessed necessary to perform the purchase order.

6.10.6 Construction contracts

Construction contracts are trade contracts related to basic business operations of the Company, the subject of which is the construction of components of assets or groups of assets, that are tightly interrelated or mutually dependent in the engineering and technological respect or because of the function, final destination or manner of use. The majority of contracts is concluded in fixed prices and is settled according to contract progress method.

Total revenues from a contract contain the initial amount of revenues stipulated in the contract and revisions made during contract performance, claims and premiums.

Changes in contract revenues are taken into account if it is probable that the customer approves these changes and revenues resulting from them, and the value of these revenues can be reliably evaluated. Contract revenues are evaluated in fair value received or the payment due.
The total cost of a contract comprises costs, that can be allocated directly or using reasonable methods to a specific contract, and other costs that can be charged to the Ordering Party in conformity with the contract terms.

Revaluation of contract total costs and revenues is usually made in case of significant alterations in estimates of revenues or costs of the contract performance, however not less often than once semi-annually.

Effects of alterations in estimates of revenues or costs of the contract performance and effects of alterations in estimates of contract results are expressed as change of estimated value according to MSR 8 (Principles of (policy) accounting, changes of estimated values and error adjustment). Modified estimates are applied to determine the amount of revenues and costs expressed in the profit and loss account in the reporting period, in which these changes occurred, and in following periods.

Revenue at the end of the reporting period is determined pro rata to the progress of contract performance, after deduction of revenues that affected the financial result in previous reporting periods.

Prepayments obtained for contract performance and invoiced in conformity with VAT regulations are reported as prepayments and accruals.

Progress of contract performance is calculated as quotient of actually incurred costs expressed in percentage terms, substantiated by appropriate accounting documents and estimated total contract costs.

If revenues of a period calculated according to progress exceed invoiced revenues, the Company shall decrease revenues for future periods on account of received prepayments and shall adjust sales revenues. If the balance of contract performance prepayments received is lower than the above revenues difference, sales are adjusted by the remaining amount, simultaneously expressing accrued expenses on account of equivalence of calculated sales revenues related to valuation of construction contracts.
If revenues of a period calculated according to progress are lower than invoiced revenues, the difference („surplus of invoiced sales") is expressed in the accruals of revenues item.

The difference between estimated costs commensurate to revenues, and actual incurred costs is reported as inventories adjustment (with analytics for appropriate inventories items).

Contract costs concerning future operations related to the contract, e.g. planned manufacturing costs, future deliveries of material, goods and services, costs of material kept in store – except for materials manufactured specifically for the contract, are not taken into consideration when progress of services is determined. Also prepayments for subcontractors for work done under the contract are not included in costs incurred.

If estimated total costs of a contract exceed reliably estimated contract revenues (i.e. total estimated result from performance will be a loss), then the entire loss is recognized in a given period as cost debiting the manufacturing cost and it is expressed in the financial statement as provision for liabilities on account of construction contracts. The provision at the end of a given period is the difference of estimated total loss on performance of a specific contract and the recognized loss amount (according to progress) till the end of this period.

If a reliable assessment of the contract result is not possible, costs incurred are recognized to full amount, and revenues to the amount not exceeding the value of recognized costs, the recovery of which is probable, in conformity with MSR 18 (Revenues).

Revenues cashed and costs incurred in foreign currencies shall be recorded in Polish zlotys translated basing on the average exchange rate of the National Bank of Poland of the day of issuing the invoice, or other stipulated in the contract.

6.10.7 Interest

Revenues from interest is expressed gradually as they accumulate (taking into consideration the effective interest rate method, that forms the rate discounting future cash proceeds through an estimated period of use of financial instruments) in relation to net carrying value of a given component of financial assets.

6.10.8 Dividends

Dividends due are counted among financial revenues for the day of passing the resolution on appropriations and applications of profit by relevant bodies of companies that form the Group, unless another day of the right to dividend is stated in the resolution.

6.10.9 Revenues from rental

Revenues from rental of investment real properties is expressed by linear method through the rental period in relation to open contracts.

6.10.10 Governmental subsidies

If there is justified certainty that a subsidy will be granted and all conditions related to it will be met, then governmental subsidies are expressed according to their fair value.

If the subsidy refers to a given cost item, then it is expressed as revenue in a commensurate manner to costs the subsidy is going to compensate. If the subsidy refers to a component of assets, then its fair value is expressed on the revenue accruals account, and then gradually, by way of equal annual allowance, written off to the profit and loss account through an estimated period of use of the related assets component.

6.27. Taxes

6.10.11Tax payable

Liabilities and receivables by reason of tax payable for the current period and previous periods are assessed to the amount anticipated to be paid to the tax office (subject to reimbursement from tax authorities) using the tax rates and tax regulations that were legally or actually in force at the end of the reporting period.

6.10.12 Deferred tax

For the purpose of financial reporting a provision for income tax is made in relations to all transitional differences that occur at the end of the reporting period, between tax value of assets and liabilities and their carrying value presented in the financial statement.

The provision for deferred tax is expressed with reference to all positive transitional differences:

- except for the situation when provision for deferred tax arises in consequence of initial recognition of the company value or initial recognition of a component of assets or liabilities in a transaction that does not constitute a merger of economic entities, and at the moment of its conclusion it affects neither the gross financial result, the taxable income nor the tax loss, and
- in case of positive transitional differences resulting from investments in subsidiaries or associated companies and shares in joint ventures – except for the situation when dates of reversal of transitional differences fall within the control of the investor, and it is probable that in foreseeable future transitional differences will not be reverted.

Deferred tax assets are expressed with reference to all negative transitional differences, in such amounts that it is probable to gain taxable income, that will allow to make use of the above differences, assets and losses:

- except for the situation when deferred tax assets regarding negative transitional differences arise in consequence of initial recognition of a component of assets or liabilities in a transaction that does not constitute a merger of economic entities, and at the moment of its conclusion they affect neither the gross financial result, the taxable income nor the tax loss, and
- in case of negative transitional differences resulting from investments in subsidiaries or associated companies and shares in joint ventures, a component of deferred tax assets is recognized in the financial statement only to such an amount, that it is probable that in foreseeable future the above transitional differences will be reverted and taxable income will be gained, which will allow to deduct negative transitional differences.

Carrying value of a component of deferred tax assets is verified at the end of each reporting period and it is adequately decreased so much, that a taxable income, sufficient for partial or total realization of a component of deferred tax assets, is improbable to obtain.

Provisions and deferred tax assets are reported in the financial statement in compensative values.

Deferred income tax assets and provisions for deferred tax are evaluated using tax rates, that as anticipated will be in force in the period when the component of assets will be realized or provisions dissolved, assuming as basis tax rates (and tax regulations) in force at the end of the reporting period or such, that will be in force in future, which is certain at the end of the reporting period.

Income tax regarding items expressed directly in shareholders' equity is recognized in shareholders' equity, and not in the profit and loss account.

6.10.13 Value added tax

Revenues, costs, assets and liabilities are recognized after reduction of the value added tax, except for:

- if value added tax paid at the purchase of assets or services is not recoverable from tax authorities; then it is recognized as part of the purchase price of the component of assets or as part of a cost item, and
- receivables and liabilities that are reported taking into account value added tax.

Net amount of value added tax recoverable or due to tax authorities is expressed in the financial report as part of receivables or liabilities.

6.11 Net profit per share (earnings per share)

Net profit per share for every period is calculated by dividing net profit for a given period by the weighted average number of shares in a given reporting period. The Group do not present diluted earnings / loss per share, as there are no potentially watered common shares.

7. Operational segments

The Group decided about the division into operational segments, according to requirements of MSSF 8, in force since 1 January 2010. Management of the Group is carried out in division into segments, according to the type of products and services offered. Each segment is a component of the Group that attains revenues and bears expenses, in conformity with MSSF 8 Operational Segments.

The Group distinguish the following segments of operation:

- power and environment protection plants,
- furnaces and mills,
- other segments.

The segment - power and environment protection plants offers power units, boilers: stoker fired boilers, pulverized fuel fired boilers, circulating and bubbling fluidized bed boilers and heat recovery boilers, wet, semi-dry and dry flue gas desulfurization technologies, nitrogen removal technologies, dust extraction equipment comprising electrostatic precipitators and bag filters as well as municipal and industrial waste incineration plants. They are suppliers for the general net supply and industrial power engineering.

The segment - furnaces and mills offers pulverizers for hard and brown coal, mechanical stokers and extension grates, deslaggers used in machines and power equipment, and spare parts for the above listed equipment. Customers of this segment are mainly power station and thermal power stations. An important customer of the products of this segment inside the Group is the segment of power and environment protection plants.

Other segments include segments that do not reach the quantitative thresholds stated in MSSF 8, including management of immovable properties and engineering services rendered by other companies of the Group.

(in thousand zlotys)

Period that ended on 31st December 2010 or as at 31st December 2010	*Continued operations*				
	Power and environment protection plants	*Furnaces and mills*	*Other segments*	*Eliminated items*	*Total operations*
Revenues					
Sales to external customers	1 109 975	74 119	3 959	–	1 188 053
Sales between segments	332	15	4 405	(4 752)	–
Total revenues from sales	1 110 307	74 134	8 364	(4 752)	1 188 053
Manufacturing cost	(938 142)	(61 666)	(7 289)	4 974	(1 002 123)
Result/(profit)					
Profit (loss) on sales	172 165	12 468	1 075	222	185 930
Other revenues (costs)	(116 365)	(9 183)	(483)	260	(125 771)
Profit (loss) on operating activities	55 800	3 285	592	482	60 159
Financial revenues (costs)	(4 276)	(253)	314	627	(3 588)
Profit (loss) before tax	51 524	3 032	906	1 109	56 571
Income tax	(11 340)	(739)	(203)	(3)	(12 285)
Net profit (loss)	40 184	2 293	703	1 106	44 286
Assets and liabilities					
Assets	907 565	70 003	18 400	(46 629)	949 339
Liabilities	532 835	15 747	7 907	(6 975)	549 514
Shareholders' equity	374 730	54 256	10 493	(39 654)	399 825
Total liabilities and capitals	907 565	70 003	18 400	(46 629)	949 339

(in thousand zlotys)

Period that ended on 31st December 2009 or as at 31st December 2009	*Continued operations*				
	Power and environment protection plants	*Furnaces and mills*	*Other segments*	*Eliminated items*	*Total operations*
Revenues					
Sales to external customers	905 096	51 589	3 660	–	960 345
Sales between segments	84	11 614	5 031	(16 729)	–
Total revenues from sales	905 180	63 203	8 691	(16 729)	960 345
Manufacturing cost	(804 231)	(48 437)	(7 737)	18 209	(842 196)
Result (profit)					
Profit (loss) on sales	100 949	14 766	954	1 480	118 149
Other revenues (costs)	(53 673)	(9 805)	(432)	(814)	(64 724)
Profit (loss) on operating activities	47 276	4 961	522	666	53 425
Financial revenues (costs)	862	(582)	418	(1 926)	(1 228)
Profit (loss) before tax	48 138	4 379	940	(1 260)	52 197
Income tax	(12 484)	(737)	(190)	44	(13 367)
Net profit (loss)	35 654	3 642	750	(1 216)	38 830
Assets and liabilities					
Assets	760 774	62 288	17 783	(48 398)	792 447
Liabilities	405 075	15 372	1 927	(7 133)	415 241
Shareholders' equity	355 699	46 916	15 856	(41 265)	377 206
Total liabilities and capitals	760 774	62 288	17 783	(48 398)	792 447

(in thousand zlotys)

8. Information on construction contracts

	Year ended on 31 Dec.2010	*Year ended on31 Dec. 2009*
Revenues from sale of products and services, inclusive of:	**1 168 639**	**945 997**
a) sales revenues calculated using the contract performance progress method at the end of the reporting period	1 127 180	850 606
b) other revenues from sale of products and services concerning basic operating activities	41 459	95 391
Total amount of costs incurred and recognized profits (reduced by recognized losses) at the end of the reporting period	1 149 265	936 848
Received prepayments	94 083	158 754
Amounts retained	28 100	27 236
Gross amount receivable from the Ordering Party for work performed under the contract (assets)	200 646	54 679
Gross amount due to the Ordering Party for work performed under the contract (liabilities)	18 100	(2 016)

The concluded construction contracts may include contingency liabilities and receivables related to the following risks / chances:

1. risk of contractual penalties laid on because of default in meeting contractual dates, if any,
2. risk of incurring extra costs and penalties for inadequate contract performance, if any,
3. risk of incurring penalties because of default in adherence to technical parameters in the subject of the contract, if any,
4. risk of incurring costs of repairs, overhauls, modernization in the guarantee period, if any,
5. risk of realization of assets in case of insolvency (bankruptcy, winding up, etc.) of the Ordering Party, if any,
6. risk of claims and penalties that arose in consequence of suspension / withdrawing from the contract by one of the parties,
7. risk/chance of occurrence of liabilities /receivables that arose in consequence of changes in the fiscal system, customs, etc. made during the performance of the contract,
8. risk of occurrence of penalties and claims in consequence of default in meeting contract terms regarding handover to the Ordering Party of required bank/ insurance guarantees for refund of prepayment and the performance bond,
9. risk/chance of occurrence of extra liabilities /receivables in consequence of final settlement by weight with the Ordering Party for the performed contract.

(in thousand zlotys)

9. Revenue and costs

9.1. Revenues from sale of goods and services

Revenues from sale of goods and services

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
- net revenues from sale of products	1 152 262	931 700
- from associated companies included	3 780	6 114
- net revenues from sale of services	14 140	15 794
- from associated companies included	–	–
- net revenues from sales of other products	1 161	1 822
- from associated companies included	–	–
- profit /(loss) on realization of derivatives	(2 137)	(4 486)
- profit /(loss) on valuation of derivatives	8 390	7 906
- exchange rate variations regarding trade receivables realized	(4 760)	(631)
- exchange rate variations from valuation of trade receivables	(417)	(6 108)
Net revenues from sale of products, in total	**1 168 639**	**945 997**
- from associated companies included	3 780	6 114

Geographical structure of revenues from sale of products and services

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
a) domestic customers	**857 445**	**595 504**
- from associated companies included	3 780	6 114
- revenues from sale of goods	844 457	577 920
- from associated companies included	3 780	6 114
- revenues from sale of services	9 558	14 358
- from associated companies included	–	–
- other revenues	1 161	1 822
- from associated companies included	–	–
- profit /(loss) on realization of derivatives	(728)	(2 110)
- profit /(loss) on valuation of derivatives	3 036	3 606
- exchange rate variations regarding trade receivables realized	(23)	(99)
- exchange variations from valuation of trade receivables	(16)	7
b) foreign customers	**311 194**	**350 493**
- to associated companies included	–	–
- revenues from sale of goods	307 805	353 0
- from associated companies included	–	–
- revenues from sale of services	4 582	1 436
- from associated companies included	–	–
- profit /(loss) on realization of derivatives	(1 409)	(2 376)
- profit /(loss) on valuation of derivatives	5 354	4 300
- exchange rate variations regarding trade receivables realized	(4 737)	(532)
- exchange rate variations from valuation of trade receivables	(401)	(6 115)
Net revenues from sales of products, total	**1 168 639**	**945 997**
- from associated companies included	3 780	6 114

(in thousand zlotys)

Revenues from sale of material

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
- revenues from sale of material	19 414	14 348
- from associated companies included	–	–
Net revenues from sale of goods and material, in total	**19 414**	**14 348**
- from associated companies included	–	–

Geographical structure of revenues from sale of material

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
a) **domestic customers**	18 951	14 054
- from associated companies included	–	–
a) **foreign customers**	463	294
- from associated companies included	–	–
Net revenues from sale of goods and material, in total	**19 414**	**14 348**
- from associated companies included	–	–

The main customers of the Group products and services are primarily foreign and domestic suppliers of power plants / facilities as well as the domestic and foreign general net supply and industrial power engineering.

Sales assortment in division into markets was presented in the report of the Managing Board on the Group operations in 2010 in clause 4.1.

Sale revenues from associated companies are presented in detail in note 41.

(in thousand zlotys)

9.2. Costs of sold products and material

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
a) depreciation	11 900	13 629
b) material and energy consumption	507 246	316 572
c) external services	396 865	348 930
d) taxes and charges	5 949	8 497
e) remunerations	111 546	105 441
f) social security and other benefits	27 020	26 325
g) profit /(loss) on valuation of derivatives	70	–
h) realized exchange rate variations	2 158	879
i) unrealized exchange rate variations	696	(3 686)
j) other costs by type	17 191	10 396
Costs by type, in total	**1 080 641**	**826 983**
Status change of receivables, inventories, products and accruals	(147 039)	15 180
Adjustment of inventories regarding construction contracts expressed in manufacturing cost	135 189	46 487
Product manufacturing costs for auxiliary services of the entity (negative value)	(7 234)	(653)
Selling costs (negative value), including:	(48 615)	(25 559)
- allowances for bad debts	(24 046)	(823)
Overhead costs (negative value)	(31 017)	(32 037)
Manufacturing cost of sold products	**981 925**	**830 401**
Value of sold material	20 198	11 795
Costs of sold products and material	**1 002 123**	**842 196**

9.3. Depreciation of tangible assets and intangible assets, write-offs recognized in the consolidated profit and loss account

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Items recognized in the cost of goods sold (cost of sold goods and services):	10 656	12 419
Depreciation of tangible assets	9 625	11 359
Depreciation of intangible assets	1 031	1 060
Permanent impairment of tangible fixed assets	–	279
Items recognized in selling costs	530	423
Depreciation of tangible assets	350	344
Depreciation of intangible assets	180	79
Items recognized in overhead costs:	714	787
Depreciation of tangible assets	607	642
Depreciation of intangible assets	107	145

(in thousand zlotys)

9.4. Costs of employee benefits

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Remunerations, including:	111 546	105 441
- current remuneration costs	108 357	103 116
- costs of retirement benefits and jubilee awards	2 513	1 671
- other benefits	676	654
Social security costs	27 020	26 325
	138 566	**131 766**

9.5. Other operating revenues

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Release of provision for penalty expenses	5 049	1 027
Revenues from stipulated penalties	3 231	367
Profit on sales of tangible fixed assets	637	920
Subsidies	209	47
Received indemnifications	160	1 806
Exchange rate variations regarding investment operations	45	55
Other	1 734	–
	11 065	**4 222**

9.6. Other operating costs

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Formation of provision for costs caused by delays in contract performance	54 851	7 559
Donations	354	319
Contractual penalties	300	212
Costs of material scrapping	141	40
Allowance for fixed tangible assets	51	279
Loss on sales / liquidation of fixed tangible assets	21	61
Legal costs	24	956
Other	1 462	1 924
	57 204	**11 350**

9.7. Net financial revenues

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Interest by reason of financial instruments	5 452	9 472
Valuation of financial instruments	1 024	791
Income from sales of financial instruments	599	829
Other interest	9	–
Other financial revenues	979	58
Total financial revenues	**8 063**	**11 150**

(in thousand zlotys)

9.8. Net financial expenses

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Acquisition costs	6 761	7
Formation of provisions for financial expenses	2 159	–
Formation of allowance for financial bad debts	–	8 946
Surplus of negative exchange rate variations	1 489	2 595
Interest on financial instruments	675	527
Banker's commission on loans granted	199	124
Formation of allowance for the value of interest charged	–	118
Other financial costs	368	61
Total financial expenses	**11 651**	**12 378**

Detailed data regarding revenues and financial expenses related to financial instruments is presented in note 44.

10. Income tax

10.1. Income tax payable

Main components of the income tax payable for the year ended on 31st December 2010 and 31st December 2009 are the following:

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Consolidated profit and loss account		
Current income tax	(23 971)	(4 197)
Current income tax payable	(23 970)	(5 406)
Adjustments for current income tax from previous years	(1)	1 209
Deferred income tax	11 686	(9 170)
related to arising and reversal of transitional differences	11 686	(7 957)
Adjustments for deferred income tax from previous years	–	(1 213)
Income tax payable reported in the consolidated profit and loss account	**(12 285)**	**(13 367)**

(in thousand zlotys)

10.2. Establishing the effective tax rate

Establishing the income tax from consolidated gross financial profit / (loss) before taxation according to statutory tax rate, with income tax calculated according to effective tax rate of the Group for the year ended on 31st December 2010 and 31st December 2009 is as follows:

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Gross profit on continued operations before taxation	56 571	52 197
Profit on discontinued operations before taxation	–	–
Gross profit before taxation	56 571	52 197
Tax according to statutory tax rate in force in Poland, i.e. 19% (2009: 19%)	10 750	9 912
Not presented tax losses	–	–
Expenses that are not costs of income acquisition (permanent differences)	3 566	5 110
Revenues that are not the basis for taxation (permanent differences)	(2 176)	(1 489)
Other	145	(166)
Tax according to effective tax rate of 25.61% (2009: 25.61%)	12 285	13 367
Income tax (payable) reported in the consolidated profit and loss account	12 285	13 367
Income tax attributed to discontinued activities	–	–
	12 285	13 367

10.3. Deferred income tax calculated as at 31st December 2010

Deferred income tax calculated for the day 31st December 2010 and 31st December 2009 results from the following items:

	Consolidated financial statement		*Consolidated profit and loss account*	
	31 Dec. 2010	*31 Dec. 2009*	*31 Dec. 2010*	*31 Dec. 2009*
Provisions for deferred tax				
Calculated revenues from sales related to valuation of construction contracts	(36 500)	(12 149)	(24 351)	(21 546)
Calculated revenues from sales of the division in Turkey	(11 709)	(8 597)	(3 112)	(6 783)
Valuation of long-term liabilities	(501)	(487)	(14)	(94)
Valuation of land	(2 407)	(2 407)	–	(190)
Valuation of fixed assets	(10 575)	(9 915)	(660)	(16)
Valuation of intangible assets	(582)	(412)	(170)	(130)
Value of fixed assets under investment allowance	(6)	(7)	1	105
Value of fixed assets in lease	(99)	(85)	(14)	4
Surplus of unrealized positive exchange rate variations	(143)	(135)	(8)	1 418
Interest charged on deposits	(91)	(47)	(44)	(13)
Calculated revenues from insurance	–	(168)	168	483
Interest charged on granted loans	(5)	(25)	20	(25)
Guarantee and insurance expenses accounted for in time	–	(981)	981	(586)
Valuation of certificates	–	(184)	184	(56)
Valuation of securities	(399)	–	(399)	–
Charged conventional penalties	(157)	–	(157)	–
Adjustment of opening balance	–	981	(981)	586
Gross provision for deferred income tax	**(63 174)**	**(34 618)**	**(28 556)**	**(26 843)**

(in thousand zlotys)

	Consolidated financial statement		*Consolidated profit and loss account*	
	31 Dec. 2010	*31 Dec. 2009*	*31 Dec. 2010*	*31 Dec. 2009*
Deferred tax assets				
Value of allowances for bad debts	9 327	4 722	4 605	12
Value of allowances for inventories	1 198	1 467	(269)	555
Charged costs of bonuses	2 175	1 779	396	517
Charged costs of unused paid holidays	381	209	172	18
Valuation of long-term receivables	71	37	34	–
Value of allowances for fixed assets	10	–	10	–
Value of allowances for long-term financial assets	899	899	–	(1 423)
Allowance for real property	53	53	–	53
Calculated costs of construction contracts’ performance	727	1 041	(314)	568
Valuation of assets related to settlement of construction contracts according to MSR 11	59 661	33 964	25 697	10 751
Calculated manufacturing costs of the division in Turkey	10 307	9 486	821	8 314
Calculated costs of guarantee repairs	1 633	2 513	(880)	1 433
Calculated costs of jubilee awards and retirement severance pays	4 017	4 114	(97)	349
Liabilities by reason of contributions on salaries to Social Insurance Institution	627	599	28	(1 353)
Lease liabilities	–	–	–	(25)
Calculated costs of banker’s commissions	–	1	(1)	–
Calculated costs of fixed assets sales	–	–	–	–
Interest charged on liabilities	6	204	(198)	2
Provisions for guarantee and insurance expanses	851	–	851	–
Valuation of derivatives	344	1 924	(1 580)	(1 503)
Interest charge on overdue receivables	(15)	(29)	14	(29)
Provision for anticipated costs because of delays in contract performance	10 926	1 486	9 440	1 459
Adjustment of inventories value by unattained profits	(13)	27	(40)	(214)
Exchange rate variations	–	28	(28)	28
Other	35	252	(217)	(41)
Adjustment of opening balance regarding recognition of costs of the division in Turkey	–	(1 798)	1 798	(1 798)
Deferred income tax gross assets	**103 220**	**62 978**	**40 242**	**17 673**
Deferred income tax burden			**11 686**	**(9 170)**
Net assets / provision for deferred tax	**40 046**	**28 360**		

Either the parent company or subsidiaries did not suffer any tax loss within the reporting period, that will be accounted for in coming reporting periods. The subsidiary accounted for tax loss from previous years. The policy of forming deferred income tax was presented in note 6.27.2.

In the reporting period the parent company made adjustment of deferred income tax, which was described in detail in note 30.9.

(in thousand zlotys)

11. Discontinued operations

In the year that ended on 31st December 2010 and 31st December 2009 the Group did not discontinue any operations.

12. Assets and liabilities of the Company Social Benefits Fund

The Company Social Benefits Fund Act of 4th March 1994 with subsequent amendments stipulates that the Company Social Benefits Fund is formed by employers who employ over 20 full-time workers. Companies that compose the Group form such funds and make periodic write-offs to the amount of the basic write-off and allowance for old-age pensioners and pensioners. The objective of the Fund is to subsidy social activities of the Companies, loans granted to their employees and other social costs.

	31 Dec. 2010	*31 Dec. 2009*
Assets of the Companies' Funds	1 434	1 056
Cash of the Company Social Benefits Fund	1 089	683
Loans granted to company employees from the Funds	345	373
Liabilities towards the Company Social Benefits Fund	(1 434)	(362)
Balance of settlements with funds	**–**	**694**

13. Profit per share

Basic profit allocated per one share is calculated by dividing the consolidated net profit allocated to ordinary shareholders of the parent company for the period by issued weighted average number of common shares of the parent company that occur within this period.

Below please find data concerning profit and shares, that were used to calculate basic profit allocated per one share:

	Year that ended on 31 Dec. 2010	*Year that ended on 31 Dec. 2009*
Net profit on continued operations	44 286	38 830
Profit on discontinued operations	–	–
Net profit	44 286	38 830
Net profit allocated to ordinary shareholders, applied to calculate profit per one share	43 623	37 749

(in thousand zlotys)

	Year ended on 31 Dec. 2010	*Year ended on 31 Dec. 2009*
Weighted average number of common shares, applied to calculate basic profit per one share	69 600 000	69 600 000
Effect of dilution:	–	–
Options per shares	–	–
Depreciable preferred shares	–	–
Adjusted weighted average number of common shares applied to calculate diluted profit per one share	69 600 000	69 600 000
Profit/(loss) per one share		
– basic on profit for the financial year	0,63	0,54
– basic on profit from continued operations	0,64	0,56

In the period between the end of the reporting period and the day of drawing up this consolidated financial statement no other deals for ordinary shares or potentially ordinary shares were closed.

14. Dividends paid

The Annual General Meeting of Shareholders of the parent company on 15th July 2010 passed the resolution No 27 on dividends to be paid to Company Shareholders to the amount of zlotys 20.880.000 (0.30 zloty/1 share). The right to dividend was determined according to the number of RAFAKO S.A. shares held on 2nd August 2010, however the date of payment was determined to be 16th August 2010. The parent company paid dividend on profit for 2009 within the date stated by the resolution of the Annual General Meeting. Other companies of the Group did not pay or declare payment of dividend.

According to the accepted accounting policy, dividend may be paid only on profit of individual companies the Group is composed of, and not based on consolidated profit of the Group.

15. Proposal for appropriations and applications of profit for 2010

The Managing Board of the parent company recommend to appropriate the profit for 2010 of zlotys 40 183 686.51 for the parent company supplementary capital.

(in thousand zlotys)

16. Tangible fixed assets

31st December 2010	*Land*	*Buildings*	*Machines and equipment*	*Vehicles*	*Other*	*Fixed assets under construction*	*Total*
Net value on 1st January 2010	**14 517**	**91 334**	**51 346**	**2 570**	–	**4 483**	**164 250**
Status increase	133	1 794	7 468	1 331	–	13 035	23 761
Status decrease	(5)	(96)	(201)	(45)	–	(13 859)	(14 206)
Exchange rate variations from conversion of foreign currency	–	–	(21)	(10)	–	–	(31)
Depreciation allowance for the financial year	–	(2 428)	(7 698)	(444)	–	–	(10 570)
Formation of an allowance	–	(36)	(15)	–	–	–	(51)
Transfer of fixed assets to assets available for sale	(6)	(174)	–	–	–	–	(180)
Net value on 31st December 2010	**14 639**	**90 394**	**50 879**	**3 402**	–	**3 659**	**162 973**
On the day 1st January 2010							
Gross value	14 517	104 936	86 856	5 137	2 822	4 483	218 751
Remission and allowance for impairment losses	–	(13 602)	(35 510)	(2 567)	(2 822)	–	(54 501)
Net value	**14 517**	**91 334**	**51 346**	**2 570**		**4 483**	**164 250**
On the day 31st December 2009							
Gross value	14 639	106 232	93 319	5 949	2 793	3 659	226 591
Remission and allowance for impairment losses	–	(15 838)	(42 440)	(2 547)	(2 793)	–	(63 618)
Net value	**14 639**	**90 394**	**50 879**	**3 402**	–	**3 659**	**162 973**

(in thousand zlotys)

31st December 2009	*Land*	*Buildings*	*Machines and equipment*	*Vehicles*	*Other*	*Fixed assets under construction*	*Total*
Net value on 1st January 2010	**14 524**	**81 697**	**50 344**	**1 994**	–	**15 226**	**163 785**
Status increase	1	14 014	9 462	1 007	945	15 129	40 558
Status decrease	(6)	(1 098)	(241)	–	–	(25 872)	(27 217)
Exchange rate variations from conversion of foreign currency	–	–	12	–	–	–	12
Depreciation allowance for the financial year	–	(2 766)	(8 231)	(431)	(945)	–	(12 373)
Formation of an allowance	–	(279)	–	–	–	–	(279)
Transfer of fixed assets to assets available for sale	(2)	(234)	–	–	–	–	(236)
Net value on 31st December 2009	**14 517**	**91 334**	**51 346**	**2 570**	–	**4 483**	**164 250**
On the day 1st January 2009							
Gross value	14 524	92 160	78 136	4 254	2 094	15 226	206 394
Remission and allowance for impairment losses	–	(10 463)	(27 792)	(2 260)	(2 094)	–	(42 609)
Net value	**14 524**	**81 697**	**50 344**	**1 994**	–	**15 226**	**163 785**
On the day 31st December 2009							
Gross value	14 517	104 936	86 856	5 137	2 822	4 483	218 751
Remission and allowance for impairment losses	–	(13 602)	(35 510)	(2 567)	(2 822)	–	(54 501)
Net value	**14 517**	**91 334**	**51 346**	**2 570**	–	**4 483**	**164 250**

(in thousand zlotys)

Fixed assets in lease

On 31st December 2010 the parent company did not own or make use of means of transportation under a financial lease agreement.

In the year that ended on 31st December 2009 a lease agreement valued at zlotys 107 thousand on the day of purchase of the leased subject was completed within the time-limit under the signed agreement. The parent company made use of its right to buy the vehicle on lease basis.

On 31st December 2010 the subsidiary possessed and made use of machines, equipment and means of transportation under financial lease agreements in the total amount of 1 132 thousand zlotys gross on the day of purchase (31 December 2009: 1 265 thousand zlotys). The period of use of these means does not conform to the duration of lease agreements and is from 24 to 60 months. The entity make depreciation write-offs of these means by linear method.

Description of securities established on fixed assets

On the day 31st December 2010 and 31st December 2009 no land or buildings being the property of companies that compose the Group and classified as tangible fixed assets were mortgaged in order to secure bank credits of the Group.

17. Tangible fixed assets available for sale

On 31st December 2010 the Group separated fixed assets 466 thousand zlotys worth as available for sale (31st December 2009: 236 thousand zlotys).

	31 Dec. 2010	*31 Dec. 2009*
Fixed assets available for sale, including:	466	236
land	6	2
buildings	310	234
technical equipment and machines	150	–
	466	**236**

18. Investment properties

On the day 31st December 2010 and 31st December 2009 the Group did not own investment properties that could be classified as assets.

(in thousand zlotys)

19. Intangible assets

31st December 2010	*Company value*	*Patents and licenses*	*Other intangible assets*	*Total*
Net value on 1st January 2010	376	6 207	390	6 973
Status increase	–	3 257	13	3 270
Status decrease	–	(159)	–	(159)
Allowance for impairment losses	–	–	–	–
Depreciation allowance for the financial year	–	(1 216)	(114)	(1 330)
Exchange rate variations from conversion of foreign currency	–		(12)	(12)
On 31 December 2010	**376**	**8 089**	**277**	**8 742**
On the day 1st January 2010				
Gross value	376	13 656	782	14 814
Remission and allowance for impairment losses	–	(7 449)	(392)	(7 841)
Net value	**376**	**6 207**	**390**	**6 973**
On 31 December 2010				
Gross value	376	16 411	783	17 570
Remission and allowance for impairment losses	–	(8 322)	(506)	(8 828)
Net value	**376**	**8 089**	**277**	**8 742**

31 December 2009	*Company value*	*Patents and licenses*	*Other intangible assets*	*Total*
Net value on 1st January 2009	**376**	**6 443**	**460**	**7 279**
Status increase	–	890	56	946
Status decrease	–	–	–	–
Allowance for impairment losses	–	–	–	–
Depreciation allowance for the financial year	–	(1 126)	(130)	(1 256)
Exchange rate variations from conversion of foreign currency	–	–	4	4
On 31 December 2009	**376**	**6 207**	**390**	**6 973**
On 1 January 2009				
Gross value	376	12 766	718	13 860
Remission and allowance for impairment losses	–	(6 323)	(258)	(6 581)
Net value	**376**	**6 443**	**460**	**7 279**
On 31 December 2009				
Gross value	376	13 656	782	14 814
Remission and allowance for impairment losses	–	(7 449)	(392)	(7 841)
Net value	**376**	**6 207**	**390**	**6 973**

Intangible assets include patents, licenses and software. The largest items are:

- license for BENSON type supercritical boilers, whose carrying value on 31st December 2010 is zlotys 2 682 thousand (31st December 2009: zlotys 3 017 thousand); from 31st December 2010 the remaining depreciation period of the license is 8 years;
- license for heat recovery boilers, whose carrying value on 31st December 2010 is zlotys 257 thousand (31st December 2009: zlotys 385 thousand); from 31st December 2010 the remaining depreciation period of the license is 2 years.

Description of securities established on intangible assets:

Intangible assets did not secure liabilities of the Group on 31st December 2010 and 31st December 2009.

Intangible assets available for sale:

In the Group there are no intangible assets available for sale either on 31st December 2010 or on 31st December 2009.

Company value:

Within the period included in the financial statement the Group reported company value of zlotys 376 thousand, that arose from settlement by the parent company of the purchase deal of the enterprise Wyrskie Zakłady Urządzeń Przemysłowych „NOMA INDUSTRY" Sp. z o.o. in bankruptcy, having their premises in Wyry in 2007.

On 31st December 2010 and 31st December 2009 the parent company tested impairment of these assets. The company impairment test did not show the necessity to make an allowance.

Depreciation of patents and licenses:

In the year that ended on 31st December 2010 and 31st December 2009 patents and licenses were depreciated evenly through the period of their economic utilization amounting from 5 to 10 years.

Research and development:

The Group did not bear any expenses on research and development either in the year that ended on 31st December 2010 or on 31st December 2009.

20. Merger of business entities

In the year that ended on 31st December 2010 and 31st December 2009 companies of the Group did not merge with other business entities.

21. Company value through consolidation

On 31 December 2010, in consequence of taking control over the FPM Group, RAFAKO Group present the company value through consolidation in the amount of 4 263 thousand zlotys.

	Fair value (in thousand zlotys)
Costs of merger with FPM S.A.	28 872
Value of taken over 66.31% net assets	26 067
Company value through consolidation of FPM S.A.	2 805
Assumed company value through consolidation of FPM Group	1 458
Company value through consolidation of RAFAKO Group	4 263

On 31 December 2010 and on 31 December 2009 the parent company and subsidiary that is simultaneously a subordinate parent company tested the impairment of the above assets. The impairment test for the company did not show the necessity to make an allowance.

(in thousand zlotys)

22. Participation in a joint venture

In the years that ended on 31st December 2010 and 31st December 2009 companies that compose the Group did not take part in joint ventures with other business entities.

23. Equity / shares in companies

	31 Dec. 2010	*31 Dec. 2009*
Equity / shares in subsidiaries not listed on the stock exchange	–	–
Equity / shares in other companies not listed on the stock exchange	516	534
	516	**534**

Equity / shares in subsidiaries did not secure the Group liabilities either on 31st December 2010 or on 31st December 2009.

Equity / shares in associated companies on 31st December 2010 and 31st December 2009.

Company name	*Premises*	*Subject of the enterprise*	*Value of shares (equity) acc. to purchase price*	*Adjustments updating the value*	*Carrying value of shares (equity)*	*% share in capital*	*% share in total number of votes*
SANBEI-RAFAKO Sp. z o.o.*	Zhangjiakou China	manufacture and sale of boilers	4 644	(4 644)	–	26,23	26,23%
			4 644	**(4 644)**	–		

* *the company described also in note 24*

Financial data for associated companies on 31st December 2010*:

Company name	*Shareholders' equity*	*Share capital*	*Retained earnings*	*Liabilities*	*Receivables*	*Company assets, total*	*Revenues from sales*	*Unpaid value of equity / shares*	*Dividends received or due*
SANBEI-RAFAKO Sp. z o.o.**	26 077	17 702	(502)	152 511	86 192	178 588	99 636	–	–

* *the company financial data is presented according to Chinese accounting standards,*
** *data as at 31 December 2009*

Financial data for associated companies on 31st December 2009*:

Company name	*Shareholders' equity*	*Share capital*	*Retained earnings*	*Liabilities*	*Receivables*	*Company assets, total*	*Revenues from sales*	*Unpaid value of equity / shares*	*Dividends received or due*
SANBEI-RAFAKO Sp. z o.o.	26 077	17 702	(502)	152 511	86 192	178 588	99 636	–	–

* *the company financial data is presented according to Chinese accounting standards*

(in thousand zlotys)

Share of the Group in other companies is as follows:
31st December 2010 *

entity (company) name, indication of legal form	*premises*	*subject of the enterprise*	*Carrying value of equity (shares)*	*Shareholders' equity*	*% share in capital*	*% share in total number of votes*	
APC Metalchem S.A. in bankruptcy **	Opole	Engineering and production of chemical equipment	–	(35 973)	(17 563)	0,12%	0,12%
ENGOREM Sp. z o.o.	Łódź	Overhaul activities in the power engineering sector	6	8 095	1 165	0,04%	0,04%
FAMAK S.A.	Kluczbork	Manufacture of cranes and continuous handling/transporting machines	18	23 163	77 366	0,02%	0,02%
MORFEO S.A. in bankruptcy ***	Ozorków	Production of cotton and cotton-like fabric	–	(43 537)	2 311	0,03%	0,03%
TAURON Polska Energia S.A.****	Katowice	Generation of electric energy	491	14 831	14 305	0,01%	0,01%
WISTOM S.A. in bankruptcy	Tomaszów Mazowiecki	Production of chemical fibres	–	(107 986)	59 371	0,67%	0,67%
			515				

** - financial data of the companies presented according PSR, unverified data*
*** - data for 30 June 2007*
****- data for 31 December 2005*
***** - data for 30 September 2010*

Share of the Group in other companies is as follows:
31st December 2009*

Company name	*premises*	*subject of the enterprise*	*Carrying value of equity (shares)*	*Shareholders' equity*	*% share in capital*	*% share in total number of votes*	
APC Metalchem S.A. in bankruptcy ****	Opole	Engineering and production of chemical equipment	–	(35 973)	(17 563)	0,12%	0,12%
CBKK S.A.	Tarnowskie Góry	Engineering of power boilers	21	3 495	501	2,55%	2,55%
ENGOREM Sp. z o.o.	Łódź	Overhaul activities in the power engineering sector	6	9 178	1 165	0,04%	0,04%
FAMAK S.A.**	Kluczbork	Manufacture of cranes and continuous handling/ transporting machines	18	20 038	77 366	0,02%	0,02%
MORFEO S.A. in bankruptcy ***	Ozorków	Production of cotton and cotton-like fabric	–	(43 537)	2 311	0,03%	0,03%
PKE S.A.	Katowice	Generation of electric energy	489	3 877 157	1 559 232	0,01%	0,01%
WISTOM S.A. in bankruptcy	Tomaszów Mazowiecki	Production of chemical fibres	–	(109 737)	59 371	0,67%	0,67%
			534				

** - financial data of the companies presented according PSR, unverified data*
*** - data for 31 December 2009*
****- data for 30 June 2007*
***** - data for 31 December 2005*

(in thousand zlotys)

24. Investments in associated entities evaluated by property rights' method

Investments in associated entities are evaluated by the Company in conformity with the accounting policy described in note 6.8.

On 31st December 2010 the Company present as investments in associated entities the value of shares in the partnership SANBEI-RAFAKO Sp. z o.o. with premises in Zhangjiakou, China, in which the Company hold a share of 26.23%. The basic activities of SANBEI-RAFAKO is manufacture and sale of boilers for medium-sized and small power stations. The partnership SANBEI-RAFAKO draw up financial statements in conformity with Chinese accounting standards. In the opinion of the Managing Board of the parent company, the Group do not affect the associated entity in a significant way because of limited to a considerable extent possibility to participate in decision making on operating and financial policy of the entity, therefore the Group report this investment at the purchase price. Shares in the entity according to purchase price of zlotys 4 644 thousand fall completely within an allowance for permanent impairment losses.

The table below shows abridged information on investments in SANBEI-RAFAKO sp. z o.o.*:

	*31 Dec. 2010***	*31 Dec. 2009*
Share in financial statement of the associated entity:	4 643	4 643
Current assets (short-term)	168 864	168 864
Fixed assets (long-term)	9 724	9 724
Short-term liabilities	152 511	152 511
Long-term liabilities	–	–
Net assets	**26 077**	**26 077**

	*Year ended 31 Dec. 2010***	*Year ended 31 Dec. 2009*
Share in income and profit of the associated entity:	919	919
Income	–	–
Profits	3 505	3 505

**- financial data according to Chinese accounting standards applied by the partnership SANBEI-RAFAKO Sp. z o.o.*

*** - RAFAKO S.A. did not receive financial results of SANBEI-RAFAKO Sp. z o.o. for 2010 until the day of publishing this financial statement.*

25. Other long-term financial assets

	31 Dec. 2010	*31 Dec. 2009*
Loans granted	–	–
Long-term deposits, including:	3 452	3 645
- deposits as security for bank guarantees given to the Group	3 452	3 645
Other long-term assets	20	10
Other	–	–
	3 472	**3 655**

(in thousand zlotys)

26. Inventories

	31 Dec. 2010	*31 Dec. 2009*
Material (according to purchase price)		
according to purchase price	37 212	34 542
According to attainable net value	30 908	26 820
Finished products:	–	–
According to purchase price /manufacturing cost	799	1 478
According to attainable net value	799	1 478
Total inventories, according to the lower of two values: purchase price (manufacturing cost) and attainable net value	**31 707**	**28 298**

Allowance for stock depreciation

	31 Dec. 2010	*31 Dec. 2009*
Status at the beginning of the period	(7 722)	(4 796)
- forming an allowance	(57)	(3 148)
- release of the allowance	1 475	222
Status at the end of the period	(6 304)	(7 722)

Material inventories 5 000 thousand zlotys worth secured the Group liabilities on 31st December 2010.

Material inventories did not secure the Group liabilities on 31st December 2009.

(in thousand zlotys)

27. Trade and other receivables

	31 Dec. 2010	*31 Dec. 2009*
Trade receivables from affiliates	612	1 033
- up to 12 months	612	1 033
- over 12 months	–	–
Trade receivables from other entities	223 382	161 342
- up to 12 months	222 320	160 534
- over 12 months	1 062	808
Income tax receivables	18	1 326
Other receivables from third parties, including:	50 063	68 949
- other tax receivables	9 005	36 740
- receivables by reason of prepayments made	39 036	20 28
- short-term loans granted	–	–
- the Company Social Benefits Fund	12	717
- material insurance	656	5 190
- other	1 354	5 874
Other receivables from affiliates	–	–
Total net receivables	**274 075**	**232 650**
Allowance for receivables	63 561	39 020
Gross receivables	**337 636**	**271 670**

The Group adjusted income tax receivables from legal entities for the year 2009. This adjustment did not affect shareholders' equity of the Group as at 31st December 2009. This issue was presented in detail in note 30.9 of this statement.

27.1. Allowances for bad debts:

	31 Dec. 2010	*31 Dec. 2009*
Status at the beginning of the period, including:	(39 020)	(29 251)
- receivables from affiliates	(21 692)	(21 639)
Formation of an allowance for trade receivables, including:	(30 107)	(944)
- receivables from affiliates	–	(53)
Formation of an allowance for financial receivables	(1 186)	(8 946)
Release of the allowance for	6 594	48
- receivables from affiliates	53	–
Utilization of the allowance	158	73
Status at the end of the period	**(63 561)**	**(39 020)**
- receivables from affiliates	(21 639)	(21 692)

In 2010 the parent company formed an allowance for bad debts resulting from the performance of a contract for a foreign customer to the amount of 23 762 thousand zlotys. Owing to the risk that the above receivables are unenforceable, the allowance included the entire amount of receivables, also including non-overdue receivables. In 2009 the parent company formed an allowance for bad debts on account of the dispute with ING Bank Śląski S.A. at the amount of 8 946 thousand zlotys.

27.2. Gross trade receivables – maturing up to the end of reporting period:

	31 Dec. 2010	*31 Dec. 2009*
a) to 1 month	110 255	64 843
b) over 1 month to 3 months	86 168	23 355
c) over 3 months to 12 months	6 020	7 723
d) over 12 months to 1 year	678	8 099
e) over 1 year	1 121	824
f) overdue receivables	73 120	87 605
Total gross trade receivables	**277 362**	**192 449**
g) allowances for trade receivables	(53 368)	(30 074)
Total net trade receivables	**223 994**	**162 375**

Trade receivables of 96 183 thousand zlotys carrying value secured guarantees, credits and loans granted on the day 31st December 2010 (31st December 2009: 93 214 thousand zlotys).

27.3. Gross overdue trade receivables – divided into outstanding receivables within the period:

	31 Dec. 2010	*31 Dec. 2009*
a) to 1 month	17 784	45 865
b) over 1 month to 3 months	4 999	8 633
c) over 3 months to 12 months	8 039	2 873
d) over 12 months to 1 year	15 120	3 910
e) over 1 year	27 178	26 324
Total gross overdue trade receivables	**73 120**	**87 605**
f) allowances for overdue trade receivables	(50 442)	(30 074)
Total net overdue trade receivables	**22 678**	**57 531**

As at 31st December 2010 of the amount of overdue receivables 21 639 thousand zlotys were receivables from affiliates that fell totally under the allowance (31st December 2009: 21 692 thousand zlotys).

27.4. Short-term gross receivables (currency structure)

	31Dec. 2010	*31 Dec. 2009*
a) in Polish currency	210 098	151 263
b) in foreign currencies (in currency and translated into zlotys)	127 538	120 407
b1. unit/currency thousands /EUR	26 086	27 681
thousand zlotys	103 553	114 265
b2. unit/currency thousands /SEK	37 019	208
thousand zlotys	16 113	439
b3. unit/currency thousands /TRY	3 783	2 859
thousand zlotys	7 273	5 467
b4. unit/currency thousands /BAM	288	–
thousand zlotys	593	–
b5. other currencies in thousand zlotys	6	236
Total short-term receivables	**337 636**	**271 670**

Trade receivables are interest free and they have usually 30-day due date. However for some contractors the receivables repayment period determined according to individual contracts is within the interval from 1 to 3 months. The Group have receivables with longer repayment period, regarding guarantee instalments for long-term contracts.

(in thousand zlotys)

The Group pursue a policy of selling only to verified customers. Owing to this, in the opinion of the management, there is no extra credit risk, over the level defined by the allowance for bad debts, appropriate for the Group's trade receivables.

28. Prepayments and accruals based on cost valuation of construction contracts

	31 Dec. 2010	*31 Dec. 2009*
Calculated sales revenues according to progress of construction contracts	773 855	983 132
Value of invoiced sales revenues	(486 186)	(875 032)
Value of received prepayments on account of contract performance	(74 677)	(43 768)
	212 992	**64 332**

Companies of the Group execute construction contracts, the revenues of which calculated according to progress exceed the invoiced revenues. After adjusting by the value of prepayments received for contract performance, the Companies recognized prepayments and accruals on account of sales revenues, that are the equivalent to future sales receivables.

29. Short-term financial assets

29.1. Derivatives

	31 Dec. 2010	*31 Dec. 2009*
Forward contracts	2 357	888
Currency options	–	–
	2 357	**888**

On 31st December 2010 the Group have unsettled forward type exchange transactions with positive fair value. These are EUR selling transactions of 13 814 331 EUR.

No	*Date of conclusion*	*Date of settlement*	*Currency*	*Exchange rate*	*Transaction denomination (EUR)*	*Transaction valuation on 31.12.2010 (PLN)*	*Bank*
1.	2010-12-17	2011-02-28	EUR/PLN	4,0050	2 872 522,00	86 545,45	BGŻ
2.	2010-12-20	2011-04-29	EUR/PLN	4,0017	1 436 809,00	37 047,79	BGŻ
3.	2010-05-06	2012-02-28	EUR/PLN	4,2440	800 000,00	114 939,73	PKO BP S.A.
4.	2010-05-05	2012-03-30	EUR/PLN	4,1300	675 000,00	25 631,65	BRE Bank
5.	2010-05-06	2012-03-30	EUR/PLN	4,2555	550 000,00	78 489,56	PKO BP S.A.
6.	2010-05-05	2012-04-30	EUR/PLN	4,1380	890 000,00	33 692,29	BRE Bank
7.	2010-05-06	2012-04-30	EUR/PLN	4,2605	890 000,00	120 433,10	PKO BP S.A.
8.	2010-05-05	2012-05-31	EUR/PLN	4,1460	900 000,00	33 887,98	BRE Bank
9.	2009-05-28	2012-06-29	EUR/PLN	4,6250	1 800 000,00	876 183,84	BRE Bank
10.	2010-05-05	2012-06-29	EUR/PLN	4,1530	900 000,00	33 290,23	BRE Bank
11.	2009-05-27	2012-12-28	EUR/PLN	4,6250	2 100 000,00	917 180,59	BRE Bank
					13 814 331,00	**2 357 322,21**	

(in thousand zlotys)

The above currency transactions were concluded because of performed trade contracts denominated in EUR, basing on market conditions that do not differ from commonly applied terms for such financial transactions. The increase of EUR currency rate above spot rate which is an essential component of the valuation formula of these transactions on 31st December 2010 (i.e. over the exchange rate 3.9603 PLN/EUR), will result in decrease of positive valuation of the reported transactions. „Negative" impact of the rise of EUR exchange rate, if any, over the level 3.9603 PLN/EUR on valuation and financial profit / (loss) of the Company will be partly compensated by an increase in the value of trade contracts (and at the same profitability of these contracts) denominated in EUR and related to concluded currency transactions.

29.2. Short term investments

	31 Dec. 2010	*31 Dec. 2009*
Certificates of deposit in fund Investor Fundusz Inwestycyjny Zamknięty	–	1 315
Share units in investment fund Allianz Pieniężny Fundusz Inwestycyjny Otwarty	22 009	30 711
Share units in investment fund KBC Gamma Specjalistyczny Fundusz Inwestycyjny Otwarty	5 295	4 985
Share units in investment fund PKO	–	1 224
	27 304	**38 235**

29.3. Short-term deposits

	31 Dec. 2010	*31 Dec. 2009*
Short-term deposits including:	2 160	149 028
- deposits as security for contingent liabilities	–	4 722
	2 160	**149 028**

Short-term deposits are the Group's cash deposited in banks for varying periods, from three months to one year.

29.4. Cash and cash equivalents

	31 Dec. 2010	*31 Dec. 2009*
Cash in bank and savings bank	16 194	61 635
Short-term deposits, including:	158 817	6 067
- deposits that constitute security for contingent liabilities	–	–
	175 011	**67 702**

Cash in banks and savings bank is interest-bearing according to the variable interest rates, that depend on the interest rate of one-day bank deposits. Short-term deposits, classified as cash, are made for varying periods, from one day to one month, according to demand for cash by companies that compose the Group, and they are interest-bearing according to interest rates agreed with the bank. Fair value of cash and cash equivalents on 31st December 2010 amounted to 175 011 thousand zlotys (31st December 2009: 67 702 thousand zlotys).

On 31st December 2010 the Group possessed unused granted credits of 16 000 thousand zlotys (31 December 2009: 25 857 thousand zlotys).

30. Shareholders' equity

30.1. Share capital

In the year ended on 31st December 2010 and the year ended on 31st December 2009 the parent company share capital did not change and amounted to zlotys 139 200 000 and was divided into 69 600 000 ordinary shares with nominal value 2,00 zlotys each in the following series:

Equity capital	*Number of shares*	*Value of shares in thousand zlotys*
Shares, series A	900 000	1 800
Shares, series B	2 100 000	4 200
Shares, series C	300 000	600
Shares, series D	1 200 000	2 400
Shares, series E	1 500 000	3 000
Shares, series F	3 000 000	6 000
Shares, series G	330 000	660
Shares, series H	8 070 000	16 140
Shares, series I	52 200 000	104 400
	69 600 000	**139 200**

30.2. Share face value

All issued shares have a face value of zlotys 2.00 and were acquired against cash contribution.

30.3. Shareholders' rights

Shares of all series are equally preferred shares to dividend and return on equity.

(in thousand zlotys)

30.4. Company Shareholders with significant share

The shareholding structure on 31st December 2010 is presented in Enclosure No 7 to the Managing Board report on the Group activities in 2010 regarding the application of corporate governance rules.

The shareholding structure changed in the period from 31st December 2010 until the publication of this statement and is as follows:

List of shareholders of the Company RAFAKO S.A. that hold over 5% of shares:				
Shareholder /company name /	Number of shares	No of votes resulting from the number of shares hold	% share in share capital	% share in overall number of votes in annual general meeting
Laris Investments Sp. z o.o. (subsidiary of ELEKTRIM S.A.)[1]	26 064 251	26 064 251	37,45	37,45
ELEKTRIM S.A. [1]	8 682 189	8 682 189	12,47	12,47
BZ WBK AIB Asset Management S.A. (customers)[2], **including**:	14 788 291	14 788 291	21,25	21,25
Arka BZ WBK FIO, the organ of which is BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., managed by BZ WBK AIB Asset Management S.A.[3]	9 565 483	9 565 483	13,74	13,74
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A., the organ of which is Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.[4]	5 800 000	5 800 000	8,30	8,30

1- number of shares pursuant to the notification of 27 April 2007
2 - number of shares pursuant to the notification of 3 February 2010
3 - number of shares pursuant to the notification of 25 February 2011
4 - number of shares represented on Annual Meeting of Shareholders on 15 June 2010

Exercising the voting right that open-ended investment funds are entitled to, which are managed by the same investment funds company that are shareholders of RAFAKO S.A., fall within limitations stipulated in the investment funds act.

30.5. Capital from sale of shares above their face value

Capital from sale of shares above their face value was formed from a surplus of issued value over face value to the amount of 77 947 thousand zlotys. On 15th May 2000 the General Meeting of the parent company passed a resolution on appropriation of 41 169 thousand zlotys to cover unsettled losses from previous years. In the year that ended on 31st December 2010 and 31st December 2009 no events occurred that caused a change in capital from sale of shares over their face value.

30.6. Supplementary capital

Supplementary capital was formed of statutory write-offs on profit generated in previous years financial years, also from surplus from appropriations of profit over the required write-off in companies of the Group.

(in thousand zlotys)

30.7. Exchange rate variations resulting from recalculation of foreign subsidiaries

Supplementary capital balance by reason of exchange rate variations is adjusted by exchange rate variations resulting from recalculation of the financial statement of a foreign subsidiary and foreign division of the parent company.

30.8. Retained earnings

Retained earnings, according to MSSF methodology, in the comparable period covered by this consolidated statement include:

	Unappropriated profit of previous years	*Profit of the current year*	*Total*
On 1 January 2010	37 354	–	37 354
Appropriation of previous years' profit	(31 005)	–	(31 005)
Profit / (loss) of the period	–	43 623	43 623
Dividend paid	(20 880)	–	(20 880)
Increase in the subsidiary capital	4 397	–	4 397
On 31 December 2010	**(10 134)**	**43 623**	**33 489**
On 1 January 2009 before adjustment	15 845	–	15 845
Error adjustment of the subsidiary	569	–	569
On 1 January 2009 after adjustment	16 414	–	16 414
Appropriation of previous years' profit	(6 369)	–	(6 369)
Profit / (loss) of the period	–	37 749	37 749
Dividend paid	(10 440)	–	(10 440)
On 31 December 2009	**(395)**	**37 749**	**37 354**

On 31 December 2010, in consequence of recognition of net profit for the year ended on 31 December 2010 in the amount of 43 623 thousand zlotys, relocation of previous years' profits of 31 005 thousand zlotys to supplementary capital, paying dividend of 20 880 thousand zlotys and an increase in share capital of the subsidiary of 4 397 thousand zlotys, the value of retained earnings of the Group amounted to 33 489 thousand zlotys.

On 31 December 2009, in consequence of recognition of net profit for the year ended on 31 December 2009 in the amount of 37 749 thousand zlotys, relocation of previous years' profits of 6 369 thousand zlotys to supplementary capital, paying dividend of 10 440 thousand zlotys and error adjustment for previous years of 569 thousand zlotys, the value of retained earnings of the Group amounted to 37 354 thousand zlotys.

30.9. Previous years' error adjustment

In the consolidated financial statement for the year that ended on 31st December 2010 a previous years' error adjustment was made by the Group. The parent company adjusted income tax liabilities and deferred income tax settlements. The parent company found wrong qualification of bank guarantee and insurance costs in order to fix the amount of income tax payable, therefore the tax declaration were adjusted accordingly, and the value of interest due was assessed. The parent company verified settlement of costs for the contract performed partly by the Division in Turkey, part of contract costs was qualified over to fiscal costs of the parent company, therefore the income tax settlement for 2009 was adjusted and the deferred income tax settlement was amended.

(in thousand zlotys)

These alterations did not affect the value of the Group capital for 31st December 2009.

Deferred tax assets reported on 31st December 2009 before adjustment	32 220
Adjustment on account of bank and insurance guarantees	981
Adjustment of costs of the Division in Turkey	(1 798)
Deferred tax assets reported on 31st December 2009 after adjustment	**31 403**

Income tax receivables reported on 31st December 2009 before adjustment	509
Adjustment on account of bank and insurance guarantees	(981)
Adjustment of costs of the Division in Turkey	1 798
Income tax receivables reported on 31st December 2009 after adjustment	**1 326**

Deferred tax assets reported on 31st December 2008 before adjustment	40 723
Adjustment on account of bank and insurance guarantees	395
Deferred tax assets reported on 31st December 2008 after adjustment	**41 118**

Income tax receivables reported on 31st December 2008 before adjustment	5 306
Adjustment on account of bank and insurance guarantees	(395)
Income tax receivables reported on 31st December 2008 after adjustment	**4 911**

In the consolidated financial statement for the year ended on 31 December 2009 the Group adjusted the previous years' error. The adjustment concerned an error in fixing the value of fixed assets and establishing the correct value of deferred tax provisions by reason of fixed assets valuation.

31. Capital of non-controlling shares (non-controlling share in shareholders' equity)

	Year ended 31 Dec. 2010	*Year ended 31 Dec. 2009*
Beginning of period before adjustment	13 927	12 601
Error adjustment for previous years	–	238
Beginning of period after adjustment	**13 927**	**12 839**
Dividends paid by subsidiaries	–	–
Exchange rate variations from conversion of capitals of foreign entities	(16)	7
Donation of shares in a subsidiary	(4)	–
Acquisition of subsidiary shares	(447)	–
Increase in share capital of a subsidiary	(4 397)	–
Share in profit of subsidiaries	663	1 081
End of the period	**9 726**	**13 927**

(in thousand zlotys)

32. Interest bearing bank credits and loans

	Currency	*Effective interest rate %*	*Pay-off date **	*31 Dec. 2010*	*31 Dec. 2009*
Short-term					
Credits on current account					
Credit received on 14.04.2005 from BRE Bank S.A. in the amount 7 million zlotys secured by blank promissory note, assignment of receivables and lien on inventories	PLN	WIBOR 1M+1,5%	29.03.2011	–	–
Other credits					
Revolving credit received on 16.11.2009 from BRE Bank S.A. in the amount 1 million zlotys secured by blank bill and assignment of receivables	PLN	WIBOR 1M+1,3%	14.01.2010	–	1 000
Revolving credit received on 17.11.2009 from BRE Bank S.A. in the amount 1 million zlotys secured by blank bill and assignment of receivables	PLN	WIBOR 1M+1,3%	15.01.2010	–	1 000
Revolving credit received on 21.12.2009 from BRE Bank S.A. in the amount 2 million zlotys secured by blank bill and assignment of receivables	PLN	WIBOR 1M+1,3%	19.02.2010	–	2 000
Revolving credit received on 23.12.2009 from BRE Bank S.A. in the amount 500 thousand zlotys, secured by blank bill and assignment of receivables	PLN	WIBOR 1M+1,3%	21.02.2010	–	500
Revolving credit received on 21.02.2007 from BRE Bank S.A. in the amount 9 million zlotys, secured by blank bill and assignment of receivables	PLN	WIBOR 1M+2,1%	31.07.2014	–	–
				–	**4 500**

In the year ended on 31 December 2010 a decrease in indebtedness by reason of credits and loans occurred by 4 500 thousand zlotys (in the year ended on 31 December 2009 a decrease in credit and loan liabilities occurred by 5 143 thousand zlotys) and on 31 December 2010 companies of the Group did not report bank credit liabilities.

The ratio of bank borrowings, being a relations of the sum of credits and loans to the sum of shareholders' equity, on 31 December 2010 was 0%.

(in thousand zlotys)

33. Employee benefit liabilities

33.1. Pension benefits and other retirement benefits

The detailed accounting policy with reference to pension benefits were described in note **Błąd! Nie można odnaleźć źródła odwołania.**.
According to valuation made at the end of every financial year by an independent actuary company the Group make provisions for the present value of retirement severance pay liabilities. The amount of this provision and arrangements showing status changes within the financial period are presented in the table below:

	Year ended 31 Dec. 2010	*Year ended 31 Dec. 2009*
On 1 January	21 651	19 819
Setting up the provision	1 962	3 527
Costs of benefits paid	(2 469)	(1 685)
Release of provision	(2)	(10)
End of period	**21 142**	**21 651**

The main assumptions made by the actuary on the day and year that ended on 31st December 2010 and 31st December 2009 to calculate the liabilities are the following:

	2010	*2009*
Discount rate (%)	5,5	5,5
Anticipated inflation index (%)*	–	–
Labour turnover rate *	5	5
Anticipated remuneration growth rate (%)	5	5

* Shortage of data in actuary's report

33.2. Severance payment on termination of employment contract

The companies that compose the Group do not make provisions for liabilities by reason of severance payments on termination of employment contracts.

34. Provision for deferred income tax

At the end of every reporting period companies that compose the Group calculate the deferred income tax provisions or assets. Details concerning the applied accounting policy for recognition of deferred income tax assets / provisions were presented in note 6.27.2.

On 31 December 2010 and in comparable periods deferred income tax assets of companies that form the Group were not compensated for deferred income tax provisions of other companies of the Group. The deferred income tax provision amount is as follows:

	31 Dec. 2010	*31 Dec. 2009*
Provisions for deferred income tax	3 043	3 589
	3 043	**3 589**

(in thousand zlotys)

35. Trade and other liabilities

35.1. Trade liabilities

	31 Dec. 2010	*31 Dec. 2009*
Trade liabilities		
Towards affiliates	115	990
- to 12 months	115	990
- over 12 months	–	–
Towards other companies	181 505	108 360
- to 12 months	167 481	96 529
- over 12 months	14 024	11 831
Total	**181 620**	**109 350**

In the year that ended on 31st December 2010 an increase in liabilities of the Group towards suppliers occurred by 72 270 thousand zlotys (in the year that ended on 31st December 2009 there was a decrease of liabilities by 38 604 thousand zlotys).

Trade liabilities are interest-free and usually settled within 30 days. Other liabilities are interest-free, with average 30-day maturity date.

The amount resulting from the difference between value added tax liabilities and receivables is paid to appropriate tax authorities in monthly periods.

Interest liabilities are usually accounted for in monthly periods during the entire financial year.

On 31 December 2010 and 31 December 2009 companies of the Group did not have any overdue tax, customs duty, social insurance and other liabilities.

Transaction terms with affiliates are presented in note 41.5 with extra information and clarifications.

35.2. Investment liabilities

	31 Dec. 2010	*31 Dec. 2009*
Liabilities by reason of investments in fixed assets	2 463	4 616
	2 463	**4 616**

On 31st December 2010 the parent company had contracts signed regarding capital expenditures scheduled in 2011 to the total amount of 1 320 thousand zlotys. The agreements concern mainly investments in machines and technical equipment.

In 2011 the Group plan to incur capital expenditures of 28 287 thousand zlotys, including:

- tangible fixed assets of 25 039 thousand zlotys;
- intangible assets of 3 248 thousand zlotys.

Investment plans of the Group for 2010 presented in the consolidated financial statement for 2009 assumed to incur capital expenditures of 41 598 thousand zlotys, including:

- tangible fixed assets of 25 902 thousand zlotys;
- intangible assets of 3 196 thousand zlotys;
- long-term financial investments of 12 500 thousand zlotys.

Capital expenditures incurred by the Group in 2010 for non-financial properties amounted to 13 216 thousand zlotys, including: fixed assets of 11 932 thousand zlotys, intangible assets of 1 284 thousand zlotys.

(in thousand zlotys)

35.3. Other liabilities

	31 Dec. 2010	*31 Dec. 2009*
Tax, duty, social insurance and other liabilities		
Value added tax	149	407
Flat tax deducted at source	–	–
Non-corporate income tax	1 736	1 585
Social insurance liabilities	6 363	6 133
Settlements with the tax office	486	–
Other	139	125
	8 873	**8 250**
Remuneration liabilities towards employees	5 701	5 509
The Company Social Benefits Fund	12	23
Liabilities towards affiliates	–	–
Liabilities towards a joint venture	–	–
	5 713	**5 532**
Other liabilities by reason of:		
Provisions for unused annual leave	2 008	1 097
Provisions for bonus costs	11 449	9 367
Provisions for guarantee repairs costs	8 595	13 229
Provisions for contractual penalties	–	347
Provisions for losses by reason of construction contracts performance	3 826	5 400
Provisions for delayed inflow of costs	–	381
Provisions for audit costs	93	90
Provisions for guaranty costs	2 144	–
Provisions for costs of delayed contract performance	57 504	7 703
Other	1 836	1 452
	87 455	**39 066**
	102 041	**52 848**

(in thousand zlotys)

Costs of not used annual leaves

The provision for costs of unused annual leaves is calculated monthly basing on the actual number of days of unused annual leaves at the end of each month. In the financial year one twelfth of the annual leave due falls on each month, increased by all unused annual leaves from previous periods. The number of days determined in this way is multiplied by the mean daily rate for the given employee, fixed according to the remuneration of the month for which the provision is calculated, increased by contributions to the Social Insurance Institution (ZUS).

	Year ended 31 Dec. 2010	*Year ended 31 Dec. 2009*
Beginning of the period	1 097	1 003
Setting up the provisions for liability	2 095	1 177
Costs of paid benefits	(1 006)	–
Release of the provision for liabilities	(178)	(1 083)
End of period	**2 008**	**1 097**
Short-term liabilities	2 008	1 097
Long-term liabilities	–	–
	2 008	**1 097**

Costs of bonuses

The parent company pay an annual bonus to their employees, the amount of which depends on the degree of realization of operating profit. According to resolutions of the Collective Labour Agreement (UZP), following the approval of annual financial statements for the companies of the Group, within up to 30 days, the Managing Board – after consulting the Trade Unions – take decision about payment of incentive bonus for employees of the Companies. Within the financial year companies of the Group form a provision for the annual bonus in the amount stated in the Collective Labour Agreement (UZP), unless Managing Boards of the companies decide not to do so.

	Year ended 31 Dec. 2010	*Year ended 31 Dec. 2009*
Beginning of the period	9 367	6 706
Setting up the provisions for liability	10 355	8 832
Costs of paid benefits	(6 026)	(4 937)
Release of the provision for liabilities	(2 247)	(1 234)
End of period	**11 449**	**9 367**
Short-term liabilities	8 964	8 282
Long-term liabilities	2 485	1 085
	11 449	**9 367**

(in thousand zlotys)

Costs of guarantee repairs

Provisions for guarantee repairs are formed in consequence of an assessment of anticipated and possible to assess costs of supervision, repairs, operations and guarantee work related to contractual obligations of the companies in the Group, following from the completion of a construction contract. The provision is the sum of estimated costs (original costs and „external" delivery and service costs) reduced by anticipated probable revenues from reimbursement of these costs (e.g. by suppliers and subcontractors).

	Year ended 31 Dec. 2010	*Year ended 31 Dec. 2009*
Beginning of the period	13 229	5 686
Setting up the provisions for liability	8 518	14 073
Incurred costs of guarantee repairs	(13 152)	(6 530)
Release of the provision for liabilities		
End of period	**8 595**	**13 229**
Short-term liabilities	8 595	13 229
Long-term liabilities	–	–
	8 595	**13 229**

Losses resulting from construction contracts

Companies composing the Group make provisions for anticipated losses on contracts in conformity with the methodology described in note **Błąd! Nie można odnaleźć źródła odwołania.**. If according to analysis it appears that estimated total contract costs exceed reliable revenues from the contract, (i.e. the total result of the contract will be a loss), then the entire loss on the contract is recognized in the given financial period.

	Year ended 31 Dec. 2010	*Year ended 31 Dec. 2009*
Beginning of the period	5 399	2 522
Setting up the provisions for liability	11 316	4 876
Incurred costs	–	(1 998)
Release of the provision for liabilities	(12 889)	–
End of period	**3 826**	**5 400**
Short-term liabilities	2 606	590
Long-term liabilities	1 220	4 810
	3 826	**5 400**

(in thousand zlotys)

Costs of delays in the performance of contracts

On balance sheet date provisions are made for delayed inflow of costs, in the amount of actual costs incurred by companies of the Group, however they do not constitute liabilities or other incurred costs, determined in a reliable way, and their amount and date when the liability arises are unknown on balance sheet date.

	Year ended 31 Dec. 2010	*Year ended 31 Dec. 2009*
Beginning of the period	7 703	144
Setting up the provisions for liability	51 450	7 703
Incurred costs	–	–
Release of the provision for liabilities	(1 649)	(144)
End of period	**57 504**	**7 703**
Short-term liabilities	57 504	7 703
Long-term liabilities	–	–
	57 504	**7 703**

Contractual penalties costs (other than penalties for delays in contract performance)

Companies of the Group make provisions for contractual penalties, if there is high probability of inflicting a penalty for default in adherence to technical parameters stipulated in the contract and subject to penalties, or if in consequence of contract performance third parties' rights were violated. The provision results from the penalty value for default in adherence to technical parameters stipulated in the given contract or assessable liabilities towards third parties.

	Year ended 31 Dec. 2010	*Yerar ended 31 Dec. 2009*
Beginning of the period	347	1 475
Setting up the provisions for liability	–	555
Incurred costs	–	(989)
Release of the provision for liabilities	(347)	(694)
End of period	–	**347**
Short-term liabilities	–	347
Long-term liabilities	–	–
	–	**347**

(in thousand zlotys)

Audit costs

A provision for audit expenses is made in the amount of remuneration for auditing the unit and consolidated financial statement for a given financial year under an agreement concluded with the auditor. In the period before the agreement is signed, the last year's audit remuneration shall be the basis for the provision estimate. After the agreement with the auditor is signed for a given year, the provision is adjusted to the amount following from the agreement.

	Year ended 31 Dec. 2010	*Year ended 31 Dec. 2009*
Beginning of the period	90	130
Setting up the provision	110	107
Incurred costs	(107)	(125)
Release of the provision	–	(22)
End of period	**93**	**90**
Short-term liabilities	93	90
Long-term liabilities	–	–
	93	**90**

35.4. Income tax liabilities

	31 Dec. 2010	*31 Dec. 2009*
Corporate income tax	4 683	–
	4 683	–

Tax settlements and other areas of activity that come under regulations (e.g. customs or foreign exchange issues) may be audited by administrative authorities, that are entitled to inflict high penalties and sanctions. Absence of reference to fixed legal regulations in Poland causes ambiguity and inconsistency to occur in valid regulations. Differences in opinions that often occur regarding legal interpretation of fiscal regulations both internally in state authorities, as well as between state authorities and enterprises, result in the formation of areas of uncertainty and conflicts. These phenomena cause that fiscal risk in Poland is significantly higher than the risk existing usually in countries with a more developed fiscal system.

Tax settlements may be subjected to audits for a period of five years, starting from the end of the year when the tax was paid. In consequence of an audit, the present Group tax settlements may be increased by an extra tax liability.

In the year that ended on 31st December 2010 no tax audit was held in companies of the Group.

In the year that ended on 31st December 2009 in companies of the Group no tax audit was held, except for one subsidiary. In the subsidiary the corporate income tax was audited by the Second Tax Office in Bielsko Biała. 12 months of 2006 were audited. The audit was completed by a decision stating that the tax payable is higher than declared by the subsidiary by 8 418 zlotys. The above amount was recognized in the consolidated financial statement for 2010.

36. Other financial liabilities

	31 Dec. 2010	*31 Dec. 2009*
Deferred profits on currency contracts		
Foreign currency forward contracts	4 165	11 015
Financial lease liabilities	578	622
	4 743	**11 637**

36.1. Financial derivatives liabilities

On 31st December 2010 the Group have unsettled forward currency transactions. These are EUR selling transactions in the amount EUR 13 685 000 and purchase transactions of Swedish crown in the amount SEK 21 840 000.

The following deals were closed in connection with performed trade contracts denominated in EUR and Swedish crown SEK, basing on market terms that do not differ from commonly applied terms for this type of deals.

No	*Date of conclusion*	*Date of settlement*	*Currency*	*Exchange rate*	*Transaction denomination (in SEK)*	*Transaction valuation on 31.12.2010 (in thousand zlotys)*	*Bank*
1.	2010-12-22	2011-08-12	SEK/PLN	0,4510	14 560 000,00	(55 486,52)	PKO BP S.A.
2.	2010-12-22	2011-08-22	SEK/PLN	0,4511	3 640 000,00	(13 353,20)	PKO BP S.A.
3.	2010-12-22	2012-05-21	SEK/PLN	0,4544	3 640 000,00	(1 021,85)	PKO BP S.A.
					21 840 000,00	**(69 861,57)**	

The decline in SEK rate below spot rate which is an essential component of the valuation formula of these transactions on 31st December 2010 (i.e. below the exchange rate 0.4415 PLN/SEK), will result in an increase of negative valuation of the reported transactions. „Negative" impact of the decline of SEK exchange rate, if any, below the level 0.4415 PLN/SEK on valuation and financial result of the Company will be partly compensated by decrease in the value of supplies (and at the same by lower costs) denominated in SEK and related to closed currency deals.

No	*Date of conclusion*	*Date of settlement*	*Currency*	*Exchange rate*	*Transaction denomination (in EUR)*	*Transaction valuation on 31.12.2010 (in thousand zlotys)*	*Bank*
1.	2008-10-29	2010-06-21	EUR/PLN	3,5955	6 000 000,00	(2 268 608,64)	BGŻ
1a	2010-12-20	2011-04-29	EUR/PLN	3,6030	3 000 000,00	(1 160 553,73)	BGŻ
1b	2010-12-17	2011-01-31	EUR/PLN	3,5980	3 000 000,00	(1 108 054,91)	BGŻ
2.	2008-10-29	2010-12-20	EUR/PLN	3,6045	4 000 000,00	(1 587 624,73)	BGŻ
2a	2010-12-20	2011-04-07	EUR/PLN	3,6060	760 000,00	(287 148,34)	BGŻ
2b	2010-12-20	2011-06-07	EUR/PLN	3,6080	900 000,00	(352 575,35)	BGŻ
2c	2010-12-20	2011-08-09	EUR/PLN	3,6090	540 000,00	(219 217,36)	BGŻ
2d	2010-12-20	2011-12-20	EUR/PLN	3,6120	1 800 000,00	(728 683,68)	BGŻ
3.	2010-04-28	2012-10-26	EUR/PLN	4,1360	800 000,00	(42 275,33)	PKO BP S.A.
4.	2010-04-28	2012-12-20	EUR/PLN	4,1485	900 000,00	(57 968,83)	PKO BP S.A.
5.	2010-04-28	2013-01-28	EUR/PLN	4,1610	900 000,00	(60 216,77)	PKO BP S.A.
6.	2010-04-01	2011-04-01	EUR/PLN	3,9185	1 000 000,00	(76 364,74)	BRE BANK SA
7.	2010-04-19	2011-02-07	EUR/PLN	3,9625	50 000,00	(964,07)	BRE BANK SA
8.	2010-04-19	2011-04-19	EUR/PLN	3,9750	35 000,00	(870,93)	BRE BANK SA
					13 685 000,00	**(4 094 894,04)**	

The increase of EUR currency rate above spot rate which is an essential component of the valuation formula of these transactions on 31st December 2010 (i.e. over the exchange rate 3.9603 PLN/EUR), will result in an increase of negative valuation of the reported transactions. „Negative" impact of the rise of EUR exchange rate, if any, over the level 3.9603 PLN/EUR on valuation and financial result of the Company will be partly compensated by an increase in the value of trade contracts (and at the same profitability of these contracts) denominated in EUR and related to closed currency deals.

36.2. Liabilities by reason of financial lease agreements and tenancy with purchase option

At the end of the reporting period entities of RAFAKO Group have thirteen concluded financial lease agreements. In the period from 2007 to 2010 the subsidiary concluded thirteen financial lease agreements. Terms of these agreements are presented in the specification below:

	Date of agreement conclusion	*Original value of fixed assets in thousand zlotys*	*Period of agreement*	*Currency*	*Lease liability in thousand zlotys on*	
					31 Dec. 2010	*31 Dec. 2009*
Lease agreement for a passenger car	8.02.2006	107	48 months	EUR	–	2
Lease agreement for oxygen cutting automatic machine	5.10.2006	314	36 months	EUR	–	85
Lease agreement for semi-automatic welding machine	25.10.2006	45	36 months	PLN	–	9
Lease agreement for fork-lift truck	14.12.2006	74	36 months	EUR	–	17
Lease agreement for a passenger car	12.10.2007	44	35 months	PLN	–	11
Lease agreement for a copier-plotter	23.11.2007	41	35 months	PLN	–	13
Lease agreement for bending brake	29.11.2007	355	59 months	PLN	147	179
Lease agreement for semi-automatic welding machine	22.01.2008	59	35 months	PLN	12	25
Lease agreement for semi-automatic welding machine	23.06.2008	59	35 months	PLN	20	31
Lease agreement for double-girder crane	29.10.2008	163	60 months	PLN	85	94
Lease agreement for controllers	08.06.2009	125	48 months	PLN	69	76
Lease agreement for a passenger car	25.10.2010	74	35 months	PLN	56	–
Lease agreement for a passenger car	25.10.2010	58	35 months	PLN	44	–
Lease agreement for a passenger car	25.10.2010	55	35 months	PLN	43	–
Lease agreement for spring compressor	25.07.2007	37	36 months	PLN	–	12
Lease agreement for semi-automatic welding machine	13.03.2008	31	30 months	PLN	–	9
Lease agreement for ventilation system	13.06.2008	57	48 months	PLN	22	35
Lease agreement for INNA software	20.04.2009	37	24 months	PLN	7	24
Lease agreement for a plasma cutter	20.10.2010	15	36 months	PLN	12	–
Lease agreement for a welding machine	20.10.2010	35	36 months	PLN	33	–
Lease agreement for OPTIMA software	04.08.2010	40	52 months	PLN	28	–
Total		**1 825**			**578**	**622**

(in thousand zlotys)

37. Subsidies

Subsidies reported in the financial statement on 31st December 2010 amounted to 29 thousand zlotys. The subsidies regard:

- Preventive activities of the Insurance Company Powszechny Zakład Ubezpieczeń S.A., under which the company subsidized the design, deliveries and mounting of natural gas detection and signalling systems for two gas fired furnaces in w RAFAKO S.A.; the subsidy is in cash,
- Research project: "Case study of technologies for highly efficient „zero-emission" coal fired units with integrated capture of CO_2 from flue gas" preformed within the strategic research and development programmes „Advanced technologies of winning energy" of the National Research and Development Centre in Warsaw; the subsidy is in cash,
- Modernization of fixed assets in order to improve competitiveness of the subsidiary by implementation of new surface cleaning technology,
- Modernization of fixed assets in order to increase the output of cutting process of large size profiles, improvement of industrial safety conditions, manufacturing cost reduction and increase in quality of offered goods.

Settlement of subsidies:

Objective of the subsidy	*Status on 31 Dec. 2009*	*Increases in the period*	*Subsidy writing-off into other operating revenues in the period*	*Reimburse-ment of subsidy in the period*	*Other subsidy reductions in the period*	*Status on 31 Dec. 2010*
Modernization of fixed assets	103	31	(49)	–	–	85
Performance of part of research project	–	160	(160)	–	–	–
	103	**191**	**(209)**	–	–	**85**

38. Deferred revenues

	31 Dec. 2010	*31 Dec. 2009*
Deferred revenues by reason of:		
Prepayments received on account of future deliveries	94 138	127 559
Valuation of long-term contracts	135 181	79 930
Other	–	–
	229 319	**207 489**

(in thousand zlotys)

39. Reconciliation of amounts in cash flow statement with corresponding entries shown in the financial statement

	Year ended 31 Dec. 2010
Change of receivables position reported in the financial statement	(42 723)
Change of receivables position resulting from fixed assets sale	(119)
Change of receivables position reported in cash flow statement	**(42 842)**

40. Contingent receivables and liabilities

40.1. Contingent receivables

	31 Dec. 2010	*31 Dec. 2009*
Bank and insurance guarantee receivables, mainly received as performance bonds for trade contracts	198 577	175 036
Received guaranty for repayment of bank credits and guarantees, including:	16 058	16 227
- in favour of the affiliate	–	–
Receivables of unsettled disputes with tax authorities	–	–
Bills of exchange received as security,	6 535	10 822
- in favour of the affiliate	558	1 045
Letters of credit	17 303	30 994
Block on suppliers' accounts	223	–
	238 696	**233 079**

40.2. Contingent liabilities

	31 Dec. 2010	*31 Dec. 2009*
Bank and insurance guarantee liabilities, mainly provided as performance bonds for trade contracts, including	682 905	724 571
Guaranty for repayment of bank credits and guarantees, including:	–	–
- in favour of the affiliate	–	–
Guaranty for repayment of bank guarantees	–	–
Liabilities of unsettled disputes with tax authorities	–	–
Bills of exchange received as security,	5 845	10 796
- in favour of the affiliate	–	220
Letters of credit	–	1 479
	688 750	**737 066**

40.3. Disputes, court proceedings

Arrangement proceedings and bankruptcy proceedings

On 31st December 2010 the total amount of outstanding debts in arrangement proceedings and bankruptcy proceedings reported by the companies of the Group amounts to 3 630 thousand zlotys.

Court proceedings

As at 31st December 2010 the parent company and subsidiaries were parties in court proceedings regarding disputable outstanding debts in total amount of 35 104 thousand zlotys.

The highest outstanding debt, i.e. 11 500 thousand USD (34 476 thousand zlotys) concern the claim for indemnification, made by the parent company, to be paid by the Public Limited Company Donieckobłenergo, having their premises in the Ukraine, due to final abandoning the boiler construction by the client. In 2009 the court of first instance and of second instance delivered a judgement favourable for the parent company, however the Economic Court above, on rearguing the appeal complaint of the defendant, set aside the judgements and passed over the case to reargue. On 6th August 2010 the parent company was given the judgement by the Court Chamber for economic issues of the Supreme Court of Ukraine, whereby the appeal complaint made by the parent company on 2nd March 2010 was reargued favourably and resolved to sustain the judgement of the Donieck Economic Court of Appeal dated 23rd December 2008, in which a total amount of 56.7 million hryvnias was adjudicated in favour of RAFAKO S.A. as indemnification, interest for delay, legal charges and costs of legal representation, that was in conversion approximately 11 500 thousand USD on the day the action was instituted. Because the collection effectiveness of the adjudicated debt was uncertain, the parent company did not present this amount in revenues.

In October 2009 upon application of Bank ING, on bank accounts of the parent company debt collection was enforced. The debt collection took place according to bank enforceable title (BTE) issued by ING Bank Śląski S.A., based on the declaration of submission to debt collection made by RAFAKO while signing the Credit Agreement concluded on 25th June 2008 between ING Bank Śląski S.A., and companies of RAFAKO Group, i.e. RAFAKO S.A., RAFAKO ENGINEERING Sp. z o.o. and Fabryka Elektrofiltrów ELWO S.A. in bankruptcy, in which a joint liability of the Group entities was stated.

ING Bank Śląski S.A., making use of the debt collection right in form of bank enforceable title (BTE), carried out debt collection in the amount of 8 997 thousand zlotys. From the very beginning the Managing Board of the parent company called in question the right of the Bank to encumbrance. In response to the Bank activities, the parent company filed a lawsuit for payment of collected amounts in District Court in Warsaw, XX Economic Division on 3rd November 3 2009. On 25th November 2010 the District Court in Warsaw, XX Economic Division delivered a judgement adjudicating from ING Bank Śląski S.A. in favour of the parent company the amount 8 997 thousand zlotys along with costs of court proceedings and legal representation. The judgement is not legally valid. Acting according to the principle of careful valuation, the parent company made an allowance for these disputable receivables.

40.4. Guarantees

On 31st December 2010 the Group had contingent liabilities resulting from bank and insurance guarantees in the total amount 682 905 thousand zlotys, including:

1. Performance bonds and advance payment guarantee in total amount 143 233 thousand zlotys provided by BGŻ S.A., secured by a revolving credit limit agreement and contract guarantee agreement,
2. Performance bonds and advance payment guarantee in the amount 99 032 thousand zlotys provided by Credit Agricole Coroprate and Investment Bank S.A., secured by transfer of outstanding debts from the contract,
3. Performance bonds and advance payment guarantee in the amount 51 730 thousand zlotys provided by Generali TU S.A., secured by blank bill,
4. Performance bonds and guarantee for repair of defects in total amount 43 352 thousand zlotys provided by TUiR WARTA S.A., secured by an agreement,
5. Advance payment guarantee and performance bonds for adequate contract performance in the technical period in total amount 44 096 thousand zlotys provided by DnB Nord S.A., secured by a credit limit agreement,
6. Performance bonds and advance payment guarantee in the amount 42 604 thousand zlotys provided by STU ERGO HESTIA S.A., secured by blank bill,
7. Performance bonds and advance payment guarantee in total amount 39 712 thousand zlotys provided by PZU S.A., secured by blank bills and notarial declaration of submission to enforcement in the mode of article 777 Civil Code,
8. Performance bonds, advance payment guarantee and payment of receivables in total amount 37 888 thousand zlotys provided by BRE BANK S.A., secured by a cooperation agreement,
9. Advance payment guarantee, performance bonds and participation in the tender guarantee in total amount 36 972 thousand zlotys provided by Kredyt Bank S.A., secured by blank promissory note,
10. Advance payment guarantee, performance bonds and guarantee for adequate repair of defects in total amount 28 929 thousand zlotys provided by Bank PeKaO S.A., secured by transfer of outstanding debts from the contract and pledge on outstanding debts,
11. Performance bonds and advance payment guarantee in the amount 29 458 thousand zlotys provided by Deutsche Bank Polska S.A., secured by transfer of outstanding debts from the contract,
12. Advance payment guarantee in the amount 24 905 thousand zlotys provided by Towarzystwo Ubezpieczeń InterRisk S.A., secured by blank promissory note,
13. Guarantee for participation in the tender, performance bonds and advance payment guarantee in total amount 15 413 thousand zlotys provided by Raiffeisen Bank Polska S.A., secured by outstanding debts limit contract,
14. Guarantee for participation in the tender, performance bonds and advance payment guarantee in the amount 12 453 thousand zlotys provided by PKO BP S.A., secured by an agreement,
15. Performance bonds and advance payment guarantee in the amount 11 464 thousand zlotys provided by BOŚ S.A., secured by transfer of outstanding debts and blank promissory note,
16. Advance payment guarantee, performance bond and guarantee for prompt repair of defects in the amount 10 922 thousand zlotys provided by Towarzystwo Ubezpieczeń EULER HERMES S.A., secured by contractual guarantee agreements,
17. Performance bonds and guarantee for prompt repair of defects in total amount 10 676 thousand zlotys provided by T.U. Allianz Polska S.A., secured by a revolving credit limit agreement and contract guarantee agreement,
18. Performance bonds provided by ING Bank Śląski S.A. in total amount 66 thousand zlotys secured by a credit agreement.

(in thousand zlotys)

41. Information on affiliates

The following table shows total transaction amounts with affiliates for the given financial period (information regarding overdue receivables at the end of the financial period is presented in note 27.3 of extra information and clarifications):

Affiliate	*12 month period ended 31Dec.:*	*Sales to affiliates*	*Purchases from affiliates*	*Receivables from affiliates*	*Liabilities towards affiliates*
Entities that have significant impact on the Company:					
ELEKTRIM S.A.	*2010*	–	87	–	1
	2009	–	59	–	1
Entities from ELEKTRIM S.A. Group:					
ELEKTRIM-MEGADEX S.A.	*2010*	–	–	–	16
	2009	–	–	–	16
PAK S.A.	*2010*	3 675	17	612	4
	2009	6 114	11	1 077	3
Polska Telefonia Cyfrowa Sp. z o.o.	*2010*	–	574	–	94
	2009	–	613	–	104
Associated company:					
SANBEI-RAFAKO Sp. z o.o.*	*2010*	–	–	–	–
	2009	–	–	–	–

**-revenue and receivables by reason of dividend was included in total amount by an allowance*

In 2010 neither the parent company nor the subsidiaries closed any essential deals with affiliates on other than market terms.

41.1. Parent company of the Group

The parent company of RAFAKO Group is RAFAKO S.A.

41.2. Entity exerting significant impact on the Group

Laris Investments Sp. z o.o. having their premises in Warsaw (a subsidiary of ELEKTRIM S.A.) hold 37.45% of ordinary shares of the Company (31st December 2009: 37.45%).

ELEKTRIM S.A. having their offices in Warsaw hold 12.47% of ordinary shares of the Company (31st December 2009: 12.47%).

41.3. Associated company

SANBEI-RAFAKO Sp. z o.o. having their premises in Zhangjiakou, China.

The parent company hold 26.23 % share in SANBEI-RAFAKO Sp. z o.o. (31 December 2009: 26.23 %).

41.4. Joint ventures in which companies of the Group are partners

Companies of the Group do not have any joint ventures.

(in thousand zlotys)

41.5. Transaction terms with affiliates

In the year that ended on 31st December 2010 and 2009 the parent company and subsidiaries did not close any significant deals with affiliates on other than market terms.

All deals with affiliates are closed on terms applied by the Group in economic relations with entities that are not affiliates. Remuneration is usually agreed by tender, standard payment terms are stipulated. The affiliate must ensure performance of the services in conformity with documentation, provide guarantees for a defined period and provide a security in form of a bank performance bond. In relation to affiliates also standard contractual penalties apply, confidentiality provisions, industrial property provisions, contract insurance, force majeure provisions and settling of disputes, if any.

41.6. Deals with other members of the Board of Directors

Neither in the reporting period nor in comparable period any loans were granted to members of the Board of Directors and Supervisory Board of companies that compose the Group.

Neither in the reporting period nor in comparable period any deals were closed by companies of the Group with members of the Board of Directors and Supervisory Board.

41.7. Shares held by members of managing and supervising bodies

Number of shares of the parent company held by the managing and supervising personnel, and also the number of shares and stock in affiliates of the parent company, held by managing and supervising personnel, according to the status on 31 December 2010, is as shown in the following table:

	Company name	*Total number of shares*	*Nominal share value in zlotys*
Managing person			
Wiesław Różacki	RAFAKO S.A.	10 000	20 000,00
Supervising person			
Sławomir Sykucki	ELEKTRIM S.A.	5	5,00
Roman Jarosiński	ELEKTRIM S.A.	5	5,00

41.8. Remuneration of senior management

	Year ended 31 Dec. 2010	*Year ended 31 Dec. 2009*
Short-term employee benefits (remunerations and margin)	6 431	6 524
Retirement benefits	–	–
Severance payments	–	–
Employee benefits in form of own shares	–	–
Total remunerations paid to senior management	**6 431**	**6 524**

Remuneration paid to members of the Board of Directors and Supervisory Board of the parent company for the year that ended on 31st December 2010 was as follows:

	Basic remuneration	*Remuneration paid in form of awards in thousand zlotys*	*Other remuneration*
Board of Directors	1 556,0	570,2	–
Wiesław Różacki	600,0	270,0	–
Krzysztof Burek	480,0	102,1	–
Roman Czerwiński	168,0	102,1	–
Roman Jarosiński	–	96,0	–
Piotr Wawrzynowicz	308,0	–	–
Supervisory Board	790,8	–	180,0
Krzysztof Pawelec	192,0	–	–
Roman Jarosiński*	180,0	–	180,0
Witold Okarma	96,0	–	–
Maciej Stradomski	44,4	–	–
Sławomir Sykucki	96,0	–	–
Piotr Wawrzynowicz	34,8	–	–
Marek Wiak	51,6	–	–
Leszek Wysłocki	96,0	–	–
		–	–
Supervisory Board – subsidiaries or associated companies	266,0	–	–
Roman Jarosiński	150,0	–	–
Piotr Wawrzynowicz	116,0	–	–
Total	**2 612,8**	**570,2**	**180,0**

*- extra remuneration for self-reliant supervisory activities

(in thousand zlotys)

Remuneration paid to members of the Board of Directors and Supervisory Board of the parent company for the year that ended on 31st December 2009 was as follows:

	Basic remuneration	*Remuneration paid in form of awards*	*Other remuneration*
Board of Directors	1 575,2	787,0	1 051,0
Wiesław Różacki	600,0	208,0	–
Krzysztof Burek	255,2	75,0	–
Roman Czerwiński	255,2	–	–
Roman Jarosiński	240,0	168,0	331,0
Eugeniusz Myszka	224,8	168,0	240,0
Jerzy Thamm	–	168,0	480,0
Supervisory Board	634,9	–	–
Krzysztof Pawelec	111,6	–	–
Roman Jarosiński	30,3	–	–
Grażyna Kuś	70,5	–	–
Witold Okarma	82,3	–	–
Sławomir Sykucki	82,3	–	–
Piotr Wawrzynowicz	11,8	–	–
Marek Wiak	82,3	–	–
Marian Woronin	70,5	–	–
Leszek Wysłocki	93,3	–	–
Supervisory Board – subsidiaries or associated companies	116,0	–	–
Eugeniusz Myszka	116,0	–	–
Total	**2 326,1**	**787,0**	**1 051,0**

Remuneration paid to members of the Board of Directors and Supervisory Board of the subsidiary DOM Sp. z o.o. for the year that ended on 31st December 2010 was as follows:

	Basic remuneration	*Remuneration paid in form of awards*	*Other remuneration*
Board of Directors	83	8	–
Mirosław Dziedzic	83	8	–
Supervisory Board	211	–	–
Roman Jarosiński	60	–	–
Jolanta Markowicz	52	–	–
Adam Górnicki	52	–	–
Piotr Wawrzynowicz	47	–	–
		–	–
Total	**294**	**8**	–

(in thousand zlotys)

Remuneration paid to members of the Board of Directors and Supervisory Board of the subsidiary DOM Sp. z o.o. for the year that ended on 31st December 2009 was as follows:

	Basic remuneration	*Remuneration paid in form of awards*	*Other remuneration*
Board of Directors	164	–	36
Mirosław Dziedzic	85	–	19
Marian Balicz	79	–	17
Supervisory Board	200	–	–
Eugeniusz Myszka	56	–	–
Jolanta Markowicz	50	–	–
Adam Górnicki	50	–	–
Wiesława Skrzynecka	44	–	–
Total	**364**	**–**	**36**

Remuneration paid to members of the Board of Directors and Supervisory Board of the subsidiary RAFAKO Engineering Sp. z o.o. for the year that ended on 31st December 2010 was as follows:

	Basic remuneration	*Remuneration paid in form of awards*	*Other remuneration*
Board of Directors	78	7	–
Maciej Kaczorowski	78	7	–
Supervisory Board	155	–	–
Jolanta Góreczna	29	–	–
Roman Karbasz	29	–	–
Norbert Lejeune	34	–	–
Roman Jarosiński	34	–	–
Piotr Wawrzynowicz	29	–	–
Total	**233**	**7**	**–**

Remuneration paid to members of the Board of Directors and Supervisory Board of the subsidiary RAFAKO Engineering Sp. z o.o. for the year that ended on 31st December 2009 was as follows:

	Basic remuneration	*Remuneration paid in form of awards*	*Other remuneration*
Board of Directors	111	5	–
Eugeniusz Myszka	39	–	–
Maciej Kaczorowski	72	5	
Supervisory Board	88	–	–
Jolanta Markowicz	31	–	–
Jolanta Góreczna	28	–	–
Roman Karbasz	28	–	–
Norbert Lejeune	1	–	–
Roman Jarosiński	1	–	–
Piotr Wawrzynowicz	1	–	–
Total	**199**	**5**	**–**

(in thousand zlotys)

Remuneration paid to members of the Board of Directors and Supervisory Board of the subsidiary FPM S.A. for the year that ended on 31st December 2010 was as follows:

	Basic remuneration	*Remuneration paid in form of awards*	*Other remuneration*
Board of Directors	456	186	33
Piotr Dzierżęga	276	100	4
Marian Januszkiewicz	180	86	29
Supervisory Board	203	–	–
Eugeniusz Myszka	2	–	–
Jerzy Thamm	2	–	–
Maciej Kaczorowski	2	–	–
Michał Kajzerek	51	–	–
Krzysztof Matysek	50	–	–
Piotr Wawrzynowicz	40	–	–
Roman Jarosiński	56	–	–
		–	–
Total	**659**	**186**	**33**

Remuneration paid to members of the Board of Directors and Supervisory Board of the subsidiary FPM S.A. for the year that ended on 31st December 2009 was as follows:

	Basic remuneration	*Remuneration paid in form of awards*	*Other remuneration*
Board of Directors	455	165	18
Piotr Dzierżęga	276	90	–
Marian Januszkiewicz	179	75	18
Supervisory Board	204	–	–
Eugeniusz Myszka	60	–	–
Jerzy Thamm	52	–	–
Maciej Kaczorowski	52	–	–
Michał Kajzerek	40	–	–
Total	**659**	**165**	**18**

Remuneration paid to members of the Board of Directors and Supervisory Board of the indirect subsidiary PALSERWIS Sp. z o.o. for the year that ended on 31st December 2010 was as follows:

	Basic remuneration	*Remuneration paid in form of awards*	*Other remuneration*
Board of Directors	90	32	1
Andrzej Bies	90	32	1
Supervisory Board	83	–	–
Piotr Dzierżęga	25	–	–
Marian Januszkiewicz	28	–	–
Józef Wojtuszek	30	–	–
Total	**173**	**32**	**1**

(in thousand zlotys)

Remuneration paid to members of the Board of Directors and Supervisory Board of the indirect subsidiary PALSERWIS Sp. z o.o. for the year that ended on 31st December 2009 was as follows:

	Basic remuneration	*Remuneration paid in form of awards*	*Other remuneration*
Board of Directors	90	42	–
Andrzej Bies	90	42	–
Supervisory Board	83	–	–
Piotr Dzierżęga	25	–	–
Marian Januszkiewicz	28	–	–
Józef Wojtuszek	30	–	–
Total	**173**	**42**	–

41.9. Share of senior management in employee stock ownership plan

Companies that compose the Group do not hold an employee stock ownership plan.

42. Information on agreement with an certified auditor or entity authorized to audit financial statements

On 5th July 2010, the Supervisory Board of the parent company acting according to authority following from Articles of the Company, chose the company DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. having their offices in Lublin, at Al. J. Piłsudskiego 1A, 20-011 Lublin, entered into the KIBR register under number 232, as an entity authorized to auditing. The selection of an auditor was made according to valid regulations and professional standards. In the past the Company made use of services of the above company in the scope of auditing financial statements of the single companies and RAFAKO Group for 2006, 2007, 2008 and 2009.

On 14th July 2010 the parent company concluded an agreement with the company DORADCA Zespół Doradców Finansowo-Księgowych Spółka z o.o. having their offices in Lublin to the audit financial statement of the Company and consolidated financial statement for the half-year and the year 2010. The total remuneration for auditing financial statements was agreed to be 96 thousand zlotys (including: financial statement of the Company - 68 thousand zlotys, consolidated financial statement 28 thousand zlotys). For 2009 the total remuneration for the audit of financial statements was agreed to amount to 91 thousand zlotys. The Company did not conclude any other agreements with the above mentioned entity in 2010.

On 15th July 2010, the Supervisory Board of the subsidiary FPM S.A. acting according to authority following from Articles of the Company, chose the company DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. having their offices in Lublin, at Al. J. Piłsudskiego 1A, 20-011 Lublin, entered into the KIBR register under number 232, as an entity authorized to auditing. The selection of an auditor was made according to valid regulations and professional standards. On 26th July 2010, the subsidiary FPM S.A. concluded an agreement with the company DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. having their offices in Lublin, to audit the consolidated semi-annual package drawn up for consolidation purposes for the first half year and to audit the company consolidated financial statement for 2010.

The total remuneration for auditing financial statements was agreed to be 33 thousand zlotys (including: financial statement of the Company - 20 thousand zlotys, consolidated financial statement 13 thousand zlotys). For 2009 the total remuneration for the audit of financial statements was agreed to amount to 33 thousand zlotys. The Company did not conclude any other agreements with the above mentioned entity in 2010.

(in thousand zlotys)

On 4th November 2010, the Supervisory Board of the subsidiary Palserwis Sp. z o.o. acting according to authority following from Articles of the Company, chose the company DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. having their offices in Lublin, at Al. J. Piłsudskiego 1A, 20-011 Lublin, entered into the KIBR register under number 232, as an entity authorized to auditing. The selection of an auditor was made according to valid regulations and professional standards. On 23rd December 2010, the subsidiary Palserwis Sp. z o.o. concluded an agreement with the company DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. having their offices in Lublin, to audit the company financial statement for 2010. The remuneration for auditing the financial statement was agreed to be 5 thousand zlotys. For 2009 the total remuneration for the audit of financial statement was agreed to amount to 5.5 thousand zlotys. The Company did not conclude any other agreements with the above mentioned entity in 2009.

On 21st October 2010, the subsidiary PGL „DOM" Sp. z o.o. concluded an agreement with the company DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. having their offices in Lublin, to audit the annual company financial statement drawn up on 31 December 2010. The total remuneration for auditing the financial statement was agreed to be 7 thousand zlotys. For 2009 the total remuneration for the audit of financial statement was agreed to amount to 7 thousand zlotys.

On 22nd December 2010, the subsidiary RAFAKO Engineering Sp. z o.o. concluded an agreement with the company DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o. having their offices in Lublin, to audit the annual company financial statement drawn up on 31 December 2010. The total remuneration for auditing the financial statement was agreed to be 5 thousand zlotys. For 2009 the total remuneration for the audit of financial statement was agreed to amount to 5 thousand zlotys.

The table below shows the remuneration of the entity authorized to auditing financial statements paid or due for the year that ended on 31st December 2010 and 31st December 2009 divided into various types of services:

Type of services	*Year ended* 31 Dec. 2010	*Year ended* 31 Dec. 2009
Mandatory audit of the consolidated financial statement *, including:	96	91
- audit of the Company financial statement	68	65
Other certifying services	–	–
Fiscal consultancy	–	–
Other services	–	–
Total	**96**	**91**

** refers to the company DORADCA Zespół Doradców Finansowo – Księgowych Sp. z o.o.*

The remuneration does not comprise services rendered to other companies of the Group.

(in thousand zlotys)

43. Financial risk management objectives and principles

The objective of financial risk management in RAFAKO Group is to cut down the variability of generated cash flows and achieved financial results on basic business activities to an acceptable level. Main financial instruments the Group make use of, include: bank credits, cash, short-term deposits, forward currency transactions and lease agreements. The main task of the above mentioned instruments is to assist and provide financial security of current operating activities of the Group through stabilizing and neutralizing of financial liquidity risks, variability of exchange rates and interest rates, and also safe and effective depositing of financial surplus. Other financial instruments – such as trade receivables and liabilities – arise out of current business activities of the companies of the Group and are its inherent component.

The Group do not trade financial instruments. All financial instruments described in this section are of a character that assists immediate business processes, resulting from basic operations of the companies in the Group. The Group do not allow to use financial instruments for speculative purposes or other purposes that are unrelated closely to basic operations of the Group.

The most important type of financial risk in the analysed period was and is now the currency risk of the Group. The scale of this risk was presented in note 43.2. The Group accounting rules for derivatives were discussed in note 6.17.

43.1. Interest rate risk

On 31st December 2010 companies of the Group did not hold any active credit agreements. Credit risk and changes in interest rate, if any, were no risk for the Group operations. Absence of credit engagement and the related absence of interest rate risk have caused that the companies of the Group do not consider concluding forward contracts with interest rate (interest rate swap).

Interest rate risk – susceptibility to changes

The table below shows susceptibility of gross financial result on reasonably possible changes in interest rates with the assumption of constancy of other factors (related to variable interest rate liabilities). The impact on the Group shareholders' equity was not shown.

	Increase / decrease by percentage points	*Impact on gross financial result*
Year ended on 31 December 2010		
PLN	+ 1%	1 644
EUR	+ 1%	(6)
PLN	- 1%	(1 315)
EUR	- 1%	5
Year ended on 31 December 2009		
PLN	+ 1%	675
EUR	+ 1%	32
PLN	- 1%	(540)
EUR	- 1%	(26)

(in thousand zlotys)

43.2. Currency risk

The most important type of financial risk the Group is exposed to, is the currency risk, that results from variations of currency rate, causing uncertainty regarding the future level of cash flows denominated in foreign currencies. The exposure of the Group to currency risk results from the fact that a significant part of their cash flows is expressed in foreign currencies. Variations of PLN exchange rate to foreign currencies, that in particular occur in short time and with high dynamics, may have considerable influence both on profitability of contracts denominated in foreign currencies, as well as the level of currency variations calculated on assets and liabilities items expressed in foreign currencies, and translated to PLN.

In the past period over 22 % of invoiced Group revenues was expressed in foreign currencies, mainly in EUR.

The strategy of currency risk management applied by the Group assumes the use of natural security to the highest extent. The Group aspire to structural accommodation of revenues and costs in the same currency to the highest extent under the contracts performed. Net exposure to currency risk , that is not secured in a natural way, is secured within limits from 30% to 70% of estimated value of net exposure, exclusively by means of accepted types of derivatives.

On 31st Dec. 2010, the parent company secured ca. 102% of currency exposure in EUR and ca. 40% of currency exposure in SEK (exposure understood as estimated difference between future proceeds and expenses expressed in EUR/SEK, considering the balance of prepayments and cash), however the subsidiary secured ca. 68 % of currency exposure in EUR. Exceeding recommended levels of security by the parent company results from transitional rise of currency exposure according to the status of 31st December 2010.

The table below shows the sensitivity of gross financial result (with reference to variation of fair value of assets and liabilities in cash) on reasonably possible rate fluctuations of EUR, USD, GBP, TRY with assumed constancy of other factors.

	Rise / drop of currency rate	*Impact on gross financial result*	*Impact on shareholders' equity*
31 December 2010 – EUR	+10%	7 363	5 964
	-10%	(7 363)	(5 964)
31 December 2010 – SEK	+10%	1 604	1 299
	-10%	(1 604)	(1 299)
31 December 2010 – TRY	+10%	361	292
	-10%	(361)	(292)
31 December 2010 – BAM	+10%	59	48
	-10%	(59)	(48)
31 December 2009 – EUR	+10%	26 267	21 276
	-10%	(26 267)	(21 276)
31 December 2009 – TRY	+10%	547	443
	-10%	(547)	(443)

43.3. Goods' price risk

The Group is exposed to price increase risk, in particular of material strategic for their operations. The level of this risk is significantly influenced by the situation of raw material prices on world markets – steel, precious metals, fuels and energy caused both by fluctuations of currency rates as well as concentration of manufacturers tending to have common control of prices. The management strategy of goods' prices risk assumes aspiration to conclude contracts with sub-suppliers of material and services in the currency of the main contract, placing material supplies on the part of the customer, as well as concluding purchase contracts in fixed prices. The companies of the Group do not conclude long-term agreements with sub-suppliers, the scope of supply and suppliers are agreed individually according to their needs.

(in thousand zlotys)

43.4. Credit risk

Credit risk of RAFAKO Group is closely related to basic operations of the companies. It results from concluded trade contracts and is connected with potential occurrence of events, that may take form of insolvency of the contractor, partial repayment of receivables or essential delay in repayment of receivables. Granting the so-called commercial credit to customers is currently an inherent component of business activities, however the companies take a number of actions meant to minimize risks related to cooperation with a potentially unreliable customer. All customers who want to make use of commercial credits, are subjected to preliminary verification procedures.

Customers, who in the opinion of the Companies, according to the verification performed are financially unreliable, shall submit adequate financial securities, that will minimize the risk of insolvency of these companies towards the Group. Moreover, thanks to current monitoring of receivables and taking immediate debt collection actions in relation to overdue receivables, the exposure of Companies of the Group to credit risk is insubstantial.

43.5. Risk related to liquidity

The Group is exposed to the risk of liquidity in case of mismatch of timely structure of cash flows on contracts performed by the Company. The Group aspire to ensure the so-called positive cash flows, that eliminate the risk of liquidity with squaring receivables on time. Nominal value of credit lines available for the Group effectively prevent negative occurrences connected with delays in payment, if any. Moreover in connection with very good financial situation of the companies and high liquidity rate, the Group became independent of external financing sources to a considerable degree. Available credit lines in banks were used to a minimum degree. In the coming period the Companies do not intend to increase their credit exposure.

In connection with the above, the risk of scarcity of cash and loss of financial liquidity by the Group does not occur at the moment.

The table below shows financial liabilities of the Group on 31st December 2010 and 31st December 2009 according to maturity date based on contractual undiscounted payments.

31 Dec. 2010	*On demand*	*Below 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total*
Interest bearing credits and loans	–	–	–	–	–	–
Lease liabilities	–	15	216	347	–	578
Derivatives	–	1 088	2 333	–	–	3 421
Trade liabilities and other liabilities	114 186	145 970	16 754	16 386	–	293 296
	114 186	**147 073**	**19 303**	**16 733**	–	**297 295**
31 Dec. 2009						
Interest bearing credits and loans	–	4 500	–	–	–	4 500
Financial lease liabilities	–	2	327	293	–	622
Derivatives	–	4 364	5 580	–	–	9 944
Trade liabilities and other liabilities	55 638	96 250	9 057	14 309	–	175 254
	55 638	**105 116**	**14 964**	**14 602**	–	**190 320**

(in thousand zlotys)

44. Financial instruments

44.1. Fair values of individual classes of financial instruments

On 31st December 2010 and in comparable periods the Group possessed securing derivative instruments. All financial instruments of the Group were reported in the financial statement according to fair value.

Fair value of financial instruments was determined by discounting forecasted cash flows with the use of currently valid interest rates.

	Category acc. to MSR 39	*Carrying value*		*Fair value*	
		31 Dec. 2010	*31 Dec. 2009*	*31 Dec. 2010*	*31 Dec. 2009*
Financial assets					
Financial assets available for sale (long-term), including:	DDS	516	534	516	534
- shares and stock	DDS	516	534	516	534
Other financial assets (long-term),	UdtW	3 472	3 645	3 472	3 645
- long-term deposits	UdtW	3 452	3 645	3 452	3 645
Other short-term financial assets		29 464	187 263	29 464	187 263
- short-term deposits	UdtW	2 160	149 028	2 160	149 028
- certificates of deposit	DDS	–	1 315	–	1 315
- TFI share units	DDS	27 304	36 920	27 304	36 920
Trade and other receivables	PiN	274 075	231 833	274 075	231 833
Financial derivatives, including:	WwWGpWF	2 357	888	2 357	888
- currency options	WwWGpWF	2 357	888	2 357	888
Cash and cash equivalents	WwWGpWF	175 011	67 702	175 011	67 702

Used abbreviations:

UdtW – Financial assets kept until maturity date,
WwWGpWF – Assets / liabilities valuated in fair value through financial result,
DDS – Financial assets available for sale,
PiN – Loans and receivables.

(in thousand zlotys)

	Category acc. to MSR 39	*Carrying value*		*Fair value*	
		31 Dec. 2010	*31 Dec. 2009*	*31 Dec. 2010*	*31 Dec. 2009*
Financial liabilities					
Interest bearing bank credits and loans, including:	PZFwgZK	–	4 500	–	4 500
- credits on current account, interest-bearing acc. to variable interest rate	PZFwgZK	–	4 500	–	4 500
Other long-term liabilities, including:	PZFwgZK	578	622	578	622
- financial lease liabilities and tenancy with purchase option liabilities	PZFwgZK	578	622	578	622
Trade and other financial liabilities	PZFwgZK	283 661	162 198	283 661	162 198
Financial derivatives, including:	WwWGpWF	4 165	11 015	4 165	11 015
- *Forward* type currency contracts	WwWGpWF	4 165	11 015	4 165	11 015

Used abbreviations:
WwWGpWF – Assets / liabilities valuated in fair value through financial result,
PZFwgZK – other financial liabilities valuated according to amortized cost.

(in thousand zlotys)

44.2. Revenue, cost, profit and loss entries included in the statement divided into categories of financial instruments

Year ended on 31 December 2010	*Category ac. to MSR 39*	*Revenues / (costs) by reason of interest*	*Profit / (loss) by reason of exchange rate variations*	*Release / (formation) of allowances*	*Profit / (loss) by reason of valuation*	*Profit / (loss) on sale of financial instruments*	*Other*	*Total*
Financial assets								
Financial (long-term) assets available for sale, including:	DDS	–	–	–	–	220	392	612
- shares and stock	DDS	–	–	–	–	220	392	612
Other (long-term)financial assets, including:	UdtW	317	(145)	–	–	–	–	172
- long-term deposits	UdtW	317	(145)	–	–	–	–	172
Other short-term financial assets, including:		2 286	(65)	–	1 138	379	57	3 795
- short-term deposits	UdtW	1 986	(65)	–	–	–	–	1 921
- investment certificates	DDS	–	–	–	(118)	364	–	246
- share units TFI Allianz	DDS	–	–	–	309	–	57	366
- share units TFI KBC	DDS	–	–	–	947	–	–	947
- share units TFI PKO	DDS	300	–	–		15	–	315
Trade and other receivables	PiN	106	(5 705)	(25 221)	(195)	–	–	(31 015)
Financial derivatives, including:	WwWGpWF	–	–	–	8 398	–	–	8 398
- *Forward* type currency contracts	WwWGpWF	–	–	–	8 398	–	–	8 398
Cash and cash equivalents	WwWGpWF	2 743	(751)	–	–	–	–	1 992
Total		**5 452**	**(6 666)**	**(25 221)**	**9 341**	**599**	**449**	**(16 046)**

(in thousand zlotys)

Year ended on 31 December 2010	*Category ac. to MSR 39*	*Revenues / (costs) by reason of interest*	*Profit / (loss) by reason of exchange rate variations*	*Release / (formation) of allowances*	*Profit / (loss) by reason of valuation*	*Profit / (loss) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing bank credits and loans, including:	PZFwgZK	(77)	–	–	–	–	(199)	(276)
- credits on current account, interest bearing acc. to variable interest rate	PZFwgZK	(77)	–	–	–	–	–	(77)
- other short-term credits with variable interest rate	PZFwgZK	–	–	–	–	–	(199)	(199)
Other long-term liabilities, including:	PZFwgZK	(33)	1	–	(22)	–	–	(54)
- financial lease liabilities and tenancy with purchase option liabilities	PZFwgZK	(33)	1	–	(22)	–	–	(54)
Trade and other financial liabilities	PZFwgZK	(565)	(2 810)	–	103	–	4	(3 268)
Financial derivatives, including:	WwWGpWF	–	–	–	(78)	(2 137)	–	(2 215)
- *Forward* type currency contracts	WwWGpWF	–	–	–	(78)	(2 137)	–	(2 215)
Total		**(675)**	**(2 809)**	**–**	**3**	**(2 137)**	**(195)**	**(5 813)**

(in thousand zlotys)

Year ended on 31 December 2009 *Financial assets*	*Category ac. to MSR 39*	*Revenues / (costs) by reason of interest*	*Profit / (loss) by reason of exchange rate variations*	*Release / (formation) of allowances*	*Profit / (loss) by reason of valuation*	*Profit / (loss) on sale of financial instruments*	*Other*	*Total*
Financial (long-term) assets available for sale, including:	DDS	–	–	–	–	–	–	–
- shares and stock	DDS	–	–	–	–	–	–	–
Other (long-term)financial assets, including:	UdtW	–	–	–	–	–	–	–
- long-term deposits	UdtW	–	–	–	–	–	–	–
Other short-term financial assets, including:		5 303	(2 328)	–	296	829	39	4 139
- short-term deposits	UdtW	5 303	(2 328)	–	–	–	–	2 975
- investment certificates	DDS	–	–	–	(16)	–	–	(16)
- share units TFI Allianz	DDS	–	–	–	317	829	39	1 185
- share units TFI KBC	DDS	–	–	–	(14)	–	–	(14)
- share units TFI PKO	DDS	–	–	–	9	–	–	9
Trade and other receivables	PiN	234	(6 615)	(9 651)	93	–	(118)	(16 057)
Financial derivatives, including:	WwWGpWF	–	–	–	888	–	–	888
- *Forward* type currency contracts	WwWGpWF	–	–	–	888	–	–	888
Cash and cash equivalents	WwWGpWF	3 935	(345)	–	–	–	–	3 590
Total		9 472	(9 288)	(9 651)	1 277	829	(79)	(7 440)

(in thousand zlotys)

Year ended on 31 December 2009	*Category ac. to MSR 39*	*Revenues / (costs) by reason of interest*	*Profit / (loss) by reason of exchange rate variations*	*Release / (formation) of allowances*	*Profit / (loss) by reason of valuation*	*Profit / (loss) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing bank credits and loans, including:	PZFwgZK	(406)	(80)	–	–	–	(124)	(610)
- credits on current account, interest bearing acc. to variable interest rate	PZFwgZK	(406)	(80)	–	–	–	(124)	(610)
- other short-term credits with variable interest rate	PZFwgZK			–	–	–	–	
Other financial liabilities, including:	PZFwgZK	(72)	(8)	–	–	–	–	(80)
- financial lease liabilities and tenancy with purchase option liabilities	PZFwgZK	(72)	(8)	–	–	–	–	(80)
Trade and other financial liabilities	PZFwgZK	(49)	2 587	–	402	–	–	2 940
Financial derivatives, including:	WwWGpWF	–	–	–	7 017	(4 246)	–	2 771
- *Forward* type currency contracts	WwWGpWF	–	–	–	6 968	(4 246)	–	2 772
Currency options		–	–	–	49	–	–	49
Total		**(527)**	**2 499**	**–**	**7 468**	**(4 246)**	**(124)**	**5 021**

(in thousand zlotys)

44.3. Interest rate risk

The following tables present the carrying value of the Group financial instruments exposed to interest rate risk, divided into individual age categories.

31 December 2010

Fixed interest	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	3 452	–	–	–	–	3 452
Short-term deposits	2 160	–	–	–	–	–	2 160

Variable interest	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	175 011	–	–	–	–	–	175 011
Long-term deposits	–	–	–	–	–	–	
Financial lease liabilities and tenancy with purchase option liabilities	231	162	185	–	–	–	578
Credits on current account	–	–	–	–	–	–	–
Other short-term credits	–	–	–	–	–	–	–

(in thousand zlotys)

31 December 2009

Fixed interest	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Short-term deposits	149 028	–	–	–	–	–	149 028

Variable interest	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	67 702	–	–	–	–	–	67 702
Long-term deposits	–	3 645	–	–	–	–	3 645
Financial lease liabilities and tenancy with purchase option liabilities	329	93	200	–	–	–	622
Credits on current account		–	–	–	–	–	–
Other short-term credits	4 500	–	–	–	–	–	4 500

The interest rate of financial instruments with variable interest is updated in periods below 1 year. Interest on financial instruments with fixed interest is fixed through the entire period until maturity / due date for these instruments. Other financial instruments of the Group, that were not presented in the tables above, are interest-free and therefore they do not fall under interest rate risk.

45. Employment structure

Average employment in the Company in the period from January to December was as follows:

	2010	*2009*
Average employment	**2 283**	**2 227**

A detailed description of changes in the employment structure was presented in clause 10 of the financial statement of the Group in 2010.

46. Events after the end of the reporting period

On 17th January 2011 the parent company got a notification from the company ENERGA Kogeneracja Sp. z o.o., according to the Public Procurement Act of 29th January 2004, about the selection of the offer placed by RAFAKO S.A. for construction of a 20 MWe biomass fired power unit as the best. The value of the offer is ca. 191.8 million zlotys.

On 18th January 2011 the parent company signed a contract with PGE Górnictwo i Energetyka Konwencjonalna S.A. – Oddział Elektrownia Bełchatów for retrofit and overhaul of rotary air preheaters with auxiliary boiler systems in Bełchatów Power Station, valued at ca. 120 million zlotys.

On 21st January 2011 the parent company signed a contract with Kozienice S.A. Power Station for replacement of electrostatic precipitator in unit No 4 in Kozienice Power Station, ca. 23.9 million zlotys worth.

On 2nd March 2011 the Court of Registration of the capital city in Budapest registered the subsidiary RAFAKO Hungary Kft. having the offices in Budapest. The company's registered capital is 40 million HUF acquired entirely by the parent company. The operations of the newly founded company is erection of power and chemical equipment.

On 7th March 2011 the Supervisory Board of RAFAKO S.A. made the following decisions:
- determined the number of the Company Board members to 4 persons,
- appointed from 7th March 2011 Mr Maciej Kaczorowski to the position of Vice-president of the Company.

On 9th March 2011 the parent company signed a contract with MARTIN GmbH having their offices in Munich for ca. EUR 18.5 million for fabrication of boiler pressure parts for municipal waste incineration with complete auxiliaries, fabrication and delivery of steel structures, erection and plant start-up in Roskilde in Denmark.

On 11th March 2011 the parent company got a notification from EUAS – Ankara (Turkey) about selecting the offer placed by the Consortium RAFAKO S.A. - EFOR Makina, for modernization of electrostatic precipitators in unit No 3 and 4 in Thermal Power Station SOMA (Turkey), to be the best. The proposal value is ca. 53.2 million zlotys, the value of RAFAKO S.A. amounts to ca. 18.8 million zlotys.

Within the period of 12 months (from March 2010 to March 2011) the parent company concluded several contracts with Elektrobudowa S.A. (Contractor) for the total amount of approximately 41.6 million zlotys. The subject of the largest contract valued at 27.5 million zlotys, concluded on 15th March 2011, is delivery, erection and "turnkey" start-up of electrical equipment (line) intended for the Flue Gas Desulfurization system, units 1 and 2 in PGE GiEK S.A. Division Bełchatów S.A. Power Station.

This consolidated financial statement of RAFAKO Group was approved to be published on 21st March 2011 by resolution No 16 of the Managing Board of RAFAKO S.A. dated 21st March 2011.

Signatures of members of the Board

21st March 2011	Wiesław Różacki	President of the Board	....
21st March 2011	Krzysztof Burek	Vice-president	....
21st March 2011	Maciej Kaczorowski	Vice-president	....
21st March 2011	Piotr Wawrzynowicz	Member of Supervisory Board delegated to act temporarily as member of Managing Board	....

Signature of the person responsible for keeping account books

21st March 2011	Jolanta Markowicz	Chief accountant	....