RAFAKO

GRUPA PBG

DIRECTORS' REPORT ON ACTIVITIES OF RAFAKO S.A. in Racibórz

in the year 2011

30 April 2012

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I. General information

RAFAKO S.A. (hereinafter the „Company" or „RAFAKO S.A.") is one of the largest Polish companies dealing with general execution of investments in the field of complete power generation units, and design, production, construction and maintenance of power industry machines and equipment, and objects. On 31 December 1949, a decision was issued by the Minister of Heavy Industry to establish a state-owned enterprise under the name „Fabryka Urządzeń Technicznych" based in Racibórz. The scope of business activities of this enterprise was set to be the production of steam boilers. The history of development of this enterprise is also the history of development of the entire power industry in Poland.

From the very beginning of its operations, the Company was the main supplier of boilers for the power and other types of industry in Poland. Total power output of boilers produced by RAFAKO S.A. accounts for a significant part of whole installed capacity of the professional and industrial power sectors. The key enterprises supplied with the Company-produced boilers are, among others, the following power plants: Opole, Bełchatów, Kozienice, Dolna Odra, Rybnik, Pątnów – Adamów - Konin, Turów and the power plants making up the Tauron Wytwarzanie energy concern, as well as heat and power stations in Warsaw, Wrocław, Łódź, Zielona Góra and many others. Fluidised bed boilers were installed in Elektrociepłownia Żerań and Bielsko-Biała II, Elektrownia Siersza and in Zakłady Farmaceutyczne Polpharma Starogard Gdański.

In 2008, the 464 MW power unit in Elektrownia Pątnów II was given over for use, for which RAFAKO S.A. in collaboration with SNC Lavalin produced a boiler and desulfurization system. Construction of a power unit for supercritical steam parameters in Pątnów II is the first investment project of this type carried out in Poland as regards capital expenditure made and power capacity involved. Owing to a great efficiency of this power unit, the emission of harmful gases to atmosphere, mainly of carbon dioxide, has become considerably lower.

In 2011, a power unit of 858 MW was given over for use at Elektrownia Bełchatów and RAFAKO S.A. constructed the so-called boiler island for this unit comprising boiler, electrostatic precipitator and desulfurization system. The new power unit at Bełchatów is the largest lignite-fired power unit in Poland with the highest registered „net efficiency" (of approx. 42%). This power unit will also interact with the pilot Carbon Capture and Storage System (the CCS system) in Poland.

RAFAKO S.A. is the leader in the field of installed large desulfurization systems in Poland. The Company delivered such systems to Elektrownia Jaworzno III, Elektrownia Bełchatów, Elektrownia Pątnów and Ostrołęka „B". At the last stage of completion are the contracts for the construction of such systems at Elektrociepłownia Siekierki and Dolna Odra. The contract with a value of PLN 489 million for the construction in Elektrociepłownia Siekierki of desulfurization system based on wet lime method, in progress from the beginning of 2009 is to date the largest ecological investment in Poland and one of the biggest contracts in the history of RAFAKO S.A.

In the years 2007 – 2008, RAFAKO S.A. gave over for use in Elektrociepłownia w Łodzi and Elektrownia Skawina highly efficient desulfurization systems produced using the semi-dry absorption method. The semi-dry absorption method, which is less expensive than the wet lime method, was developed internally by RAFAKO engineers.

In 2011, the Company entered a new area of ecological investments in the power industry sector which related to the reduction of nitric oxide by way of delivering modern de-nitriding or NOx reduction systems of selective catalytic reduction (the SCR system) under the „turn-key" method. Apart from the first NOx reduction system built for the K8 boiler at PKN Orlen, since June 2011 the Company has been constructing at Elektrownia „Kozienice" the SCR system, which – when completed – will be the largest system of this type in Poland.

The share of exports in total sales of RAFAKO S.A. is significant (34.5% in 2011). The largest boilers produced by RAFAKO S.A. operate in power generation plants in the countries of former Yugoslavia, and considerable number of such boilers was delivered to power generation plants in the Czech Republic, China, Turkey and India. RAFAKO S.A. is also an important manufacturer of boiler components and auxiliaries on the European market. Its clients in 2011 were the companies from such countries as Finland, Germany, France, Czech Republic, Austria and Denmark.

The Company has managed to secure a strong position on the European market of thermal waste utilisation. In 2011, we delivered 3 heat recovery steam generators for the system of thermal waste utilization in Torino (Italy) and 2 such generators for our client in Baku, Azerbaijani. Since February 2011, we have been executing a contract for the supply of a steam boiler for municipal solid waste (MSW) incineration plant in Roskilde in Denmark. In May 2011, the construction of waste incineration boiler was commenced in Billingham in the county of Cleveland, England. In addition, in 2011 the Company executed some orders for the construction of two heat recovery steam generators in Paskov in the Czech Republic and one biomass-fired boiler in Goch, Germany.

In 2009, a new power unit at Elektrociepłownia Kielce was put into operation which used biomass as its fuel. This is one of the first such investments realized in Poland and at the same time, the largest in terms of efficiency of biomass-fired boiler. In September 2011, an agreement was signed for the development of existing power production capacity.

In 2010, RAFAKO S.A. signed two new contracts for the production of „green energy". The business partners are power stations of the Tauron Group. In Jaworzno, a biomass-fired boiler is under construction, whilst in Stalowa Wola the existing pulverised-coal fired boiler is adjusted to biomass combustion only. These innovative projects stand for the strong position of the Company as the supplier of technologies for the production of energy from renewable energy sources. These projects are part of both the strategy of Poland, which should increase its overall power capacity produced from clean, renewable energy sources, and of the „ecological strategy" of RAFAKO S.A.

Since 2009 the product offer of the Company has been extended to include dust extractor devices including electrostatic precipitators and bag filters. In 2009, RAFAKO S.A. signed, among others, an agreement for the supply, assembly and start-up of 2 electrostatic precipitators at a power plant in Westfalen, Germany and 2 electrostatic precipitators at a power plant in Eemshaven in Holland, and an agreement for the modernization of electrostatic precipitators of the BB-1150 boiler for power units No. 5 and No. 6 in Elektrownia Bełchatów.

In 2010, an agreement was signed with Elektrownia „Kozienice" S.A. for the exchange of electrostatic precipitators in power unit No. 10, and in 2011 – for the exchange of electrostatic precipitators in power units No. 3 and No. 4.

The Company has intensively prepared itself for the realisation of significant investments that are contemplated by Polish power industry in the following years. In June 2010, RAFAKO S.A. and Siemens signed a letter of intent in the matter of cooperation in the construction of power units for supercritical steam parameters. The collaboration with Siemens started two years ago when the Company acquired from this entity a license that allowed it to design, produce, start-up on its own and sell globally, without limitation, the BENSON type boilers for supercritical steam parameters, irrespective of boiler construction, size or amount of fuel used.

Currently, the Company's product offer includes:

- complete power generation units fired with fossil fuel and biomass;
- conventional steam and hot water boilers, including stoker, fluidized-bed and pulverised – coal fired boilers for sub- and supercritical steam parameters;
- heat recovery steam generators (HRSGs);
- thermal waste utilisation systems (waste combustion plants);
- desulfurization plants based on semi-dry absorption method;
- desulfurization plants based on wet lime method;
- NOx reduction systems, including the SCR systems;
- dust removal equipment (including electrostatic precipitators and bag filters);
- diagnostics, repair and modernization of boilers and boiler auxiliaries;
- production of boiler components and auxiliaries, and dust collector elements;
- production of steel structures and other non-pressure components for the power industry;
- production of heat exchangers.

All equipment delivered by the Company has guaranteed preventive maintenance and repair services. The Company also offers equipment modernization services which serve to enhance operational parameters of the equipment and reduce its negative impact on natural environment.

The certificates held prove that RAFAKO S.A. fulfils quality requirements of ISO 9001, ISO 14001, PN-N 18001, Directive 97/23/EU and are to ensure the Company's Clients that the equipment produced meets technical safety requirements and norms at home, on the market in the EU and in the USA.

Significant dates in the history of the Company and changes in the shareholding structure

31 December 1949: decision of the Minister of Heavy Industry to establish a state-owned enterprise under the name „Fabryka Urządzeń Technicznych" based in Racibórz. The scope of business activities of the enterprise was set to be production of steam boilers.

12 January 1993: decision of the Minister of Ownership Changes on the transformation of the state-owned enterprise operating at that time under the name „Raciborska Fabryka Kotłów RAFAKO" into a one-person joint stock company of the State Treasury.
After the transformation:

- 50% of the Company's shares was acquired by „RAFAKO" Sp. z o.o.[limited liability company] (which in 1998 changed its name and legal form to „ENERGO INVESTMENT S.A."),
- 25% of shares was retained by the State Treasury with a view to selling to small investors under public tender,
- 20% of shares was sold to employees, as provided in the Act on Privatisation,
- 5% of shares was acquired by management.

The Company was entered in the Commercial Register of the District Court in Katowice on 12 February 1993 under the name „Fabryka Kotłów RAFAKO S.A."[1];

7 March 1994: initial public offering of the shares of „RAFAKO S.A." on the Stock Exchange in Warsaw (WSE);

10 December 1997: strategic investor, ELEKTRIM S.A., entered the Company, who following issuance of shares series „H" became the owner of 46.38% of the Company's issued capital;

24 May 2007: registration of the increase in the Company's issued capital following issuance of 52 200 000 shares series "I";

14 November 2011: RAFAKO S.A. becomes a part of the PBG Group following indirect acquisition by PBG of controlling block of shares.

(the shareholding structure of the Company as at 31 December 2011 was presented in Appendix 8).

II. Economic and financial situation

1. External and internal factors material to current financial results and development of RAFAKO S.A.

A. External factors:

- energy policy of the European Union;
- power industry policy in the area of new investments and fuel diversification;
- regulations included in the Public Auction Act;
- current regulations of the energy market;
- activities of Company's direct competitors;
- financial situation and market position of customers and consortium partners of the Company;
- meeting payment deadlines by contractors;
- prices of raw materials (mainly metallurgical goods), finished goods and assembly services;
- FX rates (in particular of Euro);
- banks involvement in financing and granting guarantees for realised contracts;
- changes in the market level of wages for professionals material to the Company's business;
- technological progress;
- changes in tax regulations.

[1] On 24 August 2001, the Company was entered in the National Court Register under KRS No. 34143.
On 8 January 2010, the District Court registered a change in the name of the Company from Fabryka Kotlów RAFAKO Spólka Akcyjna [joint stock company] to RAFAKO Spólka Akcyjna [joint stock company].

B. Internal factors:

- capacity to consume effects of the investment projects executed to improve efficiency of business operations, particularly in the area of production and management, and improvement in the capacity to secure and execute orders;
- improvement of company management processes, including the process of managing long-term contracts and „fixed" costs;
- maintaining financial liquidity of the Company;
- maintaining and recruiting new, highly qualified design and production personnel for the Company.

2. Main threats and risk factors

RAFAKO S.A. has identified the following threats and risks to its operations in the near future:

- the risk of sufficiency of recognised provisions for and write-downs against some contracts, including those executed for Clients which are parties to litigation proceedings as regards reasonableness and amount of contract-based claims;
- the risk of non-recovery of receivables covered and not covered by impairment write-downs, including the risk of non-recoverability of amounts not covered by an allowance and remaining due and receivable from the companies which are parties to litigation proceedings, among others, as regards reasonableness and amount of contract-based claims;
- the risk of changes in costs estimates for executed contracts resulting, among others, from contracted purchases of goods and services which may have an „in plus" or „in minus" effect on the result recognised after 31 December 2011;
- the risk of the necessity to recognise provisions for liquidated damages (contractual penalties) for delayed contract execution, or the risk of not meeting technical parameters of certain contracts;
- technological risk arising from the implementation of complicated, innovative technological processes and quality procedures, or from the use of "difficult" and high quality materials in components production processes, and the related risk of contractual penalties following identified technological errors;
- the risk of incurring potential costs of repairs, overhauls, modernization in the contracted warranty period, not covered by recognised warranty provision;
- the risk of claims and penalties arising from contract suspending or rescinding by one of the parties to the contract;
- the risk of lower revenues following final weight settlement with the Orderer;
- the risk of project limiting or delay by Orderer, following the threat of another wave of economic crisis and restrictions in lending by banks;
- the risk of increase in interest rates for loan or guarantee products;
- macroeconomic risk relating, among others, due to instability of Polish zloty exchange rate, which could impede the correct assessment of profitability of concluded long-term contracts, or changes in the taxation system.

Description of financial risk management objectives and policies, including the most significant types of risk, was presented in the notes to the financial statements of the Company.

3. Analysis of key economic-financial results

The Company restated its comparative data for the year ended 31 December 2010, after considering current accounting policies and fundamental error adjustments described in Note 11 to the financial statements.

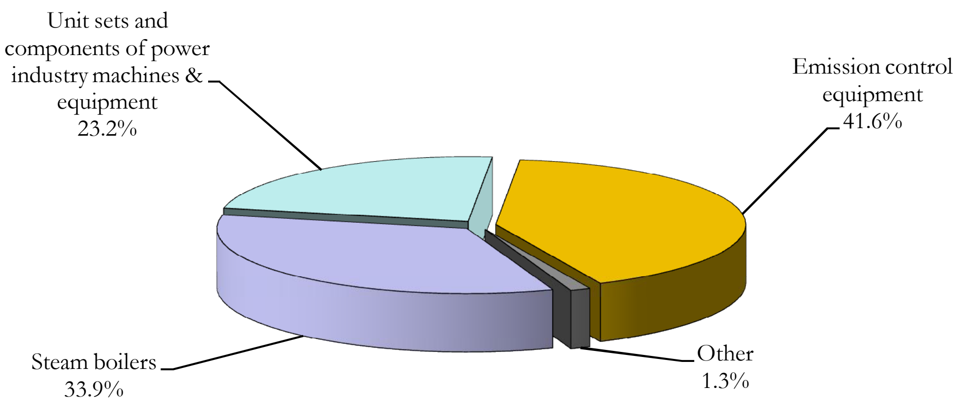
3.1. Sales revenue and its structure

Revenue from the sale of finished goods, goods for resale and raw materials in 2011 amounted to PLN 1 030 092 thousand and was PLN 35 243 thousand (3.3 %) lower than in the prior year. Sales of finished goods and services amounted to PLN 1 027 379 thousand, sales of raw materials – to PLN 2 934 thousand, whilst revenue from FX differences on sale and revenue from hedging transactions (FX risk) – to minus PLN 221 thousand.

Sales decrease recorded in 2011 was mainly due to lower sales of emission control equipment, including desulfurization systems. High sales of these systems in 2010 resulted mainly from the biggest ever contract for the construction of wet desulfurization system with a value of PLN 489 million at Elektrociepłownia Siekierki in Warsaw for Vattenfall Heat Poland S.A. (currently PGNiG Termika S.A.).

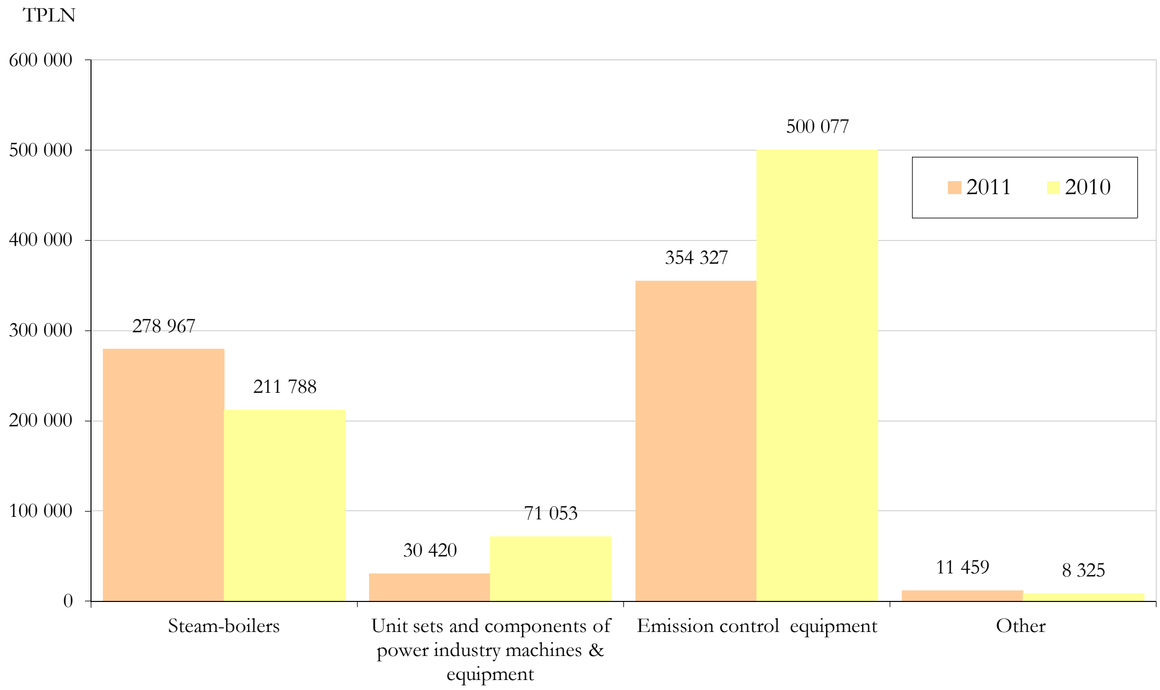
The share of exports in total sales was 34.5%, which marks a 8.8% increase compared to 2010. Exports in 2011 amounted to PLN 354 919 thousand and were 29.5% higher compared to 2010, when they were PLN 274 092 thousand. Higher export sales resulted from higher sales of set and parts of power industry machines and equipment realized mainly to the suppliers of power industry clients in Finland, Germany, France, Austria and in other countries.

The 2011 sales, by product range, are presented below:

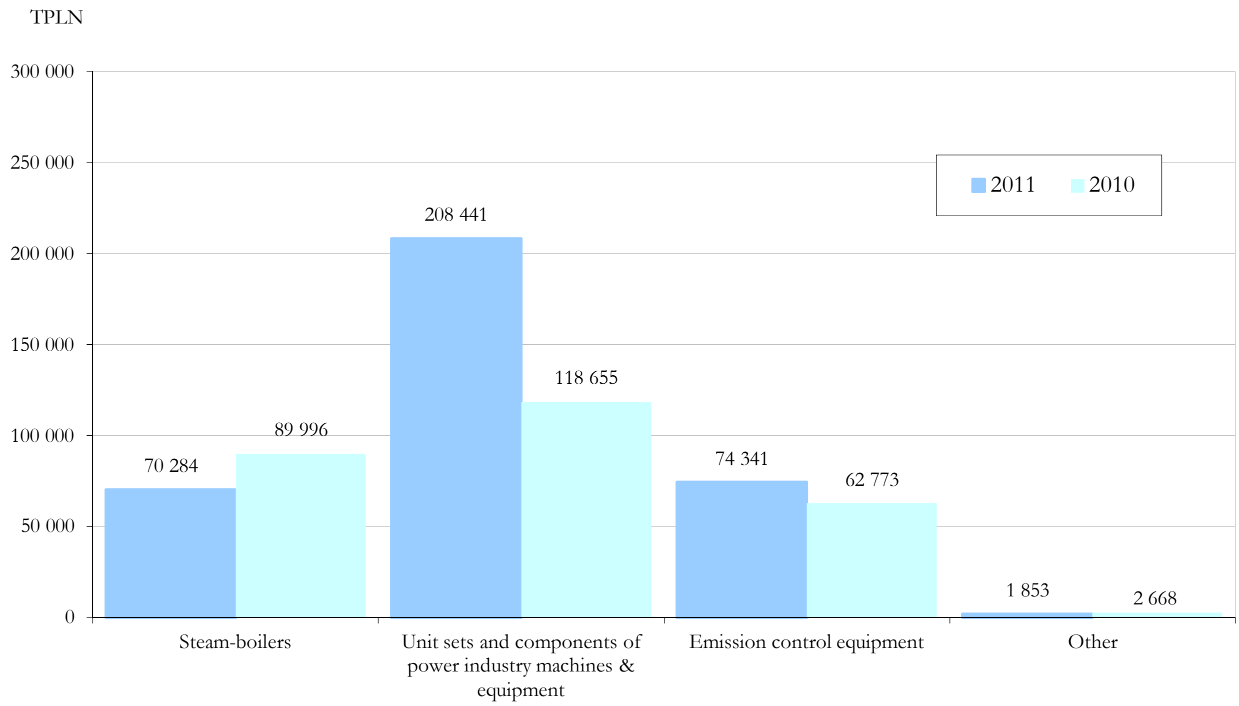


The 2011 product sales, by market, are as follows:

Domestic market (2011: PLN675 173 thousand; 2010: PLN 791 243 thousand):

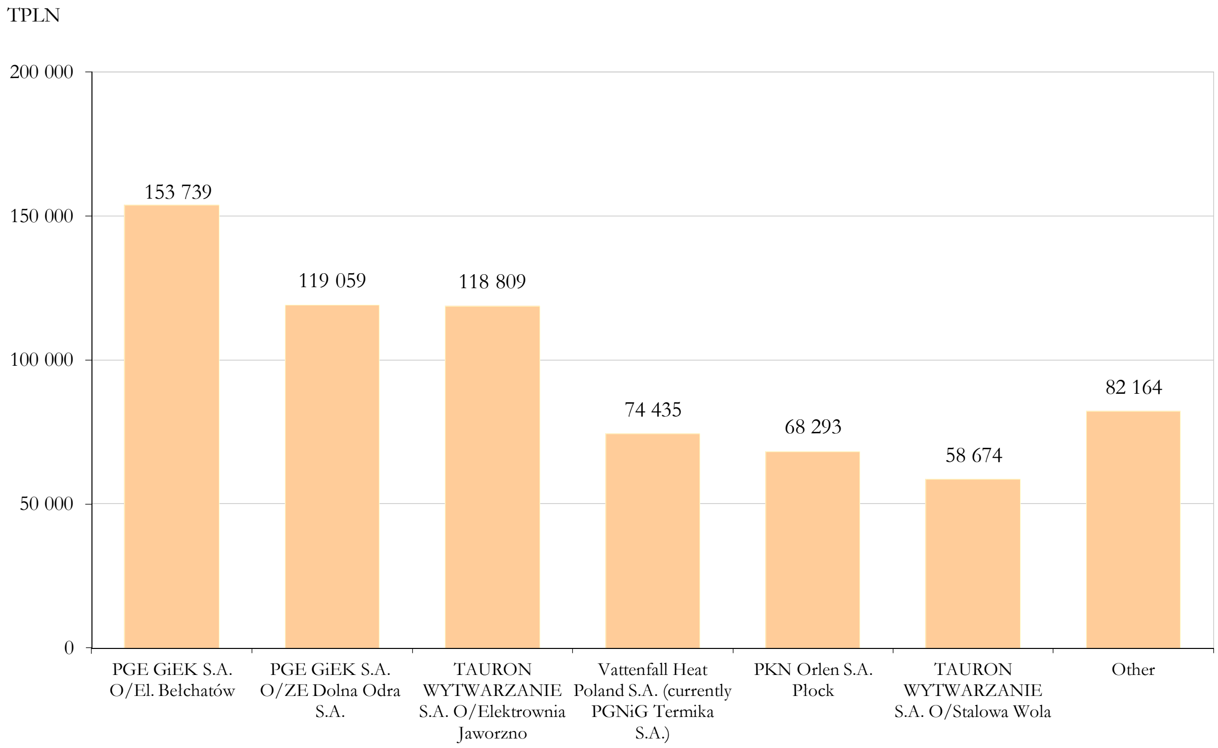


Exports (2011: PLN 354 919 thousand; 2010: PLN 274 092 thousand):



In 2011, the main customers of RAFAKO S.A. were:

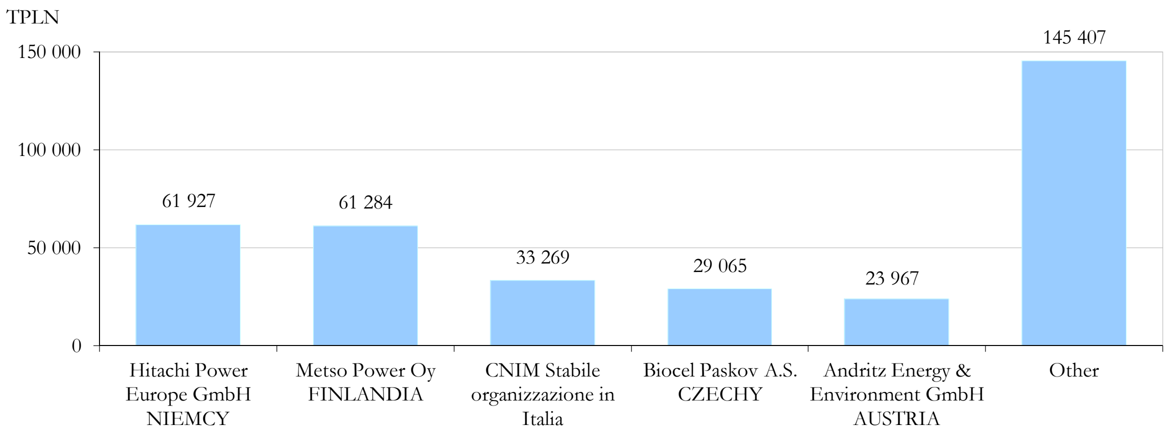
On the domestic market (Total of PLN 675 173 thousand):



In 2011, the main customer of the Company became PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział [Branch] Elektrownia Bełchatów, whose sale result accounted for 14.9% of total sales (10.5% in 2010) and the subject of realized sales to this client was mainly the construction of wet lime desulfurization system. For the Oddział [Branch] of Zespół Elektrowni Dolna Odra (whose sale result accounted for 11.6% of total sales in 2011 and 7.2% in 2010) the sale object was also desulfurization system. Total sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. amounted to PLN 277 744 thousand.

Another significant customer of the Company is Tauron Wytwarzanie S.A. Oddział [Branch] Elektrownia Jaworzno (whose sales result accounted for 11.5% of total sales in 2011 and 2.3% in 2010). The main contract executed for this Client is the construction of a biomass-fired boiler with electrostatic precipitator at Elektrownia Jaworzno. Total sales to Tauron Wytwarzanie S.A. amounted to PLN 177 865 thousand.

On foreign market (total of PLN 354 919 thousand):



On foreign markets, the main customer of RAFAKO S.A. was Hitachi Power Europe GmbH based in Germany whose share in total sales accounted for 6.0%. The subject of sale to this Client were electrostatic precipitators and boiler pressure components.

The character of the product range sold caused that in the periods of execution of the largest contracts, the share of sales to significant Clients in total sales exceeded 10%.

The presented revenues comprise revenues from sale of construction contracts accounted for using the percentage method.

3.2. Supplies, assembly services and purchases of raw materials for production

In 2011, the main sources of supply for RAFAKO S.A. were as follows:

Sources of supply	*Purchases in PLN thousand*			
	2011		*2010*	
	Value	*Share in total purchases*	*Value*	*Share in total purchases*
Domestic suppliers	649 037	80.5%	691 602	76.9%
Foreign suppliers	156 816	19.5%	207 755	23.1%
TOTAL	**805 853**	**100.0 %**	**899 357**	**100.0 %**

In 2011, the structure of suppliers showed considerable dispersion, and sales result of none of the suppliers accounted for more than 10% of total purchase value of the Company.

RAFAKO S.A. uses external suppliers to purchase mainly pipes, sheets of metal, forming and welding materials, specialist equipment as well as all types of external services – design works, supply and assembly of machines and equipment, construction – assembly services and transport services.

The range of purchased goods is closely related to the type and needs of executed contracts (unit-based production). Availability of raw materials for production and supplies, and assembly services is not a restricting factor for the Company. Supplier selection depends on his ability to deliver raw materials and equipment of strictly defined technical and quality parameters at defined period of time in the most efficient manner. Purchases are made based on market analysis with the proviso that the range of suppliers is limited to the manufacturers recognized for good quality of offered goods and fulfilment of safety, environment protection and other norms typical and required for the given purchase.

For some contracts, the potential list of manufacturers and service providers must be accepted by RAFAKO Orderers.

Part of the production assigned for exports is executed from raw materials delivered by Orderer (these are the so called „entrusted materials"), which on one hand limits the risk of increase in operating expenses as a result of changes in prices of raw materials, and on the other – reduces overall sales value.

3.3. Related party transactions

In 2011, the Company did not enter into any significant transactions with related parties on other than an arm's length basis.

3.4. Operating expenses, their structure and gross sales result

Cost of sales of finished goods, services and raw materials amounted in 2011 to PLN 897 075 thousand, which given the sales revenue of PLN 1 030 092 thousand, allowed the Company to earn gross profit on sales of PLN 133 017 thousand (i.e. 4.1% higher than in 2010).

Increase in profits, despite a 3.3% decrease in sales, resulted from higher operating profitability of gross sales (12.9% in 2011 compared to 12.0% in 2010).

The most significant positive effect on the profitability level had a decrease in estimated costs of some contracts realized for domestic Clients in the field of external delivery of goods and services, as well as decrease in planned costs on one of the contracts realized for a Polish Client, following review of estimated costs and contract threat factors.

The most significant adverse effect on operating profitability of the Company had the following:

- increase in estimated costs on two contracts realised for domestic Clients – mainly as a result of review of costs of external supplies and services;

- recognition of a provision for the expected cost increase, following changes in applied technical solutions and the necessity to conduct additional construction works on one of domestic contracts;

- higher costs on a project realised for a foreign customer which resulted from higher than expected costs of production materials, costs of production and costs of preparation of technical documentation. To some extent, higher costs resulted from a change of raw materials introduced to project technical documentation by Client, which effectively caused increase in contract revenue;

- recognition of a higher provision and its utilization following delayed execution of one of domestic contracts;

- recognition of a provision for penalties due to non-flexibility of working hours offered to one of domestic business partners.

General administrative expenses amounted to PLN 26 108 thousand and were PLN 3 556 thousand higher compared to the corresponding period of the prior year.

Selling expenses in 2011 amounted to PLN 50 997 thousand and were PLN 3 879 thousand higher compared to the corresponding period of the prior year. Selling expenses, without accounting for impaired and written off (derecognised) trade receivables previously covered by impairment write-down, amounted in 2011 to PLN28 735 thousand and were PLN 5 656 thousand higher compared to 2010, which resulted mainly from higher costs of client offer preparation following participation in high-value public tenders and higher advertising expenses. Impairment write-downs against trade receivables together with previously impaired trade receivables written-off increased in 2011 by PLN 22 262 thousand (in 2010, the increase was PLN 24 039 thousand).

After considering selling and general administrative expenses, profit on sales amounted to PLN 55 912 thousand and was PLN 2 222 thousand (i.e. 3.8%) lower than in 2010.

3.5. Other operating income, other operating expenses and result on financial operations

3.5.1. Result on other operating activities

In 2011, the Company reported profit on other operating activities in the amount of PLN 4 155 thousand (in 2010 - PLN 3 107 thousand), which was the result of the following

	in PLN thousand
1. revenues from liquidated damages (contractual penalties)	4 992
2. sale of receivables (factoring)	2 000
3. compensations received	1 213
4. recognition of provision for public settlements	(3 412)
5. donations received and sponsoring	(1 310)
6. positive balance of other operating income and other operating expenses (net other operating income)	672

3.5.2. Result on financing activities

In 2011, the Company earned profit on financing activities in the amount of PLN 13 607 thousand (in 2010 – incurred a loss of PLN 4 276 thousand), which was the result of the following:

		in PLN thousand
1.	interest on financial instruments	10 416
2.	FX gains	4 315
3.	valuation of financial instruments and discount of long-term settlements	1 873
4.	incurred acquisition expenses	(1 733)
5.	recognition of provision for doubtful debts	(1 160)
6.	negative balance of other finance income and other finance costs (net finance costs)	(104)

3.6. Revenue and its structure

The main source of the gross profit, which in 2011 amounted to PLN 73 674 thousand (29.3 % higher than in the prior year), was the profit on sales i.e. profit on the main operating activities of the Company, in the amount of PLN 55 912 thousand (76% of the gross profit).

After considering profit on other operating activities (PLN 4 155 thousand), profit on financing activities (PLN 13 607 thousand) and income tax (PLN 18 829 thousand), the net profit earned in 2011 amounted to PLN 54 845 thousand compared to PLN 44 591 thousand in the prior year.

The financial results presented in the Directors' Report for the year 2011 cannot be compared to forecasted results because the Company did not publish any financial forecasts.

The structure and dynamics of gross result for the year 2011 and 2010 was presented in Appendix No. 4.

3.7. Profitability, Return on Equity and Return on Assets

Compared to the prior year, in 2011 operating profitability level approximated that of the prior year and was 5.8% (5.7% in 2010).

Following a 23.0% (i.e. PLN 10 254 thousand) increase in net profit, with a 4.1% (i.e. PLN 15 377 thousand) increase in shareholders' equity, return on equity (ROE) increased in 2011 to 14.0% (11.9% in the prior year).

Higher dynamics of net profit increase compared to the dynamics of increase in total assets (a 10.3% increase) resulted in an increase in return on assets (ROA) from 4.9% at the end of 2010 to 5.5% at the end of 2011.

Profitability levels for the year 2011 and 2010 were presented in Appendix No. 1.

3.8. Financial liquidity

At the end of 2011, the level of liquidity ratios of RAFAKO S.A. decreased. Liquidity I (being the ratio of current assets to current liabilities) was 1.1 (1.4 at the end of December 2010), whilst the Liquidity III (being the ratio of current assets, except for inventories, to current liabilities) was 1.0 (1.3 at the end of December 2010). The decrease in liquidity ratios is the result, among others, of an increase in current liabilities, including increase in deferred income, relating mainly to valuation of construction contracts and tax liabilities. High levels of cash and cash equivalents should be noted, as well as those of short-term deposits, which at the end of 2011 amounted to PLN 180 612 thousand and accounted for 18.1% of total assets. At the same time, the Company did not have any loans or borrowings.

In 2011 the Company reported a decrease by 24 days in Debtors Days ratio (to the level of 53 days) which was accompanied by a 73 days decrease in the Inventory Days ratio (to the level of 79 days) and a 13 days increase in Creditors Days ratio (to the level of 77 days). Compared to the end of 2010, Working Capital ratio (trade debtors days + inventory days – trade creditors days) decreased by 110 days and was 55 days. The main reason behind Working Capital ratio decrease was decrease in Inventory Days ratio following reduction in the inventory value.

The Company's ability to discharge its liabilities as they fall due can only be assessed positively. All liabilities towards Social Security Office (ZUS), State Treasury and employees were discharged on time. Owing to good Company's liquidity, no delays were also recorded in discharging supplier liabilities.

Given the fact that as at 31 December 2011 the Company did not have any loans or borrowings, fluctuations in interest rates or bank margins were not material to the operations of RAFAKO S.A.

Currently, the most significant financial risk incurred by the Company is the foreign currency risk. Fluctuations in the exchange rates of Polish zloty against foreign currencies, especially those occurring in short periods of time and showing high dynamics, may have material effect on both the profitability of contracts realised in foreign currencies, yet translated into Polish zloty, and the level of FX differences on foreign currency assets and liabilities also translated into Polish zloty.

Risk management strategy of the Company assumes utilisation to the maximum extent possible of natural hedging mechanism. The Company strives to achieve the best possible structural matching of revenues and expenses in the same currency under realised contracts. Net currency exposure which is not hedged using the natural hedging mechanism is hedged in the range of 30%-70% of the estimated net exposure using only authorized types of derivative financial instruments.

As at 31 December 2011, the Company reported unsettled (open) forward currency transactions (currency forwards). The currency forwards referred to above were the transactions of forward sale of EUR in the amount of EUR 18 214 thousand and the transactions of forward SEK purchase in the amount of SEK 3 640 thousand.

The values and maturity dates of concluded currency forward transactions are closely correlated to trading cash flows arising from signed trading contracts.

The risk of shortage of cash and the risk of liquidity loss is currently assessed as remote.

Information on financial instruments and information on financial risk management objectives and policies was presented in Note 50 and 51 to the Company's financial statements for the year 2011.

3.9. Debt balance

In 2011, the level of liabilities of RAFAKO S.A. towards its creditors increased to PLN 78 306 thousand. The sum total of short- and long-term liabilities as at 31 December 2011 amounted to PLN 610 143 thousand compared to PLN 531 837 thousand as at 31 December 2010. The highest increase was recorded in the balance of liabilities and provision for valuation of construction contracts (by PLN 18 584 thousand) and income tax liability (by PLN 16 433 thousand).

The value of assets not encumbered by liabilities (short- and long-term) amounted as at 31 December 2011 to PLN 390 453 thousand (as at 31 December 2010 it was 4.1% lower and amounted to PLN 375 076 thousand).

The Debt ratio (calculated using the short- and long-term liabilities), showing the possibility of securing repayment of debt with assets, increased compared to the prior year, by 2.4 p.p. to the level of 61.0%.

The Debt ratio does not account for contingent liabilities of the Company incurred in connection with bank and insurance guarantees issued (mainly performance bonds and obligation to return advance payments which are typical liabilities for the business operations of RAFAKO S.A. and the entire market of power industry manufacturers), letters of credit and bills of exchange issued as security. The total of contingent liabilities of the Company under the above amounted as at 31 December 2011 to PLN 478 402 thousand.

In 2011, in connection with the RAFAKO S.A. participation in public tenders, and following contract guarantees issued, banks and insurance companies issued, at the request of RAFAKO S.A., the guarantees for the amount of PLN 401 698 thousand, of which PLN 200 000 thousand represented guarantees relating to participation in tender proceedings for the construction of two power units at Elektrownia Opole.

Compared to the end of 2010, the value of contingent liabilities decreased by PLN 202 388 thousand. The decrease results, among others, from making a payment by BGŻ S.A. as performance bond to Alstom Power sp. z o.o. the amount of PLN 134 931 thousand (compare description in Note 45.3 to the financial statements for the year 2011).

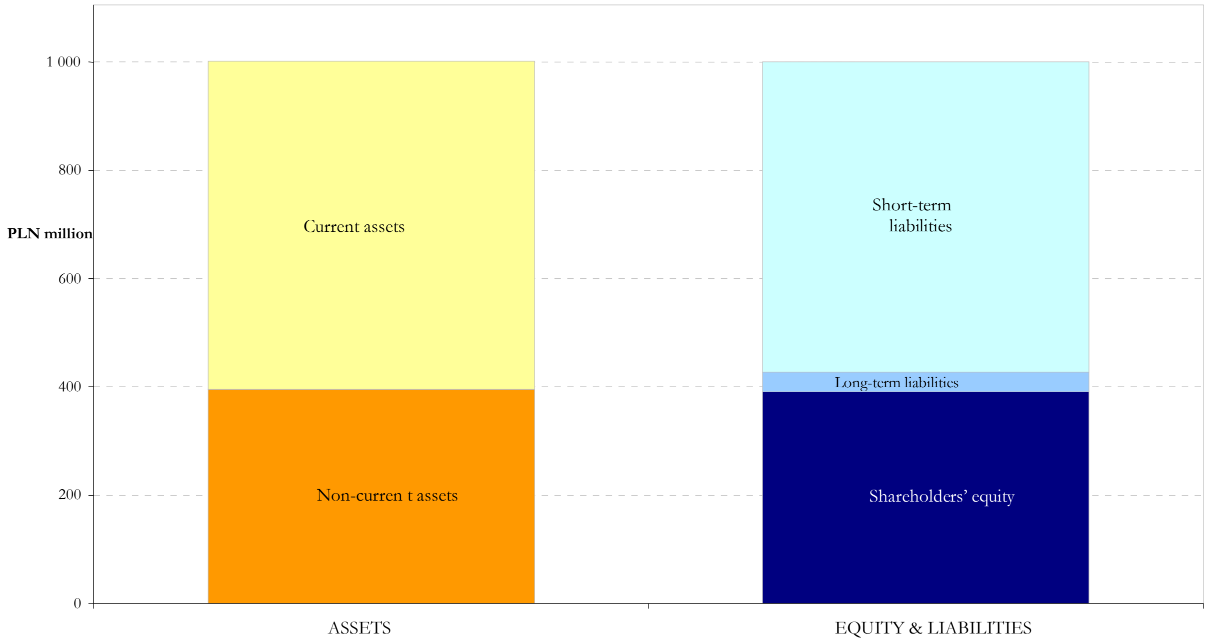
In 2011, the Company did not issue any sureties.

In connection with realised contracts, apart from the contingent (off balance sheet) liabilities, the Company reported contingent assets (receivables) which as at 31 December 2011 amounted to PLN 268 166 thousand (PLN 238 683 thousand as at 31 December 2010). The main item of reported contingent assets were bank and insurance guarantees for the amount of PLN 241 301 thousand.

Owing to a relatively high liquidity as at 31 December 2011, the Company had no liabilities towards banks or other lenders.

Liquidity and debt ratios for the year 2011 and 2010 were presented in Appendix No. 1.

3.10. Assets financing structure



As at 31 December 2011, total assets amounted to PLN 1 000 596 thousand and were PLN 93 683 thousand higher compared to 31 December 2010. The share of shareholders' equity in the sources of assets financing decreased by 2.4 p.p. compared to 31 December 2010 and was 39.0%.

Fixed capital, being the sum total of shareholders' equity and long-term liabilities, covered in full the value of non-current assets and 5.3% of the value of current assets.

As at 31 December 2011, assets financing structure was as follows

1. non-current assets and non-current assets held for trading with a value of PLN 395 468 thousand were financed in full by fixed capital,
2. current assets with a value of PLN 605 128 thousand were finance as follows:
    - fixed capital 5.3%
    - advance payments 53.0%
    - trade liabilities 28.4%
    - other short-term liabilities 13.3%

3.11. Non-current assets

3.11.1. Structure of non-current assets

Following realisation of an investment project, sale of property, liquidation or sale of redundant fixed assets, revaluation/ impairment of fixed assets or change in the value of deferred tax asset, the structure of non-current assets changed, and as at 31 December 2011 and 31 December 2010 was as follows:

	31 December 2011	*31 December 2010*
1. Property, plant and equipment :	33.8%	57.6%
- land and buildings	19.9%	34.8%
- plant and machinery	11.2%	19.9%
- motor vehicles	0.9%	1.4%
- construction in progress (AUC)	1.8%	1.5%
2. Investment property	–	–
3. Intangible assets	2.4%	3.8%
4. Financial assets	51.6%	19.3%
5. Deferred tax assets	12.2%	19.3%

The increase in the share of financial assets in total assets results from the acquisition of 64.84% shares in Energomontaż Południe S.A.

In 2011, the Company did not issue any securities.

3.11.2. Description of main investments in non-current assets

In 2011, the Company recorded an increase in the value of non-current assets from PLN 222 856 thousand to PLN 395 431 thousand.

The increase results mainly from the acquisition of 64.84% shares in Energomontaż Południe S.A. This transaction was described in more detail in section 3.13 below.

In 2011 the Company incurred capital expenditure for non-financial long-term assets in the amount of PLN 16 809 thousand, of which for:

- property, plant and equipment PLN 14 554 thousand,
- intangible assets PLN 2 255 thousand.

The main type of capital expenditure for property, plant and equipment was the expenditure for construction infrastructure and purchases of machines and equipment for production. The main type of investment expenditure for intangible assets was the expenditure for the purchase of software. The investment expenditure referred to above was financed from own funds.

In addition, free cash of the Company was invested in short-term investments. As at December 2011, the value of short-term investments amounted to PLN 15 769 thousand. Short-term investments consisted mainly of participation units in the following open-end investment funds:

- TFI Allianz Pieniężny Fundusz Inwestycyjny Otwarty PLN 10 199 thousand;
- KBC Gamma Specjalistyczny Fundusz Inwestycyjny Otwarty PLN 5 570 thousand.

In 2007, based on the resolution of the Extraordinary General Meeting of Shareholders of RAFAKO S.A. dated 23 January 2007, RAFAKO S.A. issued new shares whilst retaining the subscription right. Following issuance of 52 200 000 ordinary bearer shares, series „I", with a nominal value of PLN 2 each, the Company's issued capital was increased by PLN 104.4 million.

By the end of December 2011, the funds from share issuance were utilized for:

1. purchase of financial long-term assets for the amount of PLN 50.0 million, of which:
   a) acquisition of 82.19% shares in FPM S.A. based in Mikołowo for the total amount of PLN 35.2 million (inclusive of the increase in the issued capital and acquisition of 630,830 shares for the price of PLN 5.0 million);
   b) increase in the issued capital and acquisition of 5 048 shares in ELWO S.A. based in Pszczyna for the price of PLN 6.4 million;
   c) incorporation of RAFAKO Hungary Kft. based in Budapest. The company's founding capital was HUF 40 million and was taken up in full by RAFAKO S.A. The scope of business activities of the newly established company is the assembly of machines and equipment in the power and chemical industries. Expenditure incurred in connection with company incorporation amounted to approx. PLN 0.6 million;
   d) partial financing of the acquisition of 64.84% shares in Energomontaż Południe S.A. – for the amount of PLN 6.7 million (for 64.84 % of shares the Company paid a total of PLN 160.2 million – compare point 3.13 below);
   e) other – PLN 1.1 million;
2. financing the expenditure for non-financial long-term assets in the amount of PLN 32.5 million;
3. increase in the expenditure for current assets to the amount of PLN 20 million;
4. coverage of the costs of share issuance in the amount of PLN 1.9 million.

3.12. Current assets

In 2011, a decrease was recorded in the value of current assets by PLN 78 779 thousand to the level of PLN 605 128 thousand. Change in the value of this group of assets resulted mainly from a decrease in the balance of receivables from valuation of construction contracts by PLN 126 987 thousand (mainly of the contract for the construction of desulfurization system for a domestic client in connection with sales invoice issuance). At the same time, an increase was recorded in the value of other receivables following recognition of doubtful debt from a domestic client in the amount of PLN 77 065 thousand.

3.13. Changes in capital relations between RAFAKO S.A. and other entities

In 2011, the following changes occurred in capital relations between the Company and other entities:

1. On 2 March 2011, the District Court for the capital city of Budapest registered a subsidiary company, RAFAKO Hungary Kft. based in Budapest. The company's founding capital was HUF 40 million and was taken up in full by RAFAKO S.A. The scope of business activities of the newly established company is the assembly of machines and equipment in the power and chemical industries.
2. On 20 December 2011, RAFAKO S.A. entered into an agreement (the "Agreement") with PBG S.A. based in Wysogotowo under which it acquired shares in ENERGOMONTAŻ - POŁUDNIE Spółka Akcyjna ("EP") based in Katowice, ul. Mickiewicza 15. Under this Agreement, RAFAKO S.A. committed to acquire 46,021,520 EP's ordinary bearer shares, representing 64.84% of the issued capital and 64.84% of the total number of votes at the General Meeting, i.e. giving right to exercise 46,021,520 votes from the acquired shares. Under this Agreement, PBG S.A. committed to sell the shares held for an amount of PLN 160,154,889.60, i.e. PLN 3.48 per 1 share.

RAFAKO S.A. will be required to make an additional payment to PBG S.A. towards the price of PLN 30 000 000, if EP:

- earns a net profit for the year 2012 in the amount of at least PLN 20 000 000 and
- earns a net profit for the year 2013 in the amount of at least PLN 35 000 000, which will be confirmed by the EP's financial statements for the year 2012 and 2013, respectively, authorised by the General Shareholders' Meeting of EP.

At the same time, if – based on a due diligence report – it is confirmed that an event or events occurred at the acquired company which represented the so-called "unfavorable coincidence" i.e. any event that on its own or in conjunction with other changes or events caused (or based on a reasonable assessment it may be expected that it will cause in the future) a decrease in the value of EP's assets or increase in its liabilities compared to the value of assets or liabilities of Energomontaż Południe S.A. arising from the financial statements as at 31 December 2011, except for changes in the general financial circumstances that resulted from or may result in connection with execution and under the provisions of the Agreement, then RAFAKO S.A., unless Parties to the Agreement do not resolve the dispute amicably, will have the right to demand from PBG a payment representing:

- the equivalent of obligatory provisions for liabilities or liabilities of Energomontaż Południe S.A. resulting from such event or events, for which EP, contrary to the requirement to do so, did not recognize a provision until 31 December 2011; and
- the equivalent of obligatory provisions for such event or events of "unfavorable coincidence", created by EP after 31 December 2011, however before the date of filing by RAFAKO S.A. a written statement on the "unfavorable coincidence", recognised as a result of due diligence, not exceeding, however, the total of PLN 20 000 000 in respect of occurrence of an event or events of "unfavorable coincidence", with the said amount being the maximum amount of possible compensation.

3.14. Amount and structure of shareholders' equity

As at 31 December 2011, the shareholders' equity of RAFAKO S.A. amounted to PLN 390 453 thousand and consisted of the following items:

1. issued capital in the amount of PLN 139 200 thousand divided into 69 600 000 ordinary shares, series A,B,C,D,E,F,G,H,I. During the period of 12 months of 2011, no changes were recorded in this item of shareholders' equity;
2. share premium in the amount of PLN 36 778 thousand. During the period of 12 months of 2011; no changes were recorded in this item of shareholders' equity;
3. reserve capital in the amount of PLN 158 654 thousand (increase of PLN 512 thousand during 2011 was the result of allocation of part of net profit for 2010 to increase this capital);
4. retained earnings in the amount of PLN 55 191 thousand (the increase of PLN 14 661 consisted of the following : in plus profits for the current period of PLN 54 845 thousand and in minus: dividend payment for the year 2010 in the amount of PLN 39 672 thousand and allocation of PLN 512 thousand to reserve capital);
5. FX differences from translation of foreign operations in the amount of plus PLN 630 thousand.

In 2011, no shares were re-acquired.

III. Significant events in the operations of the Company in the year 2011 and in the period from the reporting date to the date of authorization of financial statements

The most significant events relating to business operations of RAFAKO S.A. are as follows:

1. Completion of the construction of power unit at Elektrownia Bełchatów

In 2011, at its final stage was execution of the construction project of the largest in Poland power unit for supercritical steam parameters of 858 MW capacity belonging to PGE GiEK S.A., Oddział [Branch] Elektrownia Bełchatów, realized by RAFAKO S.A. in consortium with Alstom. As part of this consortium, the Company constructed in Bełchatów the so-called „ boiler island" comprising boiler house, electrostatic precipitator and desulfurization system with a value of approx. PLN 960 million. The new power unit constructed in Bełchatów is the largest lignite-fired unit in Poland of the highest „net efficiency" (of approx. 42%). The new power unit will interact with the pilot CCS (Carbon Capture and Storage) system.

On 28 September 2011, the 858 MW power unit in Elektrownia Bełchatów was given over for use and the unit will be operating based on clean coal technologies.

The key parameters of the new power unit are as follows:

- Gross Rated Power - 858 MW;
- Boiler Maximum Thermal Efficiency *(WMT - Wydajność maksymalna trwała)* at live steam side- 2400 t/h;
- Amount of re-superheated steam on rear tube plate at above Maximum Thermal Efficiency - 2070 t/h;
- Pressure of re-superheated steam on rear tube plate – 5.4 MPa;
- Temperature of re-superheated steam on rear tube plate - 582°C;
- Rated Heat Power - 1952MW;
- Guaranteed Gross Efficiency – 89.9%;
- Boiler height - 154 meters;
- Cooling Tower height - 180 meters.

Elektrownia Bełchatów operating as part of PGE is the largest in Poland and in Europe lignite-fired power plant. Currently, 12 power units are operational at this power plant, all using boilers manufactured by RAFAKO S.A. with total installed capacity of approx. 4.5 k MW. The constructed supercritical power unit with the power of 858 MW will be independent of the old infrastructure. Owing to the use of advanced technology, the supercritical parameters of the new power unit will facilitate the increase in generated energy whilst fulfilling all requirements set forth in the EU Directives concerning emission of harmful gases to atmosphere.

In 2011, start-up of the entire unit was conducted, faults identified during the start-up phase were removed and changes resulting from the start-up phase were implemented. On 29 September 2011, a conditional Initial Technical Acceptance Protocol, PAC, was signed. In December 2011, measurements under warranty test were conducted which gave positive results.

In December 2011, a settlement agreement was concluded between PGE GIEK S.A. O/Elektrownia Bełchatów and ALSTOM concerning the amount of liquidated damages for project delays. Following this settlement, Alstom Power sp. z o.o. charged RAFAKO with penalties for the said delay by unlawfully using, contrary to the Court's decision, the bank guarantees of RAFAKO (detailed description of the entire situation was included in Note 45.3 to the financial statements of the Company for the year 2011).

Currently, the new power unit is covered by the warranty period. No significant faults were presently identified as regards works performed by RAFAKO.

2. Contract with PGE Elektrownia Opole

On 15 February 2012, RAFAKO S.A. as the Leader of the Consortium comprising: RAFAKO S.A., Polimex – Mostostal S.A. based in Warsaw and Mostostal Warszawa S.A. based in Warsaw (hereinafter jointly referred to as General Contractor) entered into a contract with PGE Elektrownia Opole S.A. based in Bełchatów (the Orderer) with a value of PLN 9.397 million for the design, supply, performance of construction work, assembly, start-up and all the related services rendered on a "turn-key" basis with respect to a facility comprising power unit No. 5 and power unit No. 6 in PGE Elektrownia Opole S.A., including the equipment and fittings as well as the related buildings and structures. In accordance with the terms of this Contract, the General Contractor undertakes to execute the contract within 54 (fifty four) months of the date of issuing the order to begin work in relation to power unit No. and within 62 (sixty two) months of the date of issuing the order to begin work in relation to power unit No. 6.

The result of the public tender in Opole is the success of Polish enterprises and confirmation of the position of RAFAKO S.A. as significant technological enterprise in Europe offering comprehensive products and services to the power industry.

The coal-fired power generation units will have the capacity of 900 MW each, and the expected net efficiency of each unit is to reach 45.5%. According to operating assumptions of Elektrownia, in the first 10-year period of exploitation of new power units, utilization of power capacity will be approx. 80%, and net power production - approx. 11.1 TWh a year. Currently, Elektrownia Opole has four power units fired with coal with a total installed capacity of 1492 MW and annual production of electric energy of approx. 7.6 TWh. It is assumed that power unit No. 5 will be put into operation in 4Q 2016, and power unit No. 6 – in 4Q 2017 .

3. Other significant orders

a. Contract with Elektrownia „Kozienice" S.A. with a value of approx. PLN 191.5 million for the construction of a roofing over the SCR system for the OP – 650 boiler Nos. 4, 5, 6, 7, 8 at Elektrownia „Kozienice" S.A.;

b. Contract with PGE Górnictwo and Energetyka Konwencjonalna S.A. – Oddział [Branch] Elektrownia Bełchatów for the modernization and repair of rotary air heaters and auxiliary systems for boilers at power units Nos. 7-12 at Elektrownia Bełchatów with a value of approx. PLN 120 million;

c. Contract with MARTIN GmbH based in Munich with a value of approx. EUR 18.5 million for the production of pressure components of a boiler for MSW incineration and assembly of boiler auxiliaries, for the production and supply of steel construction, assembly and start-up of the installation in Roskilde, Denmark;

d. Contract with HITACHI ZOSEN INOVA A.G. based in Switzerland with w value of approx. EUR 12 million for the supply of two boilers for the system of waste utilisation, together with boiler assembly and start-up at SITA Tees Valley, England;

e. Contract with PGE Górnictwo and Energetyka Konwencjonalna S.A. with a net value of PLN 37.35 million with a view to increasing at PGE Elektrociepłownia Kielce S.A. the production of green energy and heat by way of extending current production facilities to include an extraction-condensing steam turbine (with a capacity of approx. 6.5 MW), heat exchanger (with a capacity of approx. 14 MW) interacting with the already held biomass-fired steam boiler OS-20;

f. Contract with Elektrownia „Kozienice" S.A. with a value of approx. PLN 32 million for the exchange of electrostatic precipitator, ash-removal system and related exhaust ducts and exhaust fans at power unit No. 3 in the year 2012;

g. Contract with Elektrownia Kozienice S.A. with a value of PLN 23.9 million for the exchange of electrostatic precipitator at power unit No. 4;

h. Signing in the period of 12 months (from March 2011 to February 2012) several contracts with JP EPS Belgrade – PD "Termoelektrane Nikola Tesla" (TENT) d.o.o. Obrenovac based in Obrenovac (Serbia) with a total value of approx. EUR 15 million. The contract with the highest value of EUR 14 million signed on 13 February 2012 was for the production and delivery of equipment, boiler components and auxiliaries, supervision and maintenance services for boiler at power unit B1, which is the first of four stages of work to be performed at Elektrownia TENT B;

i. Contracts with EUAS based in Turkey with a value of EUR 13.3 million for the modernization of electrostatic precipitators at power units No. 3 and 4 at Elektrociepłownia SOMA in Turkey. The contract was signed on 2 January 2012;

j. Signing in the period of 12 months (from March 2011 to February 2012) several contracts with Metso Power Oy based in Tampere (Finland) for the total amount of approx. PLN 53 million. The contract with the highest value of EUR 4.3 million signed on 14 April 2011 was for the supply of boiler pressure components for Fabryka Celulozy Suzano in Maranhao (Brasil);

k. Signing in the period of 12 months (from February 2011 to March 2012) several contracts with Constructions Industrielles de la Mediterranee for the total amount of approx. EUR 13 million. The contract with the highest value of EUR 10.28 million validly signed on 6 March 2012 was for the supply of boiler pressure components for two boilers at MSW combustion plant at Oxfordshire (Great Britain);

l. Contract with JPE Elektroprivreda Bosnia and Hercegovina d.d. Sarajewo signed by a consortium consisting of: RAFAKO S.A., Energoinvest d.d. Sarajevo and Deling d.o.o. Tuzla with a value of EUR 10.15 million for the exchange of electrostatic precipitator and modernization of ash and clinker transport system at power unit No. 6-215 MW at Elektrociepłownia Tuzla, Bosnia and Hercegovina. The contract was signed on 19 February 2012.

4. Other significant events or contracts

a. Contract under which PBG S.A. acquired directly (via company Multaros Trading Company Limited) a controlling block of shares (50% plus one share) in RAFAKO S.A. PBG S.A. holds directly 16.00% shares in RAFAKO S.A. (as at 14 February 2012).

b. Payment of claim under bank guarantee issued by BGŻ S.A. in the amount of PLN 134 931 thousand (detailed description of the entire situation was presented in Note 45.3 to the financial statements of the Company for the year 2011).

c. Acquisition from PBG S.A based in Wysogotowo 46 021 520 ordinary bearer shares in ENERGOMONTAŻ – POŁUDNIE S.A., representing 64.84% share in the issued capital of this company and 64.84% of total votes at the General Meeting for the price of PLN 160 154 889.60 (the transaction was described in detail in Chapter II point 3.13 of this Report).

d. Concluding several contracts in 2011 with Elektrobudowa S.A. (Contractor) for the total amount of approx. PLN 37.4 million. The contract with the highest value of PLN 27.5 million validly signed on 15 March 2011 was for the supply, assembly and start up of electric module for desulfurization installation in the "turn-key" system at power units No. 1 and 2 at PGE GiEK S.A. Oddział [Branch] Elektrownia Bełchatów S.A.;

e. Initiation by the Company before the ICC International Court of Arbitration in Paris of arbitration proceedings against a company incorporated under German law, HPE. The subject of arbitration proceedings covers monetary claims of the Company as the plaintiff against HPE as the defendant, arising from three projects carried out in Germany for which the Company acted as a subcontractor of HPE. In the arbitration clauses of all of the three contracts with HPE, the parties indicated the ICC International Court of Arbitration in Paris as appropriate for resolution of disputes. The value of the subject of dispute indicated by the Company in the suit was EUR 13,386,595.11,

f. Granting by bank PKO BP S.A. an overdraft facility for the amount of PLN 300 million with a view to funding the day-to-day operations of the Company. The facility was granted for the period of 12 months. Interest rate was set at 1M WIBOR + margin. Overdraft facility contract provides for usual bank commissions. Interest is repaid on a monthly basis. Facility collaterals were as follows:
   a) *in blanco* promissory note,
   b) transfer of receivables under two trading agreements,
   c) clause on deduction of debt from bank account balances,
   d) statement of the Company on voluntary submission to execution.

   The contract provides for a number of additional covenants representing Company's obligations, for example, an obligation to conduct a set value transactions with the use of accounts maintained by the Bank, execution of currency exchange transactions, obtaining opinions and agreements of the Bank, including establishing additional collaterals which do not differ from market – based or common collaterals in similar agreements. The contract was concluded on 8 February 2012 .

g. Signing a contract with bank Powszechna Kasa Oszczędności Bank Polski S.A. based in Warsaw for granting a bank guarantee for the refund of an advance payment in the amount of PLN 79,310,400 made to PGE Elektrownia Opole S.A. The guarantee was issued at the request of the Company in connection with signing a contract between the Consortium consisting of: RAFAKO S.A. (Leader), Polimex-Mostostal S.A. and Mostostal Warszawa S.A., and PGE Elektrownia Opole S.A., for the "turn-key" construction of power units No. 5 and No. 6 in PGE Elektrownia Opole S.A. The guarantee is valid until 15 February 2013. Contract securities, commissions and other charges were determined on an arm's length basis. The contract was signed on 17 February 2012 .

h. Payment of dividend for the year 2010 in the amount of PLN 39,672,000.00.

i. Granting a subsidiary company a loan in the amount of approx. PLN 32 million (on 10 January 2012)

Included in the cooperation contracts concluded in 2011 which are material to the Company's business activities, are – apart from those listed in Chapter III of this Report – insurance contracts.

Listing of insurance contracts valid as at 31 December 2011 was presented in Appendix No. 5.

Information on the contract with entity authorised to audit financial statements was presented in Note 49 to the Company's financial statements.

5. Research and quality projects

The most significant research and quality projects completed in 2011 are the following:

a. numerical simulation of the operation of boiler furnace using the FLUENT system;
b. implementation of new high frequency modules feeding electrostatic precipitator;
c. numerical analysis of stress distribution on electrodes to determine the weight and shape of hammer, and width of collecting electrode;
d. anti-corrosion protection of working components for the inner parts of electrostatic precipitator;
e. development of materials and servicing issues relating to the sale of license for semi-dry and wet lime desulfurization methods;
f. lab research on the reactor for SO3 selective reduction;

RAFAKO S.A. has continually collaborated with scientific and research centres, especially with Politechnika Wrocławska, Politechnika Śląska, Politechnika Krakowska, Instytut Metalurgii Żelaza and Instytut Spawalnictwa.

6. Computerisation and management projects

RAFAKO S.A. uses systems of the ERP class (BAAN), communication systems (Lotus Notes), design support systems CAD/CAM/CAE which are all integrated at the level of primary business objects (client, project, supplier). Such organization allows to perform all sorts of cross-sectional analyses and construct reliable databases that support decision making processes.

In 2011, an infrastructure was put into operation that allowed maintain production warehouse evidence of raw materials analyzed by storage yard. The thus forced accuracy of raw materials "register" will result – in a long term – in reducing warehouse stocks.

In 2011, RAFAKO S.A. did not make any changes to its basic policies of Company management.

The Company did not operate any employee share-incentive schemes.

The Company has a self-reporting Branch in Turkey whose financial statements are prepared in accordance with Turkish Accounting Regulations. The functional currency of Turkish Branch is Euro. The Branch was established in connection with realisation of a contract signed in November 2007 with Elektrik Uretim A.S., Turkey, for the modernization in the „turn-key" system of two boilers at Elektrownia Yenikoy, as well as for the purpose of execution of any future contracts in this market.

7. Litigation, proceedings before court, including before court of arbitration or public administration agency

Significant litigation and court proceedings were described in Note 45 to the financial statements of the Company.

8. Other information

Statement on the principles of corporate governance at RAFAKO S.A. in 2011 is included in Appendix No. 8.

Information on remuneration, bonuses or allowances for management and supervisory personnel was included in Note 47.7 to the financial statements of the Company.

The Company has signed management contract with each member of managing personnel, which individually regulates the issue of compensation in case of dismissal or resignation from the post.

In case of dismissal or non-appointment for another term of office, Management Board Members are entitled to one-off payment in the amount of 6-monthly remuneration.

The non-competition clause provides that in case of dismissal, the Company will pay a compensation of 50% of monthly remuneration for the President of the Management Board over the period of 12 months from the date of dismissal, and over the period of 6 months for other Board Members for not taking a post at competitor company.

Information on the number of shares of RAFAKO S.A. held by Management and Supervisory Board Members, and the number of shares held in entities related to RAFAKO S.A. held by Management and Supervisory Board Members was presented in Note 47.5 to the financial statements of the Company.

The Company is not aware of any contracts as a result of which changes could occur in the shareholding structure of the current shareholders.

IV. Company business perspectives for 2012

1. Ownership changes

In 2011, changes were recorded in the ownership structure of RAFAKO S.A. The Company became a part of the PBG Capital Group with PBG S.A. as the parent company. On 21 November 2011, representatives of the new owner were appointed as Supervisory Board Members and on 25 November 2011 – as Management Board Members. In accordance with the declaration of the new owner, a power industry centre of the entire PBG Group will be created at RAFAKO. The Company will retain its current scope of business and will undertake new projects to increase its share in the power market both in short- and long-term perspectives.

PBG S.A. is the leader of the PBG Group which comprises entities operating on the market of specialist construction services, such as Hydrobudowa Polska S.A., PRG Metro, KWG S.A., Aprivia, Dromost, PBG Dom and other.

The product offer of the PBG Group comprises general construction of gas and crude oil systems, water and fuel installations in the „turn-key" system, and comprehensive realisation of investment projects in the field of industrial, housing, infrastructural and power industry construction, and road building.

Including RAFAKO S.A. in the PBG Group is the step to establish a strong Polish brand of power industry construction. It ensures technological independence, retaining production potential and capacity and continuation of the current direction of strategic development of RAFAKO. The PBG Group business in the power industry will be based on the operations of RAFAKO S.A. as the leading company responsible for the consolidation of this segment in the PBG Group.

Consistent with the said strategy was also the transaction of acquisition of 64.84% shares in Energomontaż Południe, the former business partner of RAFAKO S.A. on numerous large projects. Changes in the ownership structure are expected to considerably increase the capacity to jointly win multi-million contracts thus contributing to a significant increase in the order portfolio of PBG S.A. and RAFAKO S.A.

In accordance with its strategic assumptions, the PBG Group plans to participate in public tenders with an estimated value of PLN 40 billion. Plans exist to increase export sales to the level of 20-30% of total Group revenues. Following ownership changes, PBG S.A. together with RAFAKO S.A. will verify the issue of participation in these public tenders where they act as competitors. It is planned that in all public tenders PBG S.A. will participate together with RAFAKO S.A. It was agreed that in the investment projects relating to gas technologies, the leader of the consortium will be PBG S.A., whilst in all other - RAFAKO S.A. The nearest joint target tender of PBG and RAFAKO will be a proposal for the construction of a new power unit at Elektrownia Ostrołęka.

Including RAFAKO S.A. in the structures of PBG will contribute to establishing one of the largest construction – energy groups in the Central and Eastern Europe. Merger of PBG S.A. and RAFAKO S.A. will create an entity which will have good capacity to compete and win power industry contracts at home and abroad, especially in the area of construction of complete power units for supercritical steam parameters in the „turn-key" system.

2. Energy policy

Works were completed on the new Directive of the European Parliament and the Council of the European Union (or Council of Ministers) on industrial emission *(the IED - Industrial Emissions Directive),* which is to supersede the IPPC Directive. The proposed provisions of the IED Directive practically rule out the possibility of burning coal using boilers with no desulfurization, NOx reduction or dust removal systems. The proposed effective date in 2016 creates quite a real perspective for the comprehensive modernization or exchange of practically each coal-fired boiler.

In Poland, restrictions on emission on sulphur dioxide, nitric oxide or dust are the result of adopted international solution, which are also the basis for Polish emission standards and limits for individual pollutants. Current forecasts prepared for Polish energy policy did not take into account the requirements of the adopted EU Industrial Emissions Directive. The IED that will become effective in 2016 rules out the possibility of burning coal at power generators with power capacity of more than 50 MW that are not equipped with highly efficient systems of desulfurization, NOx reduction or dust removal. This will call for the need to build wet lime desulfurization and NOx reduction systems, or to install bag filers or highly efficient electrostatic precipitators at all coal-fired heating and power stations, and heat and power plants.

On 8 March 2011, the EU Commission adopted a roadmap the objective of which is to change by the year 2050 the entire European Union into a competitive low-emission economy. The adopted action plan describes cost-effective measures to achieve the objective to reduce by the year 2050 the emission of greenhouse gases by 80-95%, compared to the level set for the year 1990. Creation of a new, EU-based low-emission economy will require that in the nearest 40 years additional investments are realized with a value reaching 1.5% of the GDP of the EU i.e. EUR 270 billion, apart from the current investments with a value equating 19% of the EU's GDP. Such increase would effectively mean the return of Europe to the pre-crisis investment levels. The majority of the costs of additional or new investment projects will be offset against reduced imports of gas and oil. These savings are estimated at EUR 175-320 billion a year. In addition, low- emission investments in clean technologies or infrastructure such as intelligent power networks/power grids, or environment friendly investments will result in profits, benefits and other advantages in the future.

3. Energy sector investment plans

Polish energy groups do not rush to realize more initiatives to increase coal-based power capacity, and their projects have remained at the stage of declarations only. It seems that the main reason behind such delays is the prospective agreement of Polish government with the EU Commission in the matter of allocation of free CO_2 emission allowances from the year 2013.

The anti-emission climate protection policy has already translated into investment plans of Polish energy groups who prepare investments in new power capacity projects based on natural gas, among others, in Elektrownia Blachownia in Kędzierzyn Koźle, Stalowa Wola, EC Katowice, Grudziądz, Wrocław and in other power plants.

Power industry will also strive to develop renewable energy sources, including those that most often are based on biomass combustion. In Połaniec, GDF Suez is currently building the world largest biomass-fired boiler with power capacity of 190 MW. Biomass-related investments start to be undertaken by Dalkia, Tauron and other power generator companies. Experts wonder, however, whether developments in agriculture industry will appropriately follow the needs of green energy producers.

The decision of PGE to Invest in Opole may have positive effect on the readiness of management boards of other power industry concerns to take investment decisions. It is expected that public tenders in the power industry with a total value of more than PLN 11 billion will be completed in the next couple of months, whilst those worth approx PLN 50 billion - in the perspective of next couple of years. Quite shortly seem to be finalized the public tenders in the following power stations: Kozienice, Turów, Włocławek, Ostrołęka, Jaworzno, Elektrownia Północ.

The domestic market of construction of waste incineration plants also looks promising. Construction of waste utilisation plants is forced by the EU norms. If Poland does not reduce by half the amount of waste at industrial waste lagoons and landfill sites (compared to that in the mid nineties), starting from 2013 the EU may impose penalties on our country reaching EUR 250 thousand a day. Poland is the sixth largest producer of waste in the EU and its main method of waste management is waste storage. To date, approx. 78% of the entire amount of MSW was taken to landfill sites, approx. 14% was recycled, 7% was organically recycled or submitted to other equivalent processes, and only 1% of produced solid waste was submitted to thermal utilization.

Currently, approximately 500 MSW thermal utilization plants operate in Europe. The only MSW incinerator in Poland is located in Targówek in Warsaw. In 2010, Targówek incinerator utilized 65 thousand tons of MSW, of which 38.5 thousand tons were thermally utilized.

4. Business plans

RAFAKO S.A. is ready to face all complex challenges of the power industry and considers all technologies i.e. coal- or gas-based, green or even nuclear energy sources not as competitive, but rather equal weight elements of a future-program that would ensure safe power supplies and economic efficiency of national power industry.

For the Polish power industry to be able to fulfil by the year 2020 the requirements of the „3 x 20" Climate-Protection &Power Package, and especially to be able to reduce by 20% the emission of carbon dioxide, it is extremely important that non-polluters using equally the renewable or nuclear energy sources develop dynamically. Sufficiently high share of non-polluters (at least approx. 20%) in the total number of power generators and higher share of energy produced with low-emission fuels, such as gas, in the total amount of produced energy will allow diversify "energy mix" at home, whilst reducing the share of new investments in coal-based power generators to the indispensable minimum. It is all the more important in light of the irreversible trend of building a low-emission power industry in the EU. This could also bring a refreshing change into fuel mono-structure currently present on the Polish energy market.

Notwithstanding the fact that for Polish energy producers the fuel-structure equivalent to that in the EU, where as much as 46% of energy is produced with no carbon dioxide emission (30% from nuclear- and 16% from renewable energy sources), will be difficult to materialise even in the perspective of many years, any change bringing them to increasing the share of energy produced with no $C0_2$ emission in total energy produced is desirable.

At present we have the largest range of power industry technologies available in Europe. Apart from all environment friendly installations, we have competence and ability to construct power units for all parameters and types of fuel burnt. RAFAKO S.A. is one of the four European firms, next to Alstom, Hitachi Power Europe and Doosan Babcock, that has comprehensive technology for supercritical power units. This dynamic development is the result of modern strategy consistently applied over the period of several years.

In response to the problem of shortage of new power capacity, ecological assumptions and insufficient amount of energy carriers, in its business strategy the Company meets energy clients halfway and offers highly efficient power equipment and environment friendly systems.

In 2012, RAFAKO S.A. will continue to offer to its clients boilers for supercritical steam parameters, CFB boilers *(Circulating Fluidized Bed boilers)*, heat recovery steam generators (HRSGs), including those interacting with gas turbine, as well as diagnostic, modernization and repair services of boiler components and auxiliaries.

The necessity to fulfil tightening ecological norms imposed by the EU should be conducive to further Company involvement in environment friendly installations on the domestic market, where the Company offers proprietary technologies for complete desulfurization systems, thermal MSW and industrial waste utilisation, biomass combustion, boiler modernization to reduce emissions of nitric oxide, or efficient dust collector systems.

The greatest effect on the Company's development and business perspectives in 2012 will have the following events: participation in public tenders for the construction of power units for supercritical steam parameters, execution of the largest ever contract for the construction of two power units in PGE Elektrownia Opole, execution of a large number of significant contracts on the domestic and European markets such as contracts for the construction of modern boilers and desulfurization and NOx reducing systems, construction of biomass-fired boilers, boilers for MSM thermal utilization and other waste combustion, as well as production of pressure components for boilers with supercritical steam parameters.

A significant importance to the development of the Company and the value of its future order portfolio will have the following: purchase in 2008 of a license for the production of BENSEN type boilers for supercritical steam parameters, purchase in 2009 of a license for catalytic NOx reduction and signing a letter of intent with Siemens on the construction of power units for supercritical parameters. These factors will have effect on the comprehensive product offer of the Company which will tend to construct objects in the "turn-key" system.

Investment expenditure planned for the year 2012 will relate mainly to modernization of buildings and constructions, purchase of production machines and equipment, software and computer hardware. These investments will be financed primarily from the Company's own funds. No incurring special-purpose borrowings for these investments is contemplated. Part of said investment expenditure may be financed through lease contracts.

According to the 2012 forecasts, RAFAKO S.A. is to report net positive financial result. These forecasts are based on the expected realisation of all signed contracts, which account for the significant part of forecasted levels of sale, and on the amount of orders the Company expects to secure during 2012 to fully realize its business plans and objectives.

Business activities of the Group in the area of power industry construction will be based on the business of RAFAKO S.A. as leading company, responsible for the consolidation of this segment in the PBG Capital Group. Owing to RAFAKO S.A.'s entering the structures of the PBG Capital Group, one of the largest construction groups will be established in the Central-Eastern Europe, which will have considerable capacity to efficiently compete for power industry contracts at home and abroad, particularly in public tenders for the delivery of power units for supercritical steam parameters realized in the "turn-key" system.

Management Board Representations

The Management Board of RAFAKO S.A. hereby represents that:

1) according to its best knowledge, the financial statements for the year ended 31 December 2011 and comparative financial data for the year ended 31 December 2010 were prepared in accordance with binding accounting policies and reflect fairly and truly the financial position of the Company and its financial result, and that the Directors' Report on Activities of RAFAKO S.A. for the year 2011 contains true picture of the Company's development and achievements and its results, including the description of key threats and risks;
2) the entity authorised to audit the financial statements who audited annual financial statements of the Company was selected in accordance with binding laws, and this entity and certified auditors performing the audit fulfilled the requirements to issue an impartial and independent auditors' opinion on the audited annual financial statements, in accordance with binding auditing norms.

Signatures of Management Board Members

30 April 2012	Wiesław Różacki	President of the Management Board	....
30 April 2012	Krzysztof Burek	Vice-president of the Management Board	....
30 April 2012	Jarosław Dusiło	Vice-president of the Management Board	....
30 April 2012	Dariusz Karwacki	Vice-president of the Management Board	....
30 April 2012	Bożena Kawałko	Vice-president of the Management Board	....