RAFAKO S.A.

GRUPA PBG

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

with the auditor's opinion

30 April 2012

Table of contents

(in PLN thousand)

Statement of comprehensive income

	Note	*12-month period ended 31 December 2011*	*12-month period ended 31 December 2010 (restated)*
Continuing operations			
Sales revenue		**1 030 092**	**1 065 335**
Sale of products and services	16.1	1 027 158	1 062 162
Sale of materials	16.2	2 934	3 173
Cost of sales	16.4	(897 075)	(937 531)
Gross profit		**133 017**	**127 804**
Other operating income	16.7	10 941	5 109
Selling and distribution expenses	16.4	(50 997)	(47 118)
Administrative expenses	16.4	(26 108)	(22 552)
Other operating expenses	16.8	(6 786)	(2 002)
Operating profit		**60 067**	**61 241**
Finance income	16.9	16 961	7 526
Finance costs	16.10	(3 354)	(11 802)
Profit before tax		**73 674**	**56 965**
Income tax expense	17.1	(18 829)	(12 374)
Net profit from continuing operations		**54 845**	**44 591**
Other comprehensive income for the period		**204**	**(273)**
Exchange differences on translation of foreign entities	16.11	204	(273)
Total comprehensive income for the period		**55 049**	**44 318**
Weighted average number of shares	20	69 600 000	69 600 000
Earnings per share in PLN	20	0.79	0.64

Racibórz, 30 April 2012

Wiesław Różacki	Krzysztof Burek	Jarosław Dusiło	Dariusz Karwacki	Bożena Kawałko	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(in PLN thousand)

Statement of financial position

	Note	*31 December 2011*	*31 December 2010 (restated)*	*1 January 2010 (restated)*
ASSETS				
Non-current assets				
Property, plant and equipment	23	133 567	128 494	129 445
Investment properties		–	–	–
Intangible assets	27	9 393	8 465	6 583
Long-term financial assets		204 198	42 912	44 315
Shares in affiliates	29	203 216	41 915	43 307
Shares in other entities	29	510	516	534
Granted long-term loans	30	472	481	474
Long-term deposits	30	–	–	–
Trade receivables	30	–	–	–
Other long-term assets	30	–	–	–
Deferred tax assets	17.3	48 273	42 985	32 093
		395 431	**222 856**	**212 436**
Current assets				
Inventories	31	26 882	26 121	22 476
Trade receivables, other receivables and prepayments	32	303 003	265 333	223 445
Trade receivables	33	183 781	209 831	153 865
Granted short-term loans		133	–	–
Corporate income tax receivable		–	–	1 019
Other receivables and prepayments	32	119 089	55 502	68 561
Receivables from valuation of construction contracts and related prepayments	15	78 519	205 506	58 001
Short-term financial assets		196 724	186 947	245 271
Derivative instruments	34.1	343	2 357	888
Short-term investments	34.2	15 769	27 304	37 011
Short-term deposits	34.3	7 211	1 040	142 678
Cash and cash equivalents	34.4	173 401	156 246	64 694
		605 128	**683 907**	**549 193**
Non-current assets held for sale	25	37	150	–
TOTAL ASSETS		**1 000 596**	**906 913**	**761 629**

Racibórz, 30 April 2012

Wiesław Różacki	Krzysztof Burek	Jarosław Dusiło	Dariusz Karwacki	Bożena Kawałko	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(in PLN thousand)

Statement of financial position

	Note	*31 December 2011*	*31 December 2010 (restated)*	*1 January 2010 (restated)*
EQUITY AND LIABILITIES				
Equity				
Issued capital	35.1	139 200	139 200	139 200
Share premium	35.4	36 778	36 778	36 778
Reserve capital	35.5	158 654	158 142	143 368
Exchange differences on translation of foreign entities	35.6	630	426	699
Retained earnings/Accumulated losses	35.7	55 191	40 530	31 593
		390 453	**375 076**	**351 638**
Non-current liabilities				
Interest-bearing loans and borrowings	37	–	–	–
Finance lease liabilities	43	176	–	–
Deferred tax liability	17.3	–	–	–
Provision for employee benefits	38	19 922	19 083	19 663
Trade and other payables		16 717	15 213	12 932
Trade payables	39.1	15 812	14 024	11 847
Capital commitments	39.1	48	–	–
Other liabilities	39.1	857	1 189	1 085
		36 815	**34 296**	**32 595**
Current liabilities				
Trade and other payables		245 208	203 433	132 686
Trade payables	39.2	172 117	161 072	100 633
Capital commitments	39.2	4 093	2 463	4 566
Income tax payable	39.2	21 026	4 593	–
Other liabilities	39.2	47 972	35 305	27 487
Other financial liabilities and finance lease liabilities	39.2	6 079	4 087	11 017
Provision for employee benefits	38	1 424	1 306	1 306
Liabilities, provisions and deferred income relating to valuation of construction contracts		320 617	288 715	232 387
Liabilities arising from valuation of construction contracts	15	248 519	229 935	210 103
Provisions from valuation of construction contracts	15	71 853	58 751	22 284
Grants	40	245	29	–
		573 328	**497 541**	**377 396**
Total liabilities		**610 143**	**531 837**	**409 991**
TOTAL EQUITY AND LIABILITES		**1 000 596**	**906 913**	**761 629**

Racibórz, 30 April 2012

Wiesław Różacki	Krzysztof Burek	Jarosław Dusiło	Dariusz Karwacki	Bożena Kawalko	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(in PLN thousand)

Cash flow statement

	Note	*12-month period ended 31 December 2011*	*12-month period ended 31 December 2010 (restated)*
Cash flows from operating activities			
Profit/(loss) before taxation		73 674	56 965
Adjustments for:		143 942	(81 103)
Depreciation and amortization	16.5	10 558	9 972
(Gain)/loss on foreign exchange differences		9	58
Interest and dividends, net		(1 537)	(2 051)
(Gain)/loss on investing activities		(936)	(1 086)
Increase/ (decrease) in financial liabilities/financial assets from valuation of derivatives		3 913	(8 398)
(Increase)/ decrease in receivables	21	(43 510)	(36 888)
(Increase)/ decrease in inventories		(761)	(3 645)
Increase/ (decrease) in payables and provisions for employee benefits excluding loans and borrowings		25 607	69 958
Change in prepayments and accruals for construction contracts		158 672	(91 207)
Income tax paid		(7 644)	(17 652)
Other		(429)	(164)
Net cash generated from / (used in) operating activities		**217 616**	**(24 138)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		386	258
Purchase of property, plant and equipment and intangible assets		(14 753)	(13 479)
Sale of financial assets		163 434	155 065
Purchase of financial assets		(156 886)	(7 242)
Purchase of shares in affiliates		(160 784)	–
Redemption of shares in affiliates		5 965	–
Dividends and interest received		1 213	1 995
Loans granted		(133)	–
Other		22	57
Net cash generated from / (used in) investing activities		**(161 536)**	**136 654**
Cash flows from financing activities			
Proceeds from issuance of shares		–	–
Payment of finance lease liabilities		(105)	(2)
Proceeds from loans		–	–
Repayment of loans		–	–
Dividends paid to shareholders		(39 672)	(20 880)
Interest paid		–	–
Other		648	191
Net cash used in financing activities		**(39 129)**	**(20 691)**
Net increase in cash and cash equivalents		16 951	91 825
Net foreign exchange difference		204	(273)
Cash and cash equivalents at the beginning of the period		**156 246**	**64 694**
Cash and cash equivalents at the end of the period, of which:	34.4	**173 401**	**156 246**
- restricted cash		496	106

Racibórz, 30 April 2012

Wiesław Różacki	Krzysztof Burek	Jarosław Dusiło	Dariusz Karwacki	Bożena Kawalko	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

(in PLN thousand)

Statement of changes in equity

	Issued capital	*Share premium*	*Reserve capital*	*Exchange differences on translation of foreign entities*	*Retained earnings/ Accumulated losses*	*Total*
As at 1 January 2011 - *(restated)*	**139 200**	**36 778**	**158 142**	**426**	**40 530**	**375 076**
Total comprehensive income for the period	–	–	–	204	54 845	55 049
Appropriation of prior year profits	–	–	512	–	(512)	–
Dividend	–	–	–	–	(39 672)	(39 672)
As at 31 December 2011	**139 200**	**36 778**	**158 654**	**630**	**55 191**	**390 453**
As at 1 January 2010 - *(restated)*	**139 200**	**36 778**	**143 368**	**699**	**31 593**	**351 638**
Total comprehensive income for the period	–	–	–	(273)	44 591	44 318
Appropriation of prior year profits	–	–	14 774	–	(14 774)	–
Dividend	–	–	–	–	(20 880)	(20 880)
As at 31 December 2010 - *(restated)*	**139 200**	**36 778**	**158 142**	**426**	**40 530**	**375 076**

Racibórz, 30 April 2012

Wiesław Różacki	Krzysztof Burek	Jarosław Dusiło	Dariusz Karwacki	Bożena Kawałko	Jolanta Markowicz
President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Chief Accountant

EXPLANATORY NOTES

1. Corporate information

RAFAKO S.A. ("the Company") is a joint stock company with its registered office in Racibórz, ul. Łąkowa 33. The Company was established based on notarial deed dated 12 January 1993. On 24 August 2001 it was entered in the Register of Entrepreneurs kept by the District Court in Gliwice, X Commercial Department of the National Court Register, entry number KRS 34143. The parent was granted statistical number REGON 270217865.

The duration of the Company is unlimited.

The Company's financial statements cover the year ended 31 December 2011 and include comparative data for the year ended 31 December 2010.

The Company's principal business activities are as follows:

- Production of steam generators, excluding hot water central heating boilers (PKD 25.30.Z),
- Repair and maintenance of metal finished goods (PKD 33.11.Z),
- Installation of industrial machinery, plant and equipment (PKD 33.20.Z),
- Production of metal structures and parts thereof (PKD 25.11Z),
- Other specialized construction work, not classified elsewhere (PKD 43.99.Z),
- Production of industrial cooling and ventilation equipment (PKD 28.25.Z),
- Production of other metal reservoirs, tanks and containers (PKD 25.29.Z),
- Mechanical treatment of metal parts (PKD 25.62.Z),
- Metalworking and coating (PKD 25.61.Z),
- Production of machinery for metalworking (PKD 28.41.Z),
- Repair and maintenance of machinery (PKD 33.12.Z),
- Activities in the field of architecture (PKD 71.11.Z),
- Activities in the field of engineering and the related technical advice (PKD 71.12.Z),
- Production of ovens, furnaces and oven burners (PKD 28.21.Z),
- Wholesale sales of other machinery and equipment (PKD 46.69.Z),
- Wholesale sales of metals and ore minerals (PKD 46.72.Z),
- Production of other general-purpose machinery, not classified elsewhere (PKD 28.29.Z),
- Production of tools (PKD 25.73.Z),
- Generation of electricity (PKD 35.11.Z),
- Transmission of electricity (PKD 35.12.Z),
- Distribution of electricity (PKD 35.13.Z),
- Trading in electricity (PKD 35.14.Z),
- Production and supply of steam, hot water and air for air-conditioning systems (PKD 35.30.Z),
- Wholesale sales of metal goods and hydraulic and heating plant and additional equipment (PKD 46.74.Z),
- Rental and management of freehold or leasehold property (PKD 68.20.Z),
- Other technical research and analyses (PKD 71.20.B),
- Other non-school forms of education, not classified elsewhere (PKD 85.59.B),
- Sewage disposal and treatment (PKD 37.00.Z),
- Hotels and similar accommodation facilities (PKD 55.10.Z),
- Tourist lodging and short-term accommodation facilities (PKD 55.20.Z),
- Restaurants and other permanent catering places (PKD 56.10.A),
- Other catering services (PKD 56.29.Z),
- Activities of cultural facilities (PKD 90.04.Z),
- Other recreation and entertainment facilities (PKD 93.29.Z),
- Activities related to organization of fairs, exhibitions and congresses (PKD 82.30.Z),
- Scientific research and development work in the field of other natural and technical sciences (PKD 72.19.Z).

The Company has a self-reporting Branch in Turkey which prepares its financial statements in accordance with Turkish law. The functional currency of the Branch is EUR.

(in PLN thousand)

2. Identification of the consolidated financial statements

The Company also prepares consolidated financial statements of the RAFAKO Capital Group for the year ended 31 December 2011, which were authorized for issue on 23 April 2012.

3. Composition of the Management Board and Supervisory Board

In the 12-month period ended 31 December 2011, the following changes took place in the composition of the Company's Management Board. On 7 March 2011, the Supervisory Board of RAFAKO S.A. increased the number of members of the Company's Management Board to four and appointed Mr. Maciej Kaczorowski Vice President of the Board. On 9 May 2011, the Supervisory Board of RAFAKO S.A. appointed Mr. Piotr Wawrzynowicz Vice President of the Company's Management Board responsible for investor relationships as of 9 May 2011. On 21 November 2011, Mr. Piotr Wawrzynowicz resigned from the position of Vice President of the Management Board of RAFAKO S.A. On 25 November 2011, the Supervisory Board of RAFAKO S.A. determined the number of members of the Management Board of RAFAKO S.A. to be 5, dismissed Mr. Maciej Kaczorowski from the position of Vice President of the Management Board and appointed Ms. Bożena Kawałko, Mr. Jarosław Dusiło and Mr. Dariusz Karwacki as Vice Presidents of the Management Board.

At the date of these financial statements, the composition of the Management Board is as follows:

Wiesław Różacki	- President
Krzysztof Burek	- Vice President
Jarosław Dusiło	- Vice President
Dariusz Karwacki	- Vice President
Bożena Kawałko	- Vice President

In the 12-month period ended 31 December 2011, the following changes took place in the composition of the Company's Supervisory Board. On 29 March 2011, the Company received Mr. Roman Jarosiński's declaration of resignation from the position of member in the Company's Supervisory Board as of 25 March 2011. On 9 May 2011, Mr. Piotr Wawrzynowicz resigned from the position of member in the Company's Supervisory Board due to his appointment as Vice President of the Management Board. On 31 May 2011, the Ordinary General Meeting of RAFAKO S.A. determined the number of members in the Supervisory Board to be six and appointed Mr. Wojciech Piskorz as Supervisory Board member.

On 21 November 2011, the Extraordinary General Meeting of RAFAKO S.A. determined the list of members of the Supervisory Board to be 7, dismissed Mr. Krzysztof Pawelec, Mr. Wojciech Piskorz, Mr. Maciej Stradomski and Mr. Sławomir Sykucki from the Supervisory Board of the 6th term and appointed Ms Małgorzata Wiśniewska, Mr. Piotr Rutkowski, Mr. Przemysław Szkudlarczyk, Mr. Piotr Wawrzynowicz and Mr. Tomasz Woroch as members of the Supervisory Board.

On 14 February 2012 Mr. Tomasz Woroch resigned from the position of member in the Company's Supervisory Board. On 14 February 2012 the Extraordinary General Meeting of RAFAKO S.A. determined the list of members of the Supervisory Board to be 7 and appointed Mr. Jerzy Wiśniewski and Mr. Robert Koński as members of the Supervisory Board.

At the date of these financial statements, the composition of the Supervisory Board is as follows:

Jerzy Wiśniewski	- Chairman of the Supervisory Board
Piotr Wawrzynowicz	- Vice Chairman of the Supervisory Board
Małgorzata Wiśniewska	- Secretary of the Supervisory Board
Robert Koński	- Member of the Supervisory Board
Piotr Rutkowski	- Member of the Supervisory Board
Przemysław Szkudlarczyk	- Member of the Supervisory Board
Leszek Wysłocki	- Member of the Supervisory Board

4. Authorization of the financial statements

These financial statements for the year ended 31 December 2011 were authorized by the Company's Management Board on 30 April 2012.

(in PLN thousand)

5. Company's investments

The Company has the following investments in subsidiaries, jointly controlled entities and associates:

Name of entity and registered office	*Principal business activities*	*Percentage share in the capital*	
		31 December 2011	*31 December 2010*
FPM S.A. Mikołów	Production of ovens, furnaces and oven burners	82.19%	82.19%
PALSERWIS Sp. z o.o.* Mikołów	Production of ovens, furnaces and oven burners	82.19%	82.19%
PGL – DOM Sp. z o.o. Racibórz	Operation of real estate on one's own account	100%	100%
RAFAKO ENGINEERING Sp. z o.o. Racibórz	Activities relating to construction, urban and technological design	100%	100%
RAFAKO ENGINEERING SOLUTION doo Belgrade	Activities relating to technological design, including consulting and supervisory services for construction, industry and environmental protection sectors	77%	77%
RAFAKO Hungary Kft. Budapest	Assembly of equipment in the power and chemical industry	100%	–
ENERGOMONTAŻ-POŁUDNIE S.A.	Services in the field of construction and assembly-related production, general execution of investments, assembly, modernization, overhaul of energy and industrial devices and installations.	64.84%	–
Modus II Sp. z o.o.**	Management and sale of real estate on one's own account	64.84%	–

* 100% subsidiary of FPM S.A. and indirect subsidiary of RAFAKO S.A.
** 100% subsidiary of ENERGOMONTAŻ POŁUDNIE S.A. and indirect subsidiary of RAFAKO S.A.

As at 31 December 2011 and 31 December 2010, the Company's share in the total number of votes held in subsidiaries, jointly controlled entities and associates was equal to the Company's stake in the capital of these entities.

6. Significant judgments and estimates

6.1. Professional judgment

In the process of applying the accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements, including explanatory notes. The assumptions underlying these estimates are based on management's best knowledge of current and future activities and events in the particular areas.

Classification of leases where the Company is the lessee

The Company is a party to lease agreements. The Company classifies its lease agreements as finance leases or operating leases based on the assessment of the extent to which substantially all the risks and benefits incidental to ownership have been transferred from the lessor to the lessee. The assessment is based on economic substance of each transaction.

Identification of embedded derivatives

At the end of each reporting period the Company's management makes an assessment of the contracts signed for whether they contain any embedded foreign currency derivatives whose economic characteristics and risks are closely related to those of the host contract.

6.2. Uncertainty of estimates

Estimates relating to the following items had a critical impact on the net result for the 12-month period ended 31 December 2011 and the values of assets and liabilities as at 31 December 2011:

- the level of budgeted construction contract revenue and costs providing the basis for valuation of contracts in progress in accordance with IAS 11,
- estimated amount of contractual penalties for late performance of contracts,
- estimated amount of provisions for employee benefits (the Company incurs costs of jubilee bonuses and post-employment benefits),
- realization of the deferred tax asset.

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

Impairment of assets

At the end of the financial year, the Company conducts tests for impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the value in use of the cash-generating unit to which these assets belong. Estimating the value in use amount requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Company has assessed whether there are any indications of impairment of assets. The analysis showed that during the 12-month period ended 31 December 2011 there were no such indications.

The amounts of impairment write-downs at the end of the reporting period are presented in Notes 23, 27, 31, 32.1.

Depreciation and amortization rates

Depreciation and amortization rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment and the estimated residual values of property, plant and equipment. The economic useful lives are reviewed annually by the Company based on current estimates.

Deferred tax asset

The Company recognizes deferred tax assets based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilized. Deterioration of future taxable profits might render this assumption unreasonable. Deferred tax assets are measured using the tax rates that are expected to apply in the period when the asset is expected to be realized, based on tax laws that have been enacted at the balance sheet date.

Provision for expected losses on contracts

At the end of each reporting period the Company makes a re-measurement of total estimated revenues and costs from construction contracts accounted for using the percentage of completion method. Any expected loss on the contract is recognized by the Company as an expense in accordance with IFRS. The details of accounting for construction contract revenue and expenses for the year under review are presented in Notes 12.23.6 and**Error! Reference source not found.** 15.

Provision for costs arising from late performance of contracts

The Company recognizes a provision for contractual penalties arising from late performance of contracts if the probability of being charged for the delay in the performance of the contract is significant and the delay is due to the fault of the Company acting as contractor. The amount of the provision arises from the contractual penalty to be charged for a given period of delay as provided for in the given contract. The details of provisions estimated in this manner are presented in Note 15.

Allowances for doubtful debts

At the end of the reporting period, the Company makes an assessment of whether there is any objective evidence of impairment of an individual receivable or a group of receivables. Where the recoverable amount of the asset is less than its carrying amount, the entity recognizes an allowance to bring down the carrying amount to the present value of the expected cash flows.

7. Basis of preparation of the financial statements

These financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets available for sale, which have been measured at fair value.

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. At the date of authorization of these financial statements, no circumstances exist that would indicate a threat to the continued activity of the Company.

7.1. Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), in particular in accordance with IFRSs endorsed by the European Union. At the date of authorization of these financial statements, in light of the current process of IFRS endorsement in the European Union and the nature of the Company's activities, there is no difference between the IFRSs applied by the Company and the IFRSs endorsed by the European Union.

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

The Company applied the IFRSs in force as of 31 December 2011.

7.2. Functional currency and presentation currency

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

8. Changes in accounting policies

The accounting policies applied to these financial statements are consistent with those applied to the financial statements of the Company for the year ended 31 December 2010, except for the application of the following amendments to standards and new interpretations applicable to annual periods beginning 1 January 2011:

- Amendments to IAS 24 Related Party Disclosures (amended in November 2009) – applicable to annual periods beginning on or after 1 January 2011. The purpose of these changes is to simplify and clarify the definition of a related party. The amendment cancelled the requirement to disclose the details of transactions with a related party of the government that exercises control or joint control of or has a significant influence on the reporting entity as well as of another entity that is a related party due to the fact that it is controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The application of these amendments had no impact on either the financial position or results reported by the Company, or the extent of the disclosures made in the financial statements of the Company.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirement – applicable to annual periods beginning on or after 1 January 2011. This amendment removes the unintended consequence of IFRIC 14 in the circumstances when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The application of these amendments had no impact on the financial position or results reported by the Company.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – applicable to annual periods beginning on or after 1 July 2010. IFRIC 19 clarifies the accounting policies applied in the circumstances where the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. The application of this interpretation had no impact on the financial position or results reported by the Company.
- Amendments to IAS 32 Financial Instruments: Presentation: Classification of Right Issues. This amendment clarifies how to account for certain subscription rights when the financial instruments issued are denominated in a currency other than the functional currency of the issuer. The application of these amendments had no impact on the financial position or results reported by the Company.
- Improvements to IFRSs (issued in May 2010) – some improvements are applicable to annual periods beginning on 1 July 2010, while others are applicable to annual periods beginning on 1 January 2011. The application of these amendments had no impact on the financial position or results reported by the Company.

- Amendment to IFRS 1 First-time Adoption of IFRSs: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters – applicable to annual periods beginning on or after 1 July 2010. The application of these amendments had no impact on the financial position or results reported by the Company.

The Company has not decided to early apply any standard, interpretation or amendment that had already been issued but was not yet effective.

9. New standards and interpretations that have been issued but are not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board or the IFRS Interpretations Committee but are not yet effective:

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2015 – not endorsed by the EU as at the date of authorization of these financial statements. In subsequent phases, IASB will address hedge accounting and impairment. The application of the Phase 1 of IFRS 9 will have an effect on classification and measurement of the financial assets of the Company. The Company will assess that effect in conjunction with other phases once they are issued, to present a consistent picture,
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Transfer of financial assets* – applicable to annual periods beginning on or after 1 July 2011,
- Amendments to IAS 12 *Income Tax: Deferred Tax: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 13 *Fair Value Measurement* - applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 19 *Employee Benefits* - applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* - applicable to annual periods beginning on or after 1 July 2012 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 7 *Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities* - applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities* - applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Government Loans* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.

As at the date of these financial statements, the introduction of the above-mentioned standards, amendments and interpretations does not cause any changes to the financial statements resulting from first-time application of these standards, amendments or interpretations.

10. Change in estimates

In the year ended 31 December 2011 the Company changed the economic useful life of computers, which has been extended from 5 to 7 years. This change affects the amount of depreciation of fixed assets newly recognized and does not affect the Company's financial results from previous reporting periods.

11. Correction of presentation and errors from previous years

The Company restated comparatives for the year ended 31 December 2010 taking into account the current accounting policies and the correction of errors as described below.

Correction of errors concerns the following issues:

- revaluation of contracts with planned income of less than PLN 5m using the "zero margin" valuation method consisting in the identification of revenue up to the amount of contract costs and recognition of provisions for anticipated losses,
- revaluation of contracts with planned income above PLN 5m, consisting in the inclusion of accrued penalties for late performance of contracts in the valuation of contracts (reduction of projected revenues) and an error in determining the amount of penalties.

The main changes to presentation of financial data in the statement of financial position result from the adjustment of presentation of business transactions to make it consistent with current accounting policies relating to:

- valuation and presentation of receivables and accruals arising from valuation of contracts for construction services,
- reclassification of receivables due in more than 12 months to long-term financial assets, to increase transparency of financial data and facilitate analysis of balance sheet items,
- reclassification of liabilities and provisions with maturities exceeding 12 months to long-term liabilities, to increase transparency of financial data and facilitate analysis of balance sheet items,
- separation of a provision for employee benefits out of "Trade payables and other short-term liabilities".

(in PLN thousand)

Comparative figures for items of the statement of comprehensive income for the 12-month period of 2010 whose presentation has changed in comparison to figures presented in the financial statements for the 12-month period of 2010, have been corrected as presented below:

	Sales of products	*Cost of sales*	*Other operating income*	*Other operating expenses*	*Income tax expense*	*Net profit*
Prior to correction	**1 107 134**	**(938 142)**	**10 158**	**(56 853)**	**(11 340)**	**40 184**
Correction of error						
Correction of valuation of contracts with total income below PLN 5m	590	290	–	–	(167)	713
Provisions for costs arising from late performance of construction contracts	(45 562)	321	(5 049)	54 851	(867)	3 694
After correction	**1 062 162**	**(937 531)**	**5 109**	**(2 002)**	**(12 374)**	**44 591**

(in PLN thousand)

The above-mentioned changes in the statement of comprehensive income also resulted in the correction of the cash flow statement.

	Profit/(loss) before taxation	*Increase/ (decrease) in payables excluding loans and borrowings*	*Change in prepayments and accruals*
Prior to correction	51 524	111 275	(127 083)
Correction of error			
Correction of valuation of contracts with total income below PLN 5m	880	–	–
Provisions for costs arising from late performance of construction contracts	4 561	–	–
Correction of presentation			
Increase/ (decrease) in trade and other payables resulting from correction of error	–	(41 317)	–
Change in prepayments and accruals for construction contracts resulting from correction of error	–	–	35 876
After correction	56 965	69 958	(91 207)

(in PLN thousand)

Comparative figures for items of the statement of financial position as at 31 December 2010 whose presentation has changed in comparison to figures presented in the financial statements for the year 2010 have been corrected as presented below:

	Deferred tax assets	*Receivables from valuation of construction contracts and related prepayments*	*Retained earnings/ Accumulated losses*	*Provision for employee benefits (long-term)*	*Trade and other long-term payables*	*Provision for employee benefits (short-term)*	*Trade and other short-term payables*	*Liabilities, provisions and deferred income relating to valuation of construction contracts*
Prior to correction:	**43 066**	**206 077**	**40 184**	**20 389**	**–**	**–**	**279 975**	**228 355**
Correction of error								
Correction of valuation of contracts with total income below PLN 5m	493	(571)	(2 100)	–	–	–	–	2 022
Correction of valuation of contracts with total income above PLN 5m	(574)	–	2 446	–	–	–	–	(3 020)
Correction of presentation								
Trade payables	–	–	–	–	14 024	–	(14 024)	–
Payables due to employee benefits	–	–	–	(1 306)	–	1 306	–	–
Payables due to bonuses	–	–	–	–	1 189	–	(1 189)	–
Reclassification of provisions for costs of late performance of contracts and failure to meet guaranteed technical specifications	–	–	–	–	–	–	(57 504)	57 504
Reclassification of provisions for realization of construction contracts	–	–	–	–	–	–	(3 825)	3 825
After correction	**42 985**	**205 506**	**40 530**	**19 083**	**15 213**	**1 306**	**203 433**	**288 686**

(in PLN thousand)

Comparative figures for items of the statement of financial position as at 1 January 2010 whose presentation has changed in comparison to figures presented in the financial statements for the year 2009 have been corrected as presented below:

	Deferred tax assets	*Receivables from valuation of construction contracts and related prepayments*	*Retained earnings/ Accumulated losses*	*Provision for employee benefits (long-term)*	*Trade and other long-term payables*	*Provision for employee benefits (short-term)*	*Trade and other short-term payables*	*Liabilities, provisions and deferred income relating to valuation of construction contracts*
Prior to correction:	**31 141**	**58 098**	**35 654**	**20 969**	**–**	**–**	**165 630**	**207 459**
Correction of error								
Correction of valuation of contracts with total income below PLN 5m	660	(97)	(2 813)	–	–	–	732	2 644
Correction of valuation of contracts with total income above PLN 5m	292	–	(1 248)	–	–	–	(7 703)	9 243
Correction of presentation								
Trade payables	–	–	–	–	11 847	–	(11 847)	–
Payables due to employee benefits	–	–	–	(1 306)	–	1 306	–	–
Payables due to bonuses	–	–	–	–	1 085	–	(1 085)	–
Reclassification of provisions for costs of late performance of contracts and failure to meet guaranteed technical specifications	–	–	–	–	–	–	(7 703)	7 703
Reclassification of provisions for realization of construction contracts	–	–	–	–	–	–	(5 338)	5 338
After correction	**32 093**	**58 001**	**31 593**	**19 663**	**12 932**	**1 306**	**132 686**	**232 387**

(in PLN thousand)

12. Significant accounting policies

12.1. Foreign currency translation

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

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

As at the balance sheet date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP rate prevailing for the given currency at the year-end. Exchange differences resulting from translation are recorded under finance income (costs), realized and unrealized exchange differences on trade receivables under sales revenue, realized and unrealized exchange differences on trade payables under manufacturing cost or – in cases defined in accounting policies – are capitalized in the cost of the assets. Non-monetary foreign currency assets and liabilities recognized at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognized at fair value are translated into Polish zloty using the rate of exchange binding as at the date of re-measurement to fair value.

The following exchange rates were used for valuation purposes:

	31 December 2011	*31 December 2010*
USD	3.4174	2.9641
EUR	4.4168	3.9603
GBP	5.2691	4.5938
CHF	3.6333	3.1639
SEK	0.4950	0.4415
TRY	1.7835	1.9227

12.2. Property, plant and equipment

Property, plant and equipment are fixed assets which:

- are held by the enterprise for use in the production or supply of goods or services, for administrative purposes or for the purpose of giving them over for use to other entities under rental agreement, and which do not represent investment property, and
- are expected to be used over a period exceeding one year,
- for which it is probable that future economic benefits associated with the asset will flow to the enterprise,
- the cost of the asset to the enterprise can be measured reliably.

Property, plant and equipment are measured at cost (i.e. acquisition or manufacturing cost) less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price plus any directly attributable costs of buying and bringing the asset to working condition for its intended use. Cost also comprises the cost of a replacement of components of plant and equipment at the moment it is incurred if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they are incurred.

Upon purchase, property, plant and equipment are divided into components, which represent items with a significant value that can be allocated a separate useful life. General overhauls also represent asset components.

The Company made a valuation of part of property, plant and equipment at fair value and recognized it as deemed cost as at 1 January 2004, which is the date of transition to IFRSs.

Depreciation is charged on the cost of the fixed asset decreased by its residual value. Depreciation begins when the asset is made available for use. Depreciation is charged in accordance with a depreciation plan which determines the estimated useful life of the asset. The depreciation method used reflects the pattern in which the asset's economic benefits are consumed by the enterprise.

(in PLN thousand)

Depreciation is charged using the straight-line method over the estimated useful life of a given asset which is as follows:

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
Plant and equipment	from 3.33 % to 50.00%	from 2 to 30 years
Office facilities	from 10.00 % to 100.00%	from 1 to 10 years
Motor vehicles	from 6.67 % to 50.00 %	from 2 to 15 years
Computers	from 20.00 % to 50.00 %	from 2 to 7 years*

* *change of maximum economic useful life in force since 1 January 2011*

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

If, at the moment of preparing the financial statements, there are any circumstances indicating that the carrying amount of property, plant and equipment may not be recoverable, such assets are reviewed for potential impairment. If any indications of impairment are identified, and the carrying amount exceeds the estimated recoverable amount, then the carrying amount of such assets or cash-generating units to which such assets belong is written down to the recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows that are largely independent of those from other assets or groups of assets, recoverable amount is determined for the cash-generating unit to which such an asset belongs. Impairment losses are recognized in the income statement in the expense category consistent with the function of the impaired asset.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the profit or loss for the period in which derecognition took place.

Assets under construction include assets in the course of construction or assembly and are recognized at cost less any impairment losses. Assets under construction are not depreciated until completed and made available for use.

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

12.3. Intangible assets

On initial recognition intangible assets are measured at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalized development costs, are not capitalized and are charged against profits in the year in which they are incurred.

As at 1 January 2004 the Company performed a measurement of part of its intangible assets at fair value and recognized it as deemed cost for IFRS 1 purposes.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Expenditures incurred for internally generated intangible assets, except for capitalized development expenses, are not capitalized and are charged against profits in the period in which they are incurred.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level. For all other intangible assets, an assessment is made each year for whether there are any indications that they may be impaired. Useful lives are also reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the financial year that has just ended.

Intangible assets with finite useful lives are amortized using the straight-line method.

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

Any gain or loss arising on derecognition of an intangible asset is measured at the amount of the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the income statement at the moment of derecognition.

Research and development costs

Research costs are expensed in the income statement as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition, the historical cost model is applied, which requires the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Any expenditure carried forward is amortized over the period of expected future sales from the related project.

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

A summary of the policies applied to the Company's intangible assets is as follows:

	Patents and licenses	Software
Useful lives	For patents and licenses used on the basis of a defined period contract, that period is adopted, taking into account any possible extended term of their use.	2-5 years
Method of amortization	Amortized over the term of the contract (5-10 years) using the straight-line method.	Amortized using the straight-line method.
Internally generated or acquired	Acquired	Acquired
Impairment testing / assessment of recoverable amount	Annual assessment of whether there are any indications of impairment.	Annual assessment of whether there are any indications of impairment.

12.4. Goodwill

Goodwill arising on acquisition is initially recognized at cost being the excess of:

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

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is not amortized.

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

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

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill represents part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining gain or loss on disposal of the operations. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

12.5. Shares in subsidiaries, associates and jointly controlled entities

Shares in subsidiaries, associates and jointly controlled entities are recognized at historical cost less any impairment losses.

12.6. Leases

Finance leases, which transfer to the Company all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement unless they meet capitalization criteria.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

Contingent lease payments are recognized as an expense in the period in which they become due.

12.7. Impairment of non-financial long-term assets

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

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized immediately as income in profit or loss. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

12.8. Borrowing costs

Borrowing costs that are directly attributable to purchase, construction or manufacture of a qualifying asset are capitalized in the cost of that asset. Other borrowing costs are recognized as finance costs of the period.

12.9. Recoverable amount of long-term assets

At each reporting date the Company makes an assessment to determine whether there is any indication that its assets may be impaired. If such indications exist, a formal estimate of the recoverable amounts of such assets is made. Where the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use.

12.10. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, quoted in an active market, which the Company has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss,
- those that are designated as available for sale and
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortized cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. A financial asset is classified as held for trading if it is:
   a. acquired principally for the purpose of selling it in the near term,
   b. part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
   c. a derivative – except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument;

b) upon initial recognition it was designated as at fair value through profit and loss, in accordance with IAS 39.

Financial assets at fair value through profit or loss are measured at fair value taking into account their market value at the balance sheet date and excluding costs to sell. Changes in the values of these financial instruments are recognized in the statement of comprehensive income as finance income or finance costs. If a contract includes one or more embedded derivatives, the whole contract can be classified as a financial asset at fair value through profit and loss. This does not relate to cases where the embedded derivative has no significant impact on the contractual cash flows or is obvious without or only with superficial analysis that if a similar hybrid instrument were considered first, then separate recognition of the embedded derivative would be prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment in the area of measurement or recognition (accounting mismatch), or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2011, the Company recognized shares in investment funds, shares in listed companies and derivatives in the category of financial assets classified as at fair value through profit and loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets provided their maturity does not exceed 12 months after the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets.

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified in any of the preceding categories. Financial assets available for sale are measured at fair value plus transaction costs which are directly attributable to the purchase or issuance of the financial asset. Where no quoted market price is available in an active market and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value of financial assets available for sale (if a quoted market price determined in an active regulated market is available or the fair value can be reliably measured using an alternative method) and the cost of such assets, net of deferred tax, are recognized in other comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment is recorded as finance cost.

Purchase and sale of financial assets are recognized at the transaction date. Initially, a financial asset is recognized at its fair value, plus, for financial assets other than classified as financial assets at fair value through profit and loss, transaction costs which are directly attributable to purchase.

Financial assets are derecognized if the Company loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

12.11. Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of assets is impaired.

12.11.1. Assets recognized at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in profit or loss for the period.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included on a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

12.11.2. Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

12.11.3. Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale financial asset, then the amount of the difference between its acquisition cost (net of any principal repayment and interest) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

12.12. Non-current assets held for sale

When an item of property, plant and equipment is available for sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale is, according to sale plans held by the Company, highly probable within one year, then such an asset is classified by the Company as held for sale. Such an asset is presented in the financial statements of the Company at the lower of its carrying amount and fair value less costs to sell.

12.13. Derivative financial instruments and hedges

The Company uses derivative financial instruments such as forward currency contracts to hedge against the risks associated with foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivatives are recognized as financial assets when their value is positive and as financial liabilities when their value is negative.

Given the nature of hedges and the relationship with hedged transactions, despite the absence of hedge accounting policies, the result on the realization and measurement of derivative financial instruments which are used to hedge purchases and sales and are not speculative adjusts sales revenues or cost of sales, as appropriate.

12.14. Inventories

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

Materials purchased in order to be used in production, which, at the moment of purchase, are explicitly identified with a construction contract that is currently in progress or with other supply or services contracts, are measured during the financial year using the method of detailed identification of the individual purchase prices for a specific contract. At the balance sheet date, materials are measured in conformity with construction contracts' valuation principles (IAS 11), i.e. the value and costs of purchase of such materials are included in the manufacturing cost.

Consumption of other materials is included in manufacturing cost at weighted average cost.

Inventories are stated at net value (net of write-downs). Write-downs against inventories are recognized due to their impairment in order to bring the carrying amount of inventories to net realizable value. The amounts of write-downs of inventories to net realizable value and any losses in inventories are expensed in the period in which such write-downs or losses took place.

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

12.15. Trade and other receivables

Trade receivables are recognized and carried at the original invoice amount unless the effect of the time value of money is material, less an allowance for any uncollectible amounts.

Doubtful debt allowances are recorded under operating expenses or finance costs, depending on the nature of the receivable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognized as finance income.

12.16. Cash and cash equivalents

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

The balance of cash and cash equivalents in the statement of cash flows consists of cash and cash equivalents as defined above. If bank overdrafts are used as part of cash management, subject to the provisions of IAS 7, the balance of cash and cash equivalents in the statement of cash flows is presented net of the outstanding bank overdrafts.

12.17. Issued share capital

Issued share capital in the financial statements is recorded at the amount stated in the Company's Articles of Association and entered in the court register. Contributions declared but unpaid are recognized as unpaid share capital with a negative value. Treasury shares are recognized as a separate item of equity with a negative value.

12.18. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the costs covered by a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a given provision is presented in profit or loss net of any reimbursement.

Provisions are recorded under operating expenses, other operating expenses or finance costs, depending on the underlying circumstances.

If the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is determined as a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect the risk that has been reflected in the estimated future cash flows. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

12.19. Interest-bearing loans and borrowings

All loans and borrowings (including debt securities) are initially recognized at cost being their fair value net of transactions costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Gains and losses are recognized in the statement of comprehensive income when the liability is derecognized or impaired as well as through the amortization process.

12.20. Trade and other payables

Current trade payables are carried at the amount due and payable. Other payables include wages and salaries, which are measured at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis, or (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial liabilities at fair value through profit or loss are measured at fair value, taking into account their market value at the balance sheet date and excluding costs to sell. Changes in the fair value of these instruments are recognized in profit or loss as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when it is extinguished – that is, when the obligation specified in the contract is discharged or cancelled or expires. When an existing debt instrument is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Other payables include in particular liabilities due to the state budget and payroll creditors. Other payables are recognized at the amount due and payable.

12.21. Retirement benefits and jubilee bonuses

In accordance with internal remuneration systems, the Company's employees are entitled to jubilee bonuses upon completion of a number of years in service and to retirement benefits upon retirement.

In accordance with internal regulations, the companies also make transfers to the Social Fund in respect of their retired employees.

The Company recognizes such costs on an accrual basis.

The amount of jubilee bonuses depends on the number of years in service and average monthly remuneration. Employees also receive one-off retirement benefits. Employees who became permanently disabled are also entitled to retirement benefits. The amount of such benefits depends on the number of years in service and average monthly remuneration.

The Company recognizes a provision for jubilee bonuses and retirement benefits in order to allocate the costs of those allowances to the periods to which they relate. In accordance with IAS 19, jubilee bonuses represent other long-term employee benefits, while retirement benefits are post-employment defined benefits. The present value of these liabilities at the end of each reporting period is calculated by an independent actuary. The balance of these liabilities equals discounted payments which will be made in the future, accounts for staff turnover and relates to the period up to the balance sheet date. Demographic information and information on staff turnover are based on historical data. Any actuarial gains and losses are recognized in the income statement.

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

12.22. Taxes

12.22.1. Current income tax

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

12.22.2. Deferred income tax

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reviewed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets are determined at the amount that is expected to be deducted from the income tax in the future as a result of deductible temporary differences leading to a future decrease in taxable profit and tax loss available for utilization, taking into account the prudence principle. Deferred tax assets are only recognized if they are probable of realization.

A deferred tax liability is recognized at the amount of the income tax amount that will be payable in the future as a result of taxable temporary differences i.e. differences which will cause an increase in taxable profit in the future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

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

12.22.3. Value added tax

Revenues, expenses, assets and liabilities are recognized net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

12.23. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are recognized at the fair value of the consideration received or receivable, net of Value Added Tax and rebates. The following specific recognition criteria must also be met before revenue is recognized.

12.23.1. Revenue from sale of goods for resale and finished goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue and costs incurred can be reliably measured.

Revenue includes amounts due for finished goods, goods for resale and materials sold by the Company as well as other services relating to principal activities of the Company, determined on the basis of the net price, net of rebates and discounts granted by the Company and net of excise.

12.23.2. Rendering of services

Revenue from uncompleted long-term services in the period from the date of entering into the contract to the balance sheet date, after deduction of revenues recognized in profit or loss in previous reporting periods, is recognized in proportion to the stage of completion of such services if it can be reliably estimated. Depending on the type of transaction, the stage of completion can be measured using the following methods:

- surveys of work performed,
- determining the proportion of the contract work completed at a given date in relation to total work to be performed under the contract or
- percentage of costs incurred to date in relation to the total estimated costs necessary to complete the contract.

Costs incurred to date include only those expenses that relate to the services completed until that date. Total estimated costs of the transaction include only expenses relating to services already completed or services to be completed.

When the outcome of the contract cannot be estimated reliably, then the revenue derived from the contract is recognized only to the extent of costs incurred that the entity expects to recover.

12.23.3. Interest

Interest revenue is recognized as interest accrues (using the effective interest rate that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

12.23.4. Dividends

Dividend revenue is recognized when the shareholders' rights to receive the payment are established.

12.23.5. Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

12.23.6. Construction contracts

Construction contracts are commercial contracts related to the Company's principal operating activity which are specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, function, or their ultimate purpose or use. Majority of contracts are concluded at fixed prices and are accounted for using the percentage of completion method.

Total contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments.

Variations are included in contract revenue when it is probable that the customer will approve the variations and the amount of revenue arising from such variations, and the amount of revenue can be reliably measured. Contract revenue is measured at the fair value of the consideration received or receivable.

Total contract costs comprise costs that are attributable to a specific contract either directly or using reasonable allocation methods as well as other costs that are specifically chargeable to the customer under the terms of the contract.

The effects of changes in estimates of contract revenue or contract costs and the effects of changes in the estimate of the outcome of the contract are accounted for as a change in accounting estimate in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The changed estimates are used in the determination of the amount of revenue and expenses recognized in the income statement in the period in which the changes are made and in subsequent periods.

Revenue at the end of the reporting period is determined in proportion to the stage of completion of the contract, after deducting revenue that was recognized in profit or loss in prior reporting periods.

12.23.7. Government grants

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

When the grant relates to an expense item, income is recognized over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to profit or loss over the estimated useful life of the relevant asset.

12.24. Earnings per share

Earnings per share for each reporting period is calculated as quotient of the net profit for the given accounting period and the weighted average number of the Company's shares outstanding in the given accounting period. The Company does not present diluted earnings / loss per share, as there are no potential ordinary shares with dilutive effect.

(in PLN thousand)

13. Operating segments

The Company operates in a single market segment.

14. Seasonality and periodical nature of the Company's operations

Operations of the Company are not affected by seasonality or periodical fluctuations which might significantly influence the results of the Company.

15. Construction contracts

Construction contract revenue is recognized by reference to the stage of completion of the contract. The percentage of completion is determined as the relation of costs incurred to total estimated costs necessary to complete the contract.

The table below presents the effects of valuation of construction contracts, including revenues and costs of contracts being performed in the 12-month period ended 31 December 2011, as well as amounts due to the customers and amounts due from the customers for contract work at the dates stated above.

	31 December 2011	*31 December 2010 (restated)*
Contract costs incurred to date (cumulative)	3 332 150	2 915 999
Recognized profits less recognized losses to date (cumulative)	418 867	368 636
Contract revenue recognized by reference to the stage of completion of the contract activity (cumulative)	3 751 017	3 284 635
Progress billings (cumulative)	3 777 193	3 155 323
Gross amount due to customers for contract work (presented under liabilities), of which:	(248 519)	(229 935)
- advances received (liabilities arising from advances received)	(215 677)	(212 492)
- adjustment to advances received arising from amounts due from customers	139 840	119 310
- gross amount due to customers for contract work	(172 682)	(136 753)
Gross amount due from customers for contract work (presented as an asset)	78 519	205 506
Provision for penalties due to late performance of contracts or failure to meet guaranteed technical specifications	(50 072)	(53 419)
Provision for losses on contracts	(21 781)	(5 332)

The Company analyzes each contract for potential losses, which are immediately recognized as an expense in accordance with IAS 11.36. In the valuation of construction contracts, the Company includes, in accordance with IAS 11.11-15, estimated penalties arising from delays in the completion of contracts or failure to meet guaranteed technical specifications, as appropriate. Penalty estimates are made based on source documentation concerning delays in the completion of work or issues relating to guaranteed technical specifications, based on contractual assumptions and management's assessment of the risk that such penalties will be imposed. The level of the estimated risk depends, to a large extent, on external factors that are partly beyond the Company's control, and may change in the following periods. The completion of certain contracts for which a provision was recognized for penalties arising from late performance of contracts is exposed to the risk of a dispute before an arbitration court, which, in the Company's opinion, gives rise to a risk with unspecified consequences.

In the second half of December 2011, the Company's Management Board was informed of a claim in the form of a call for payment of contractual penalties raised by a member of the consortium performing a contract for the supply of a boiler and flue gas desulphurization installation for the 858 MW power unit in PGE Elektrownia Bełchatów S.A. A detailed description of the current status of the case and relevant disclosures are presented in Note 45.3.

(in PLN thousand)

16. Revenues and expenses

16.1. Revenue from sale of products and services

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010 (restated)*
Net revenue from sale of goods	1 058 618	1 096 169
- of which: from related parties	2 835	3 675
Net revenue from sale of services	35 333	10 107
- of which: from related parties	928	332
Gain /(loss) on realization of derivatives	(3 307)	(2 070)
Gain /(loss) on valuation of derivatives	(4 141)	8 468
Contractual penalties	(66 572)	(45 562)
Realized exchange differences on trade receivables	4 013	(4 528)
Exchange differences on valuation of trade receivables	3 214	(422)
Net revenue from sale of products, total	**1 027 158**	**1 062 162**
- of which: from related parties	3 763	4 007

16.2. Revenue from sale of materials

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010*
Revenue from sale of materials	2 934	3 173
- of which: from related parties	–	–
Net revenue from sale of goods and materials, total	**2 934**	**3 173**
- of which: from related parties	–	–

The main recipients of the Company's goods and services are especially foreign and domestic suppliers of power facilities as well as domestic and foreign professional and industrial power engineering.

Revenue from sales to related parties are presented in detail in Note 47.

Sales by type of market are presented in section 3.1 of the Director's report of RAFAKO S.A. for 2011.

16.3. Geographical structure of revenues

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010 (restated)*
Revenue from sales to domestic customers	675 173	791 243
- of which: from related parties	3 763	4 007
Revenue from sales to foreign customers	354 919	274 092
- of which: from related parties	–	–
Net revenue from sales of products, total	**1 030 092**	**1 065 335**
- of which: from related parties	3 763	4 007

(in PLN thousand)

16.4. Cost of sales

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010 (restated)*
Depreciation/amortization	10 558	9 972
Materials and energy consumption	433 239	475 824
External services	339 873	392 545
Taxes and charges	5 230	4 829
Wages and salaries	107 461	96 536
Social security and other benefits	26 753	24 312
Business trip expenses	6 401	8 426
Advertising expenses	3 176	2 944
Gain /(loss) on valuation of derivatives	(227)	70
Gain /(loss) on realization of derivatives	41	–
Realized exchange differences	1 280	2 170
Unrealized exchange differences	1 470	882
Other	2 130	4 514
Costs by type, total	**937 385**	**1 023 024**
Change in receivables, inventories, products, prepayments and accruals	157 019	(148 258)
Change in inventories relating to construction contracts recognized in manufacturing cost	(119 446)	135 189
Cost of goods produced for internal purposes	(2 841)	(7 234)
Selling and distribution expenses (negative value)	(50 997)	(47 118)
Administrative expenses (negative value)	(26 108)	(22 552)
Cost of products sold	**895 012**	**933 051**
Cost of materials sold	2 063	4 480
Costs of sales	**897 075**	**937 531**

16.5. Depreciation of property, plant and equipment and amortization of intangible assets, impairment losses recognized in the income statement

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010*
Items included in cost of sales (cost of goods for resale and products sold)	9 454	8 717
Depreciation of property, plant and equipment	8 357	7 800
Amortization of intangible assets	1 097	917
Impairment of property, plant and equipment	–	–
Items recognized in selling and distribution expenses:	430	530
Depreciation of property, plant and equipment	263	350
Amortization of intangible assets	167	180
Items recognized in administrative expenses:	674	725
Depreciation of property, plant and equipment	612	606
Amortization of intangible assets	62	119

(in PLN thousand)

16.6. Employee benefits expenses

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010*
Wages and salaries, of which:	107 461	96 536
- current wages and salaries expense	104 592	95 321
- other benefits, including post-employment benefits	2 869	1 215
Social security costs	26 753	24 312
	134 214	**120 848**

16.7. Other operating income

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010 (restated)*
Revenue from contractual penalties	4 992	3 231
Gain on sale of property, plant and equipment	286	77
Grants	430	162
Compensations received	1 213	142
Revenue from sale of CO_2 emission rights	68	–
Gain on sale of receivables	2 000	–
Exchange differences on investing activities	–	45
Reimbursement of the cost of training of juvenile workers	852	170
Income from recovered debts previously written-down	523	–
Other	577	1 282
	10 941	**5 109**

16.8. Other operating expenses

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010 (restated)*
Donations	1 310	338
Contractual penalties	–	298
Costs of scrap materials	296	141
Legal costs	–	24
Recognition of a provision for amounts due to the state budget	3 412	–
Impairment of property, plant and equipment	72	51
"Power Engineer's Day" organization cost	296	219
Exchange differences on investing activities	9	–
Other	1 391	931
	6 786	**2 002**

(in PLN thousand)

16.9. Finance income

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010*
Interest on financial instruments	10 416	4 822
Other interest	30	8
Gains from valuation of financial instruments	885	1 138
Gain on sale of financial instruments	–	584
Net foreign exchange gains	4 315	–
Discount of long-term settlements	988	–
Dividends	11	–
Other finance income	316	974
	16 961	**7 526**

16.10. Finance costs

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010*
Net foreign exchange losses	–	1 346
Interest on financial instruments	88	530
Other interest	22	–
Acquisition costs	1 733	6 761
Discount of long-term settlements	–	50
Costs of shares redemption	–	627
Settlements under financial guarantees	1 160	2 159
Other finance costs	351	329
	3 354	**11 802**

Details of finance income and finance costs related to financial instruments are presented in Note **Error! Reference source not found.**.

16.11. Other comprehensive income

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010*
Exchange differences on translation of foreign entities	204	(273)
	204	**(273)**

(in PLN thousand)

17. Income tax

17.1. Tax expense

Main components of income tax expense for the 12-month period ended 31 December 2011 are as follows:

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010 (restated)*
Income statement		
Current income tax	(24 117)	(23 265)
Current income tax expense	(24 117)	(23 265)
Adjustments to current income tax from previous years	–	–
Deferred tax	5 288	10 891
Related to recognition and reversal of temporary differences	5 288	11 925
Adjustments to deferred tax from previous years	–	(1 034)
Income tax expense in the income statement	**(18 829)**	**(12 374)**

17.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the 12-month period ended 31 December 2011 is as follows:

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010 (restated)*
Profit before tax from continued operations	73 675	56 965
Profit before tax from discontinued operations	–	–
Profit before taxation	73 675	56 965
	73 675	**56 965**
Tax at Poland's statutory tax rate of 19%	13 998	10 823
Tax non-deductible costs (permanent differences), of which:	5 921	1 964
due to recognition of provision for contractual penalties	3 804	513
due to the write-off of receivables, classified as non-tax / non-deductible (?)	824	9
due to donations given	249	64
due to representation costs	119	96
due to recognition of non-deductible provisions/accruals for costs	340	411
due to manufacturing costs relating to the foreign branch	11	340
other	574	374
Income not included in taxable profit (permanent differences)	(848)	(567)
Other	(242)	154
Tax at the effective tax rate of 25.52%	**18 829**	**12 374**
Income tax (expense) in the income statement	18 829	12 374
Income tax attributable to discontinued operations	–	–
	18 829	**12 374**

(in PLN thousand)

17.3. 15.3. Deferred income tax calculated as at 31 December 2011

Deferred income tax calculated as at 31 December 2011 and as at 31 December 2010 relates to the following:

	Statement of financial position		*Statement of comprehensive income for the period ended*	
	31 December 2011	*31 December 2010 (restated)*	*31 December 2011*	*31 December 2010 (restated)*
- investment tax credits	(6)	(6)	–	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(11 187)	(10 241)	(946)	(804)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	(146)	(399)	253	(217)
- difference between tax base and carrying amount of loans and receivables	9 898	9 264	634	4 658
- different timing of recognition of revenue from sale of products and services for tax purposes	(9 436)	(37 543)	28 107	(27 508)
- difference between tax base and carrying amount of inventories	1 154	1 150	4	(257)
- provisions	19 198	19 368	(170)	8 637
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	1 072	329	743	(1 595)
- difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	310	851	(541)	851
- different timing of recognition of cost of sales for tax purposes	37 872	59 650	(21 778)	25 686
- other	(456)	562	(1 018)	1 439
Deferred tax expense			**5 288**	**10 891**
Net deferred tax asset / liability, of which:	**48 273**	**42 985**		
Deferred tax asset	48 273	42 985		
Deferred tax liability	–	–		

The Company did not record a tax loss in the reporting period that will be utilized in future reporting periods.

18. Discontinued operations

In the 12-month periods ended 31 December 2011 the Company did not discontinue any operations.

19. Proposed appropriation of profit for the year 2011

The Company's Management Board recommends allocating the profit for 2011 of PLN 54,844,635.03 to the reserve capital.

20. Earnings per share

Earnings per share is calculated as quotient of the net profit for the given accounting period attributable to ordinary shareholders and the weighted average number of ordinary shares of the Company outstanding in that period.

(in PLN thousand)

Presented below is the data concerning profit and shares, which was used in the calculation of earnings per share:

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010 (restated)*
Net profit from continued operations	54 845	44 591
Profit from discontinued operations	–	–
Net profit	54 845	44 591
Net profit attributable to ordinary shareholders, used to compute earnings per share	54 845	44 591
Weighted average number of ordinary shares, used to calculate basic earnings per share	69 600 000	69 600 000
Effect of dilution:	–	–
Stock option	–	–
Redeemable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	69 600 000	69 600 000
Earnings /(loss) per share		
– basic, from profit for the period	0,79	0,64

21. Reconciliation of cash flow statement to changes in statement of financial position

	31 December 2011
Balance sheet change in receivables	(37 537)
Settlement of a loan granted to a subsidiary	30
Receivable due to the redemption of shares in a subsidiary	(6 003)
Change in receivables presented in the cash flow statement	**(43 510)**

(in PLN thousand)

22. Social assets and Social Fund liabilities

The Social Fund Act dated 4 March 1994 (with subsequent amendments) requires enterprises with more than 20 employees (counted on an FTE basis) to establish and run a Social Fund. The Company operates such a Fund and makes periodic transfers to the Fund at the amount of minimum required contribution and contribution for pensioners. The Fund's purpose is to subsidize the Company's social activities, grant loans to its employees and to incur other social expenses.

	31 December 2011	*31 December 2010*
Social Fund assets	3 627	1 226
Cash of the Social Fund	3 300	946
Loans granted to employees	327	280
Social Fund liability	(1 971)	(1 214)
Net balance	**1 656**	**12**

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010*
Transfers made to the Social Fund during the reporting period	4 320	4 027
	4 320	**4 027**

(in PLN thousand)

23. Property, plant and equipment

31 December 2011	*Land*	*Buildings*	*Plant and equipment*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Net carrying amount as at 1 January 2011	**9 169**	**68 517**	**44 413**	**3 040**	–	**3 355**	**128 494**
Purchase	–	–	–	–	–	14 554	14 554
Liquidation / sale	–	(110)	(177)	–	–	–	(287)
Transfers from assets under construction	–	3 716	5 984	1 125	–	(10 825)	–
Exchange differences on translation of foreign entities	–		(2)	–	–	–	(2)
Depreciation charge for the period	–	(2 617)	(6 157)	(458)	–	–	(9 232)
Impairment of property plant and equipment for the period	–	35	–	(107)	–	–	(72)
Other, including reclassification of fixed assets to/from held for sale	–	–	140	(28)	–	–	112
Net carrying amount as at 31 December 2011	**9 169**	**69 541**	**44 201**	**3 572**	–	**7 084**	**133 567**
As at 1 January 2011							
Cost	9 169	81 327	82 877	5 277	2 793	3 355	184 798
Accumulated depreciation and impairment loss	–	(12 810)	(38 464)	(2 237)	(2 793)		(56 304)
Net carrying amount	**9 169**	**68 517**	**44 413**	**3 040**	–	**3 355**	**128 494**
As at 31 December 2011							
Cost	9 169	84 951	88 010	6 160	2 721	7 084	198 095
Accumulated depreciation and impairment loss	–	(15 410)	(43 809)	(2 588)	(2 721)		(64 528)
Net carrying amount	**9 169**	**69 541**	**44 201**	**3 572**	–	**7 084**	**133 567**

(in PLN thousand)

31 December 2010	*Land*	*Buildings*	*Plant and equipment*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Net carrying amount as at 1 January 2010	**9 040**	**69 185**	**44 624**	**2 285**	–	**4 311**	**129 445**
Purchase	–	–	–	–	–	8 120	8 120
Liquidation / sale	(4)	(40)	(193)	(28)		–	(264)
Transfers from assets under construction	133	1 356	6 442	1 145	–	(9 076)	–
Exchange differences on translation of foreign entities	–	–	–	–	–	–	–
Depreciation charge for the period	–	(1 948)	(6 446)	(362)	–	–	(8 756)
Impairment of property plant and equipment for the period	–	(36)	(14)	–	–	–	(51)
Other, including reclassification of fixed assets to/from held for sale	–	–	–	–	–	–	–
Net carrying amount as at 31 December 2010	**9 169**	**68 517**	**44 413**	**3 040**	–	**3 355**	**128 494**
As at 1 January 2010							
Cost	9 040	80 075	77 428	4 635	2 822	4 311	178 311
Accumulated depreciation and impairment loss	–	(10 890)	(32 804)	(2 350)	(2 822)	–	(48 866)
Net carrying amount	**9 040**	**69 185**	**44 624**	**2 285**	–	**4 311**	**129 445**
As at 31 December 2010							
Cost	9 169	81 327	82 877	5 277	2 793	3 355	184 800
Accumulated depreciation and impairment loss	–	(12 811)	(38 464)	(2 237)	(2 793)	–	(56 306)
Net carrying amount	**9 169**	**68 516**	**44 413**	**3 040**	–	**3 355**	**128 494**

(in PLN thousand)

Description of fixed assets pledged as security

As at 31 December 2011 and as at 31 December 2010, none of the fixed assets owned by the Company and classified as property, plant and equipment was pledged to secure the Company's liabilities.

24. Leased assets

As at 31 December 2011, the Company held and made use of a motor vehicle under a finance lease agreement with a total gross value of PLN 309 thousand as at the date of purchase of the leased asset.

The useful life of this asset is consistent with the terms of the lease agreement and is 36 months. The Company charges depreciation on this asset using the straight-line method.

As at 31 December 2010, the Company neither held nor used any fixed assets under finance lease agreements.

25. Non-current assets held for sale

As at 31 December 2011, the Company separated fixed assets with a value of PLN 37 thousand (as at 31 December 2010: PLN 150 thousand) and classified them as held for sale.

	31 December 2011	*31 December 2010*
Non-current assets held for sale, of which:		
Land	–	–
Buildings and structures	–	–
Plant and equipment	9	150
Motor vehicles	28	–
	37	**150**

26. Investment properties

As at 31 December 2011 and 31 December 2010, the Company held no investment properties.

27. Intangible assets

31 December 2011	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Total*
Net carrying amount as at 1 January 2011	**376**	**8 089**	–	**8 465**
Increases	–	2 255	–	2 255
Decreases	–	–	–	–
Impairment loss	–	–	–	–
Amortization charge for the period	–	(1 327)	–	(1 327)
Exchange differences on translation of foreign entities	–	–	–	–
As at 31 December 2011	**376**	**9 017**	–	**9 393**
As at 1 January 2011				
Cost	376	16 411	108	16 895
Accumulated amortization and impairment loss	–	(8 322)	(108)	(8 430)
Net carrying amount	**376**	**8 089**	–	**8 465**
As at 31 December 2011				
Cost	376	18 665	108	19 149
Accumulated amortization and impairment loss	–	(9 648)	(108)	(9 756)
Net carrying amount	**376**	**9 017**	–	**9 393**

(in PLN thousand)

31 December 2010	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Total*
Net carrying amount as at 1 January 2010	**376**	**6 207**	–	**6 583**
Increases	–	3 257	–	3 257
Decreases	–	(159)	–	(159)
Impairment loss	–	–	–	–
Amortization charge for the period	–	(1 216)	–	(1 216)
Exchange differences on translation of foreign entities	–	–	–	
As at 31 December 2010	**376**	**8 089**	–	**8 465**
As at 1 January 2010				
Cost	376	13 657	108	14 141
Accumulated amortization and impairment loss	–	(7 450)	(108)	(7 558)
Net carrying amount	**376**	**6 207**	–	**6 583**
As at 31 December 2010				
Cost	376	16 411	108	16 895
Accumulated amortization and impairment loss	–	(8 322)	(108)	(8 430)
Net carrying amount	**376**	**8 089**	–	**8 465**

Intangible assets include patents, licenses and software. Major items include:

- license for supercritical boilers of the BENSON type, the carrying amount of which amounts to PLN 2,346 thousand as at 31 December 2011 (as at 31 December 2010: PLN 2,682 thousand); the remaining period of amortization of licenses from 31 December 2011 is 7 years;
- license for waste-heat boilers, the carrying amount of which is PLN 128 thousand as at 31 December 2011 (as at 31 December 2010: PLN 257 thousand); the remaining period of amortization of licenses from 31 December 2011 is 1 year.

Description of intangible assets pledged as security

No intangible assets were pledged to secure the Company's liabilities as at 31 December 2011 or 31 December 2010.

Intangible assets held for sale

There were no intangible assets held for sale as at 31 December 2011 or 31 December 2010.

Goodwill

In the periods covered by the financial statements, the Company recognized goodwill of PLN 376 thousand, which arose as a result of accounting for the Company's acquisition of an organized part of the enterprise of Wyrskie Zakłady Urządzeń Przemysłowych "NOMA INDUSTRY" Sp. z o.o. in bankruptcy in 2007.

Amortization of patents and licenses

In the 12-month periods ended 31 December 2011 and 31 December 2010, patents and licenses were amortized on a systematic basis over their useful lives of 5 to 10 years.

Development expenses

The Company did not incur any development expenses in the 12-month periods ended 31 December 2011 or 31 December 2010.

(in PLN thousand)

Business combinations

The Company did not merge with other business entities in the 12-month periods ended 31 December 2011 or 31 December 2010.

28. Interest in joint venture

The Company did not take part in any joint ventures with other business entities in the 12-month periods ended 31 December 2011 or 31 December 2010.

29. Shares in other entities

	31 December 2011	*31 December 2010*
Shares in subsidiaries listed on the stock exchange	160 712	–
Shares in subsidiaries not listed on the stock exchange	42 504	41 915
Shares in other companies listed on the stock exchange	491	491
Shares in other companies not listed on the stock exchange	19	25
	203 726	**42 431**

None of the Company's shares in subsidiaries were pledged to secure the Company's liabilities as at 31 December 2011 or 31 December 2010.

On 20 December 2011, RAFAKO S.A. entered into an agreement ("Agreement") with PBG S.A. based in Wysogotowo ("higher level parent") under which it acquired shares in ENERGOMONTAŻ - POŁUDNIE Spółka Akcyjna ("EP") based in Katowice, ul. Mickiewicza 15. Under this agreement, RAFAKO S.A. purchased 46,021,520 EP's ordinary bearer shares with a nominal value of PLN 1 per share and a total nominal value of PLN 46,021,520, representing 64.84% of the share capital and 64.84% of the total number of votes at the General Meeting, i.e. giving right to exercise 46,021,520 votes per share. Under this agreement, PBG S.A. sold the shares held for an amount of PLN 160,154,889.60, i.e. PLN 3.48 per 1 share.

As a result of the analysis performed, taking into account the probability of realization of additional payments and claims of RAFAKO S.A., the Company's Management Board determined the purchase price at PLN 160,154,889.60, plus transaction costs of PLN 557,363.40.

On 28 February 2012, the Company and PBG S.A. signed an annex to the agreement dated 20 December 2011, the contents of which were published in the current report.

As a result of the above-mentioned transactions, ENERGOMONTAŻ – POŁUDNIE S.A. became a subsidiary of the RAFAKO Capital Group.

ENERGOMONTAŻ – POŁUDNIE S.A. is a party to transactions relating to suretyships granted with respect to the financial liabilities of PBG S.A. and its subsidiaries (including debentures issued by PBG S.A, maturing in the period from September 2012 to April 2014; liabilities under the loan granted to PBG S.A. Group companies by Bank Gospodarki Żywnościowej S.A.). The Management Board of PBG S.A. is currently taking steps to ensure external sources of funding for the PBG S.A. Group companies' operations by acquiring additional funding, reduction of the present debt and reorganization of the PBG S.A. Group.

The risk of realization of suretyships, the related risk of continuation of the operations of ENERGOMONTAŻ – POŁUDNIE S.A. and – consequently – the risk of realization of an asset in the form of an investment of ENERGOMONTAŻ – POŁUDNIE S.A. depends on the success of the activities undertaken by the Management Board of the higher level parent.

(in PLN thousand)

30. Other long-term financial assets

	31 December 2011	*31 December 2010*
Loans granted	472	481
Long-term deposits, of which:	–	–
- pledged as security for bank guarantees granted to the Company	–	–
Long-term trade receivables	–	–
Long-term tax receivables	–	–
Other long-term assets	–	–
	472	**481**

31. Inventories

	31 December 2011	*31 December 2010*
Materials (at cost)	26 882	26 121
Cost	32 957	32 172
Net realizable value	26 882	26 121
Products:	–	–
Cost	–	–
Net realizable value	–	–
Total inventories, at the lower of cost and net realizable value	**26 882**	**26 121**
- of which: pledged as security for liabilities	–	–

Write-downs against inventories

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010*
Opening balance	(6 051)	(7 404)
- recognition of write-downs	(301)	–
- reversal of write-downs	277	1 353
Closing balance	**(6 075)**	**(6 051)**

(in PLN thousand)

32. Trade and other receivables and prepayments

	31 December 2011	*31 December 2010 (restated)*
Trade receivables, of which:	183 781	209 831
- from related parties	262	641
- from other entities	183 519	209 190
Income tax receivables	–	–
Other receivables and prepayments, of which:	119 059	49 472
Receivables from granted advances	29 862	39 036
Receivables from the state budget	5 656	8 786
Property insurance	690	618
Social Fund settlements	1 656	12
Disputed claims	77 065	–
Prepaid expenses	1 473	875
Deposits	1 587	60
Other	1 070	85
Other receivables from related parties	30	6 030
Total receivables (net)	**302 870**	**265 333**
Doubtful debts allowance	64 170	62 738
Receivables (gross)	**367 040**	**328 071**

Trade receivables are non-interest bearing and are usually receivable within 30 days. However, payment terms for certain contractors are set based on individual agreements and are between 1 and 3 months. As at 31 December 2011, the Company had no receivables with longer payment terms, relating to guarantee installments on long-term contracts.

The Company's policy is to make sales only to customers who have undergone an appropriate credit verification procedure. As a result, Management believes there is no additional credit risk that would exceed the doubtful debts allowance recognized for trade receivables of Company.

Trade payables with the carrying amount of PLN 159,000 thousand were pledged as security for guarantees granted and loans taken out as at 31 December 2011 (31 December 2010: PLN 95,461 thousand).

32.1. Allowances for doubtful debts

	31 December 2011	*31 December 2010*
Opening balance, of which:	(62 738)	(38 204)
- receivables from related parties	(21 639)	(21 692)
Recognition of allowances for trade receivables	(44 412)	(29 781)
Recognition of allowances for other receivables	(1 836)	(1 186)
Reversal of allowances for trade receivables, of which:	44 680	6 433
- receivables from related parties	21 639	53
Utilization of allowances for trade receivables	136	–
Closing balance	**(64 170)**	**(62 738)**
- receivables from related parties	–	(21 639)

(in PLN thousand)

Presented below is an ageing analysis of short-term trade and other receivables which were past due as at 31 December 2011 and 31 December 2010, but were not considered to be irrecoverable and for which no allowances were therefore recognized.

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
31 December 2011	262 463	225 543	4 585	26 419	5 390	526	–

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
31 December 2010	215 921	196 141	14 777	4 548	324	131	

33. Loans and borrowings

	31 December 2011	*31 December 2010*
Short-term loans granted, of which:	133	–
- loan granted to subsidiary	133	–
	133	**–**

34. Short-term financial assets

34.1. Derivatives

	31 December 2011	*31 December 2010*
Forward contracts	343	2 357
Currency options	–	–
	343	**2 357**

As at 31 December 2011, the Company had outstanding forward currency transactions with positive fair value. These were transactions for the sale of EUR and SEK in the following amounts: EUR 3,900 thousand and SEK 3,640 thousand. The value of these transactions determined by the banks was PLN 343 thousand.

Forward currency transactions were entered into due to commercial contracts denominated in EUR and SEK, based on market terms that did not differ from those generally used for financial transactions of such type.

The Company does not apply hedge accounting; however, the transactions entered into by the Company are not of a speculative nature and are designed to hedge purchase or sale transactions denominated in a foreign currency. As a result, the Company recognizes the effect of the measurement/realization of such instruments in a similar manner to exchange differences, i.e. under operating activities (as revenue or expense).

(in PLN thousand)

34.2. Short-term investments

	31 December 2011	*31 December 2010*
Investment fund units in Allianz Pieniężny Fundusz Inwestycyjny Otwarty	10 199	22 009
Investment fund units in KBC Gamma Specjalistyczny Fundusz Inwestycyjny Otwarty	5 570	5 295
	15 769	**27 304**

The Company classifies investment fund units as assets at fair value through profit or loss.

34.3. Short-term deposits

	31 December 2011	*31 December 2010*
Short-term deposits, of which:	7 211	1 040
- representing security for payment under a letter of credit*	7 211	–
	7 211	**1 040**

* collateral held until the date of payment

Short-term deposits are the Company's cash deposited with banks for varying periods, from three months to one year. The Company classifies deposits as long-term or short-term assets according to maturity.

34.4. Cash and cash equivalents

	31 December 2011	*31 December 2010*
Cash on hand and at bank	42 313	15 120
Short-term deposits up to 3 months, of which:	131 088	141 126
- deposits representing security for contingent liabilities	–	–
	173 401	**156 246**

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits, classified as cash and cash equivalents, are made for varying periods, usually between one day and one month, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

35. Equity

35.1. Issued share capital

In the 12-month period ended 31 December 2011 the Company's share capital did not change. It amounted to PLN 139,200,000 and was divided into 69,600,000 ordinary shares with a nominal value of PLN 2.00 each, of the following classes:

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

35.2. Nominal value of shares

All issued shares have a nominal value of PLN 2.00 and were acquired against cash contribution.

35.3. Shareholders' rights

Shares of all classes are equally preferred with respect to dividend and return on equity.

35.4. Share premium reserve

Share premium reserve was created using the excess of issue price over nominal value, amounting to PLN 77,947 thousand. On 15 May 2000, the General Meeting of RAFAKO S.A. resolved to allocate PLN 41,169 thousand for the absorption of accumulated losses from previous years. In the 12-month periods ended 31 December 2011 and 31 December 2010, there were no events resulting in a movement in the share premium reserve, which amounted to PLN 36,778 thousand as at 31 December 2011 (31 December 2010: PLN 36,778 thousand).

35.5. Reserve capital

Reserve capital was created out of statutory transfers from profits generated in previous financial years as well as out of the excess of profit appropriations over statutory transfers in the Company.

35.6. Exchange differences on translation of foreign entities

The balance of translation reserve is adjusted for the exchange differences resulting from translation of the financial statements of a foreign branch of the Company.

35.7. Retained earnings and dividends paid

As at 31 December 2011, as a result of recognition of a net profit for the 12-month period ended 31 December 2011 amounting to PLN 54,845 thousand, transfer of profits from previous years of PLN 512 thousand to reserve capital and payment of a dividend of PLN 39,672 thousand, the Company's retained earnings amounted to PLN 55,191 thousand.

The Ordinary General Meeting of the Company held on 31 May 2011 passed resolution No. 19 on the payment of a dividend to the Company's Shareholders in the amount of PLN 39,672,000 (PLN 0.57 per share). The right to the dividend was determined based on the shareholding structure of RAFAKO S.A. as at 21 June 2011 (dividend date), whereas the dividend payment date was set at 12 July 2011. The Company paid the dividend due from the profit for 2010 within the deadline determined by the General Meeting resolution.

(in PLN thousand)

35.8. Capital management

The purpose of capital management by the Company is to ensure a high level of security for operating activities while minimizing costs of acquiring funding. In order to ensure a stable development of the Company it is necessary to maintain an appropriate relationship between the Company's own capital and external funding and an effective management of surplus funds. The Company analyzes the structure of capital using the capitalization ratio (the share of own capital in total funding).

	31 December 2011	*31 December 2010*
Share of debt in equity		
Equity	390 453	375 076
Total assets	1 026 394	906 913
Capitalization ratio	**0.38**	**0.41**

36. Shareholders holding at least 5% of the total number of votes at the General Meeting of RAFAKO S.A.

Name of entity	*Number of shares*	*Number of votes resulting from the shares held*	*% share in share capital*	*% share in the total vote at AGM*
BZ WBK Asset Management S.A. (customers)[1]	8 733 492	8 733 492	12.55%	12.55%
of which:				
Arka BZ WBK FIO, Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIZ, Arka Prestiż Specjalistycznego FIO, Credit Agricole FIO, represented by BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., managed by BZ WBK Asset Management S.A.[2]	6 688 938	6 688 938	9.61%	9.61%
of which:				
Arka BZ WBK FIO, represented by BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., managed by BZ WBK Asset Management S.A.[3]	no more than 6 688 938	no more than 6 688 938	no more than 9.61%	no more than 9.61%
PBG S.A.[4], of which	45 936 000	45 936 000	66.00%	66.00%
directly	11 135 999	11 135 999	16.00%	16.00%
indirectly through Multaros Trading Company Limited [5] (subsidiary of PBG S.A.)	34 800 001	34 800 001	50% + 1akcja	50% + 1akcja

1 – quantity of shares under the notice of 8 February 2012
2 – quantity of shares under the notice of 24 January 2012
3 – quantity of shares under the notice of 19 October 2011
4 – quantity of shares under the notice of 20 January 2012
5 – quantity of shares under the notice of 15 November 2011

The Management Board of RAFAKO S.A. was notified of the fact that, based on the Extraordinary Resolution of the Shareholders' Meeting of Multaros Trading Company Limited based in Nicosia, entered in the Companies Register of Cyprus under number HE 286529 (address: Kostaki Pantelidi 1, 1010 Nicosia, Cyprus), passed on 25 October 2011, 34,800,001 of RAFAKO S.A.'s shares were transferred as a contribution in kind to the Multaros company. Before the transfer of shares, ELEKTRIM S.A. held 34,800,001 shares in RAFAKO S.A., which accounted for 50.000001436% of its share capital. The shares gave right to 34,800,001 votes at the Company's general meeting, which accounted for 50.000001436% of the total vote at the general meeting of RAFAKO S.A.

(in PLN thousand)

On 8 November 2011, the Management Board of RAFAKO S.A. received a notification from Argumenol Investment Company Limited based in Nicosia (hereinafter "Argumenol"), entered in the Companies Register of Cyprus under number HE 286549 (address: Kostaki Pantelidi 1, 1010 Nicosia, Cyprus), stating that, based on the Extraordinary Resolution of the Shareholders' Meeting of Argumenol dated 31 October 2011, Argumenol indirectly acquired 34,800,001 shares in RAFAKO S.A. The indirect acquisition of shares occurred by way of acquiring the status of parent in relation to Multaros, which is a holder of RAFAKO S.A.'s shares accounting for 50.000001436% of its share capital. The shares give right to 34,800,001 votes at the Company's general meeting, which accounts for 50.000001436% of the total vote at the general meeting of RAFAKO S.A. The acquisition of the status of parent occurred as a result of an in-kind contribution of all shares in Multaros to Argumenol by ELEKTRIM S.A.

On 22 November 2011, the Management Board of RAFAKO S.A. received a notification from Argumenol Investment Company Limited based in Nicosia, entered in the Companies Register of Cyprus under number HE 286549 ("Argumenol"), stating that, based on the agreement for sale of shares in Multaros Trading Company Limited, signed on 14 November 2011 between Argumenol (a subsidiary of Elektrim S.A.) and PBG S.A. based in Wysogotowo, Argumenol indirectly disposed of 34,800,001 (thirty four million, eight hundred thousand and one) ordinary bearer shares in RAFAKO S.A., which accounted for 50% and one share of its share capital. Those shares gave right to 34,800,001 votes at the Company's General Meeting, which accounted for 50% and one share of the total vote at the General Meeting of RAFAKO S.A.

37. Interest-bearing loans and borrowings

In the 12-month period ended 31 December 2011 and in the comparative reporting period, the Company did not report any bank loan liabilities.

38. Employee benefit liabilities

38.1. Post-employment benefits and other employee benefits

Based on a forecast made at the end of the period by a professional actuarial company, the Company recognizes a provision for the present value of the liability arising from retirement benefits, jubilee bonuses and Social Fund. The table below summarizes the amounts of the provision and movements in its balance over the period:

	31 December 2011	*31 December 2010*
As at 1 January	20 389	20 969
Interest expense	1 121	1 153
Current service costs	886	948
Actuarial (gains)/losses	862	(886)
Costs of benefits paid	(1 912)	(1 795)
End of period	**21 346**	**20 389**
Long-term provisions	19 922	19 083
Short-term provisions	1 424	1 306

The main assumptions adopted by the actuary as at and for the 12-month period ended 31 December 2011 and for the 12-month period ended 31 December 2010 in determining the amount of the liability are as follows:

	31 December 2011	*31 December 2010*
Discount rate (%)	5.5	5.5
Anticipated inflation index (%)*	–	–
Staff turnover rate *	5	5
Anticipated salary increase rate (%)	5	5

* Data not available in actuary's report

(in PLN thousand)

39. Trade and other payables

39.1. 36.1. Trade and other long-term payables

	31 December 2011	*31 December 2010 (restated)*
Trade and other payables		
Trade payables, of which:	**15 812**	**14 024**
- to related parties	–	–
- to other entities	15 812	14 024
Capital commitments	48	–
Other payables, of which:	857	1 189
Bonuses	857	1 189
	16 717	**15 213**

39.2. Accruals, trade and other payables – short-term

	31 December 2011	*31 December 2010 (restated)*
Trade payables, of which:		
- to related parties	1 417	550
- to other entities	170 700	160 522
	172 117	**161 072**
Capital commitments	4 093	2 463
	4 093	**2 463**

(in PLN thousand)

	31 December 2011	*31 December 2010 (restated)*
Other liabilities		
Value Added Tax	–	–
Personal Income Tax	1 779	1 494
Social security liabilities	6 189	5 585
Payables to the Tax Office	–	486
Other taxation, customs duty and social security liabilities	56	12
Payroll	5 434	4 942
Accruals for unused leave	1 996	1 834
Accruals for bonuses	10 804	8 603
Accruals for warranty repairs	9 257	8 595
Financial guarantee and suretyship liabilities	800	2 144
Accrual for costs of uninvoiced materials and services	4 826	–
Accruals for state budget liabilities	4 027	–
Accrual for audit fees	207	70
Other	2 597	1 540
	47 972	**35 305**
Other financial liabilities and finance lease liabilities		
Derivatives' valuation	5 986	4 087
Finance lease liabilities	93	–
Loan interest liabilities	–	–
	6 079	**4 087**

39.3. Derivative instrument liabilities

As at 31 December 2011, the Company had open forward currency transactions with a negative fair value. These are transactions for sale of EUR in the amount of EUR 14,315,000. The value of these transactions determined by the banks at the balance sheet date is PLN 5,986 thousand.

39.4. Capital commitments

As at 31 December 2011, the Company reported capital commitments of PLN 4,093 thousand. In addition, the Company had signed agreements for planned capital expenditures of PLN 3,037 thousand that were not recorded in the books of account at the end of the reporting period. These agreements mainly concerned investments in the Company's buildings and structures as well as its production plant and equipment.

(in PLN thousand)

39.5. Accrual for unused leave

An accrual for unused leave is calculated on a monthly basis based on the actual number of days of unused leave at the end of each month. 1/12th of the leave due for the whole year, increased by all unused days of the leave due for prior periods, is allocated to each individual month in the financial year. The number of days thus calculated is then multiplied by the average daily rate for the given employee, determined based on his or her salary for the month for which an accrual is made, increased by the Social Security (ZUS) surcharges.

	31 December 2011	*31 December 2010*
Opening balance	1 834	961
Recognition of the accrual	1 783	1 857
Costs of benefits paid	(1 621)	(984)
Reversal of the accrual	–	–
Closing balance	**1 996**	**1 834**
Current as at	1 996	1 834
Non-current as at	–	–
	1 996	**1 834**

39.6. Accrual for bonuses

The Company pays annual bonuses to its employees, the amount of which depends on the company's operating profit. In accordance with the provisions of the Collective Bargaining Agreement (CBA), within 30 days of the date of approval of the annual financial statements of the Company, the Management Board, having consulted Trade Unions, takes a decision regarding the payment of discretionary bonuses to the Company's employees. During the financial year the Company recognized an accrual for annual bonuses at the amount specified in the CBA, unless the Management Board of the Company decides not to recognize such an accrual. The Company additionally recognizes an accrual for bonuses to project managers, which are paid after the completion of a contract.

	31 December 2011	*31 December 2010*
Opening balance	9 792	8 280
Recognition of the accrual	15 913	9 045
Costs of benefits paid	(10 932)	(5 903)
Reversal of the accrual	(3 112)	(1 630)
Closing balance	**11 661**	**9 792**
Current as at	10 804	8 603
Non-current as at	857	1 189
	11 661	**9 792**

(in PLN thousand)

39.7. Accruals for warranty repairs

Accruals for warranty repairs are recognized as a result of estimating the expected and measurable costs of oversight, repairs and warranty works related to contractual liabilities of the Company, arising from the completion of a construction contract.

	31 December 2011	*31 December 2010*
Opening balance	8 595	13 229
Recognition of the accrual	13 641	8 518
Costs of warranty repairs incurred	(12 979)	(13 152)
Reversal of the accrual	–	–
Closing balance	**9 257**	**8 595**
Current as at	9 257	8 595
Non-current as at	–	–
	9 257	**8 595**

39.8. Accrual for costs of granted bank guarantees and suretyships

The Company recognized an accrual for the expected costs arising from a suretyship granted in respect of bank guarantees issued by ING Bank Śląski S.A. at the request of Fabryka Elektrofiltrów ELWO S.A. in bankruptcy. The Bank's claim against RAFAKO S.A. arises from the Loan Agreement dated 25 June 2008, as communicated by the Company in its previous reports. In 2011, the parent reversed part of the accrual and, at the same time, recognized an allowance for the receivable under dispute discussed in detail in Note 45.1.

	31 December 2011	*31 December 2010*
Opening balance	2 144	–
Recognition of the accrual	82	2 144
Costs incurred	–	–
Reversal of the accrual*	(1 426)	–
Closing balance	**800**	**2 144**
Current as at	800	2 144
Non-current as at	–	–
	800	**2 144**

* amount included in finance costs after offsetting with the allowance amount

(in PLN thousand)

39.9. Income tax payable

	31 December 2011	*31 December 2010*
Corporate income tax	21 026	4 593
	21 026	**4 593**

Tax settlements and other areas of activity that are subject to legal compliance (e.g. customs or foreign exchange issues) may be examined by administrative authorities which are entitled to inflict high penalties and sanctions. Lack of reference to well established legal regulations in Poland results in ambiguity and inconsistency in the existing laws. Frequent contradictions in legal interpretations of tax law both within government bodies and between government bodies and enterprises give rise to uncertainties and conflicts. These facts create tax risks in Poland that are significantly higher than those typically found in countries with more developed fiscal systems.

Tax settlements may be examined by tax authorities within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Company may be subject to additional tax liabilities, which may arise as a result of tax audits.

In the 12-month period ended 31 December 2011, no tax audit was held in the Company.

40. Grants

Grants recorded in the financial statements as at 31 September 2011 amounted to PLN 245 thousand. Grants received by the Company related to:

- prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which that company granted financial support for the design, supply and installation of natural gas detection and signaling systems for two gas furnaces in RAFAKO S.A.; the grant has been made in cash,
- research project under the name ”Development of technologies for high performance “zero emission” coal-fired units integrated with CO_2 capture from exhaust gas”, carried out under the strategic scientific research and development program of the National Center for Research and Development in Warsaw called “Advanced power generation technologies”; the grant has been made in cash,
- research and development project under the name “Innovative after-treatment system for marine diesel engine emission control”, carried out by an international consortium coordinated by Brunel University; the grant has been made in cash,
- research and development project under the name “Materials for high performance “zero emission” units fired with fossil fuel”, conducted in cooperation with AGH University of Science and Technology in Cracow, Chair of Physical and Powder Metallurgy; the grant has been made in cash,
- research and development project under the name “Development of design guidelines for the SCR technology with a view to: reduction of the SO_2 to SO_3 conversion, decomposition of residual (unreacted) ammonia – contained in ash, gypsum and waste water. The probability of formation of ABS (ammonium bisulfate) and AS (ammonium sulfate), conducted in cooperation with the Institute of Power Machinery and Equipment of the Silesian Technical University in Gliwice; the grant has been made in cash,
- research project under the name “Evaluation of the behavior and projection for long-term operation of new generations steel used in parts of boilers operated above maximum temperature”, conducted as part of the program of scientific research and development work of the National Center for Research and Development in Warsaw; the grant has been made in cash.

(in PLN thousand)

Settlements relating to grants:

Purpose of the grant	*Balance as at 1 January 2011*	*Increases during the period*	*Amortization to other operating income during the period*	*Refund of the grant during the period*	*Other decreases during the period*	*Balance as at 31 December 2011*
Modernization of fixed assets	29	–	(2)	–	–	27
Implementation of part of the research project	–	648	(430)	–	–	218
	29	**648**	**(432)**	–	–	**245**

41. CO_2 emission allowances

Emission allowances received free of charge under the National Allocation Plan that are to be used for internal purposes, i.e. that are subject to cancellation, are recognized at nominal value equal to zero in off-balance sheet records. Additional allowances purchased on the market that are to be used for internal purposes and are accounted for in correspondence with the provision for greenhouse gas emission liabilities are recognized as a separate item under intangible assets and are measured at acquisition cost less any impairment losses. Emission allowances are not amortizable – it is assumed that their residual value is equal to their carrying amount.

Emission allowances purchased and intended for sale are recognized as goods for resale (inventories).

As at 31 December 2011, the Company had CO_2 emission allowances that had been granted to it. The amount of CO_2 emission allowances granted to the Company for the period 2008-2012 was 65,955 tonnes of CO_2 (13,191 tonnes per year).

Total emission of the Company in the period 2008-2010 and in the 12-month period ended 31 December 2011 amounted to 34,061 tonnes of CO_2. Therefore, there was no need to recognize a provision for any deficit CO_2 emission allowances.

CO_2 emission allowances in the 12-month period ended 31 December 2011 (in tonnes)

Company	*Balance at the beginning of period*	*Granted*	*Purchased*	*CO_2 emission*	*Sale*	*Balance at the end of period*
RAFAKO S.A.	19 447	13 191	6 595	(13 935)	(6 595)	18 703
	19 447	**13 191**	**6 595**	**(13 935)**	**(6 595)**	**18 703**

In the period 2008-2010, there were no transactions for sale or exchange of the CO_2 EUAs held by the Company.

On 6 April 2011, the Company sold 6,595 EUAs and purchased 2,179 ERUs and 4,416 CERs. On 19 April 2011, as part of the settlement of the CO_2 emission in 2010, the Company surrendered for cancellation 2,179 ERUs, 1,778 CERs and 9,978 EUAs. As a result, as at 31 December 2011 RAFAKO S.A. held 2,638 CERs and 16,065 EUAs.

A provision for liabilities arising from emission of gases included in the system of trading in emission allowances is only recognized when the level of actual emission and production plans indicate a deficit of emission allowances in the entire 5-year trading period. The provision is charged to operating expenses at an amount equal to the cost of allowances held for cancellation and the fair value of deficit allowances at the given balance sheet date.

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

In the 12-month periods ended 31 December 2011 and 31 December 2010, the Company did not issue, redeem or repay any debt or equity securities.

(in PLN thousand)

43. Finance lease and hire purchase commitments

As at 31 December 2011, future minimum lease payments under such agreements and the present value of the minimum net lease payments are as follows:

	31 December 2011		*31 December 2010*	
	Minimum lease payments	*Present value of lease payments*	*Minimum lease payments*	*Present value of lease payments*
Within 1 year	93	93	–	–
Within 1 to 5 years	176	176	–	–
More than 5 years	–	–	–	–
Minimum lease payments, total	**269**	**269**	–	–
Less finance charges	–	–	–	–
Present value of minimum lease payments, of which:	**269**	**269**	–	–
Current	93	93	–	–
Non-current	176	176	–	–

44. Movements in off-balance sheet items

	31 December 2011	*31 December 2010*
Receivables from bank guarantees received mainly as security for performance of commercial contracts, of which:	241 301	198 577
- from related parties	–	–
Receivables from suretyships received, of which:	7 600	16 058
- from related parties	–	–
Promissory notes/bills of exchange received as security, of which:	8 235	6 522
- from related parties	1 982	2 615
Letters of credit	11 030	17 303
Restricted cash in subcontractors' bank accounts	–	223
	268 166	**238 683**

	31 December 2011	*31 December 2010*
Liabilities arising from bank guarantees granted mainly as security for performance of commercial contracts, of which:	467 555	676 548
- to related parties	–	–
Liabilities arising from suretyships granted, of which:	–	–
- to related parties	–	–
Promissory notes/bills of exchange issued as security, of which:	4 257	4 242
- to related parties	–	–
Letters of credit	6 590	–
	478 402	**680 790**

45. Claims under dispute, litigations

45.1. Litigations

As at 31 December 2011, the Company is a party to court proceedings concerning disputed receivables with a total value of PLN 49,941 thousand. Those receivables either have not been recognized as revenue or have been fully provided for.

On 3 November 2009, RAFAKO S.A. brought a suit for payment against ING Bank Śląski S.A. with the Regional Court in Warsaw, XX Commercial Department. RAFAKO S.A. claims among others the refund of the amount of PLN 8,996,566.00 that was unjustly collected by ING Bank Śląski S.A. from its accounts. On 29 November 2010, the Court of First Instance passed a judgment awarding payment of PLN 8,996,566.00 together with statutory interest and litigation costs to be made by ING Bank Śląski S.A. to RAFAKO S.A. The judgment of the Court of First Instance was appealed by the attorney of ING Bank Śląski S.A. On 12 October 2011, the Court of Appeal in Warsaw, having examined the case in a hearing, did not consider the objections raised by ING Bank Śląski S.A. in the appeal as legitimate; however, it concluded ex officio that the Court of First Instance have not examined the substance of the dispute, overruled the judgment and remanded the case for re-examination by the Court of First Instance. Currently the case is pending before the Regional Court in Warsaw, XX Commercial Department. The attorneys of the parties are exchanging their standpoints. The date for the next hearing has been set at 9 May 2012.

In July 2010, ING Bank Śląski S.A. brought a suit against RAFAKO S.A. and RAFAKO Engineering Sp. z o.o. with the Regional Court in Warsaw, XX Commercial Department, for payment to be made in the proceedings by writ of payment based on documents, in respect of the refund of the amount paid on 1 February 2010 to the beneficiary of a guarantee issued allegedly by ING Bank Śląski S.A. at the request of Fabryka Elektrofiltrów ELWO S.A. in bankruptcy. In the opinion of ING Bank Śląski S.A., the claim against RAFAKO S.A. arises allegedly from the Loan Agreement dated 25 June 2008. On 9 June 2011, the Regional Court in Warsaw, XX Commercial Department, passed a judgment by default awarding an amount of PLN 1,462,176.00 together with statutory interest from 1 February 2010 and PLN 80,326.00 in respect of the refund of litigation costs to be paid to ING Bank Śląski S.A. by, among others, RAFAKO S.A. On 14 June 2011, the Court made the above-mentioned judgment enforceable. On 16 June 2011, the attorney of RAFAKO S.A. lodged an objection to the judgment by default. On 17 June 2011, despite the fact that the attorney of RAFAKO S.A. and RAFAKO Engineering Sp. z o.o. notified the attorney of ING Bank Śląski S.A. about lodging an objection, the Court Enforcement Officer, at the request of ING Bank Śląski S.A., attached the bank accounts of RAFAKO S.A. Based on the decision dated 22 June 2011, the Regional Court in Warsaw, XX Commercial Department, in response to the motion of the Defendant Companies' attorney, suspended the sanction of immediate enforceability included in the judgment by default, concluding that there were considerable doubts regarding the legitimacy of passing the Judgment by Default. As a result of the activities undertaken by the Defendant Companies' attorney, out of the amounts collected by the Court Enforcement Officer from RAFAKO S.A. the amount of PLN 128,392.90 was transferred to ING Bank Śląski S.A., while the amount of PLN 1,687,856.93 was paid into court deposit. The case arising from the Defendant Companies' objection to the judgment by default was continued to be examined by the Court of First Instance. On 21 March 2012, the Court passed a judgment which, among others, overruled the judgment by default in whole, awarded an amount of PLN 1,333,783.10 together with statutory interest from 1 February 2010 to the date of payment as well as statutory interest calculated on the amount of PLN 128,392.90 for the period from 1 February 2010 to 17 June 2011 to be paid jointly and severally to ING Bank Śląski S.A. by RAFAKO S.A. and RAFAKO Engineering Sp. z o.o., while the rest of the claim was dismissed. The attorney of RAFAKO S.A. filed a request for reasons to the judgment. The judgment may be appealed.

The remaining amount mainly relates to the action for damages brought against the Ukrainian company Donieckobłenergo. The receivable of USD 11,500 thousand (PLN 39,300 thousand) arises from the Company's claim for payment of damages by Donieckobłenergo Joint Stock Company based in Ukraine due to the client's ultimate resignation from the construction of a boiler. In 2009, the courts of the first and second instance passed judgments that were in favor of the Company; however, the Higher Commercial Court, after examining the cassation appeal of the defendant, overruled those judgments and remanded the case for re-examination. On 6 August 2010, the Company received the judgment of the Court Chamber for Commercial Affairs of the Supreme Court of Ukraine, which was passed in favor of the cassation appeal filed by the Company on 2 March 2010 and upheld the judgment of the Donieck Commercial Court of Appeal of 23 December 2008 awarding the total amount of 56.7 million hryvnas to be paid to RAFAKO S.A. in respect of damages, interest for delay, court fees and legal representation costs (this amounted to approximately USD 11,500 thousand at the date of bringing the suit). As the recovery of the awarded receivable is uncertain, the Company did not recognize that amount as revenue.

45.2. Bankruptcy proceedings

As at 31 December 2011, the total value of claims filed by the Company in bankruptcy proceedings is PLN 2,861 thousand.

45.3. Other claims

In the second half of December 2011, the Management Board of RAFAKO S.A. was informed of a claim in the form of a call for payment of contractual penalties raised by a member of the consortium performing a contract for the supply of a boiler and flue gas desulphurization installation for the 858 MW power unit in PGE Elektrownia Bełchatów S.A. The total value of the claim is around PLN 135 million. The Company's Management Board has challenged this claim and believes it to be groundless. In consequence of the activities undertaken by the Company's Management Board, the Regional Court in Warsaw issued a decision dated 30 December 2011 granting an injunctive relief in respect of the claim of RAFAKO S.A. against Alstom Power sp. z o.o. based in Warsaw for determining non-existence of a liability arising from non-performance or undue performance of the Consortium Agreement dated 19 November 2003 together with annexes, among others by prohibiting Alstom Power sp. z o.o. from using two bank guarantees issued for its benefit by Bank Gospodarki Żywnościowej S.A. in Warsaw. The above-mentioned decision reads as follows:

"Decision dated 30 December 2011. The Regional Court in Warsaw, Commercial Court, XX Commercial Department, having examined, in a session in camera held on 30 December 2011 in Warsaw, the case arising from the request of RAFAKO S.A. for an injunctive relief with the participation of Alstom Power Sp. z o.o. based in Warsaw, hereby decides:

1. to grant an injunctive relief in respect of the claim of RAFAKO spółka akcyjna in Racibórz against Alstom Power Sp. z o.o. in Warsaw for determining non-existence of liabilities arising from non-performance or undue performance of the Consortium Agreement dated 19 November 2003 together with annexes, by way of:
   - ordering Alstom Power Sp. z o.o. in Warsaw to immediately provide Bank Gospodarki Żywnościowej S.A. in Warsaw with written declaration about withdrawing the demand for payment of an amount of EUR 3,731,493 (three million, seven hundred and thirty-one thousand, four hundred and ninety-three euro) under the bank guarantee number 7910000000004080 and the demand for payment of an amount of PLN 118,104,450 (one hundred and eighteen million, one hundred and four thousand, four hundred and fifty zlotys) under bank guarantee number 5910000000019410, both of such demands issued on 14 December 2011 and received by Bank Gospodarki Żywnościowej S.A. in Warsaw on 16 December 2011 through Bank Societe Generale spółka akcyjna, Branch in Poland;
   - prohibiting Alstom Power Sp. z o.o. in Warsaw from using bank guarantee number 7910000000004080 and bank guarantee number 5910000000019410, by demanding (either directly or through an attorney or other representative) cash from Bank Gospodarki Żywnościowej S.A. in Warsaw under the Bank Guarantees issued by Bank Gospodarki Żywnościowej S.A. in Warsaw, each of them specified in the document drafted in English under the name "Bank Guarantee 7910000000004080" ("Guarantee") dated 27 March 2007 together with Amendments Nos. 1 and 2 and in the document under the name "Bank Guarantee 5910000000019410" ("Guarantee") dated 27 March 2007 together with Amendments Nos. 1 and 2;
   - prohibiting Alstom Power Sp. z o.o. in Warsaw from transferring the rights under bank guarantees no. 7910000000004080 and no. 5910000000019410;
   - to set a two-week deadline for RAFAKO S.A. to bring a suit with regard to the secured claim or otherwise the security will be invalid."

Despite the Court's decision, the Bank made guarantee payments of PLN 135 million based on the demand of the member of the consortium.

Due to performance of the contract for the supply of a boiler and flue gas desulphurization installation, in its financial statements as at 31 December 2011 RAFAKO S.A. recognized receivables from Alstom Power Sp. z o.o. with a total amount of PLN 76 million. Those unchallenged (according to the Company's Management) receivables have not been paid by Alstom Power Sp. z o.o. as at the date of these financial statements.

The total value of receivables arising from the above-mentioned titles which were recognized in the statement of financial position as at 31 December 2011 is PLN 153 million. The Company's Management Board, based on performed legal analyses, believes that these assets are recoverable.

In the opinion of the Company's Management Board, the realization of guarantees as a result of the above-mentioned claim and the counterparty's default to pay the amounts due to the Company will not significantly affect the Company's financial position in the context of its ability to continue as a going concern after the balance sheet date. The Company's Management Board is analyzing the situation and will take all necessary steps to resolve it. The ultimate resolution of the issue in question, the final outcome of which is unknown, will take place in the future.

Following an inspection conducted by Rybnik Branch of ZUS (Social Security Institution), on 17 November 2011 RAFAKO S.A. was served with a decision imposing an obligation to pay contributions for Social Security, Labor Fund and the Guaranteed Employee Benefits Fund. ZUS challenged payments made from the Social Fund in respect of occasional gift vouchers. The decision issued by ZUS (which is not yet final) gave rise to the obligation to pay an amount of PLN 2,370 thousand (without interest) to ZUS. RAFAKO S.A. did not agree with the findings included in the decision and decided to lodge an appeal against it with the Regional Court in Gliwice, IX Labor and Social Security Department. The appeal was lodged on 16 December 2011 (i.e. within the prescribed deadline). Currently it is not possible to determine the anticipated outcome of this case. As at 31 December 2011, RAFAKO S.A. recognized a provision for the potential costs related to the above-mentioned claim, amounting to PLN 2,984 thousand including interest.

(in PLN thousand)

46. Guarantees

As at 31 December 2011, the Company had contingent liabilities resulting from bank and insurance guarantees with a total value of PLN 467,555 thousand, including:

No.	*Bank/insurer granting guarantee*	*Guarantee amount*	*Subject of guarantee*	*Security*
1.	T.U. ALLIANZ Polska S.A.	10 709	good performance of the contract and removal of faults and defects	blank promissory notes with promissory note agreements
2.	BOŚ S.A.	15 667	removal of faults and defects	authorization to bank accounts, blank promissory note with promissory note agreement, transfer of receivables under the contract
3.	BRE Bank S.A.	43 002	timely removal of faults and defects, good performance of the contract, refund of the advance, participation in tender	blank promissory note with promissory note agreement, transfer of receivables under the contract
4.	Credit Agricole Corporate and Investment Bank S.A.	28 690	good performance of the contract, refund of the advance, participation in tender	transfer of receivables under the contract, blank promissory note with promissory note agreement, declaration of submission to enforcement
5.	DEUTSCHE Bank Polska S.A.	31 478	timely removal of faults and defects, good performance of the contract, refund of the advance, participation in tender	declaration of submission to enforcement, transfer of receivables under the contract
6.	DnB Nord S.A.	16 641	refund of the advance	declaration of submission to enforcement, transfer of receivables under the contract, authorization to bank accounts
7.	T.U. GENERALI S.A.	37 643	good performance of the contract, participation in tender, removal of faults and defects	blank promissory notes with promissory note agreements
8.	T.U. Euler HERMES S.A.	47 520	timely removal of faults and defects, good performance of the contract, refund of the advance	blank promissory note with promissory note agreement
9.	STU ERGO HESTIA S.A.	67 096	timely removal of faults and defects, good performance of the contract, participation in tender	blank promissory note with promissory note agreement
10.	InterRisk Towarzystwo Ubezpieczeń S.A.	5 674	refund of the advance	blank promissory notes with promissory note agreements
11.	Kredyt Bank S.A.	23 648	timely removal of faults and defects, good performance of the contract, refund of the advance, participation in tender	blank promissory note with promissory note agreement, declaration of submission to enforcement, authorization to bank accounts
12.	PEKAO S.A.	21 205	removal of faults and defects, refund of the advance	declaration of submission to enforcement, transfer of receivables under the contract, authorization to bank accounts
13.	PKO BP S.A.	15 228	timely removal of faults and defects, good performance of the contract, refund of the advance	declaration of submission to enforcement, clause of deduction from bank account, transfer of receivables under the contract
14.	PZU S.A.	28 478	removal of faults and defects, good performance of the contract, refund of the advance	blank promissory notes with promissory note agreements, declaration of submission to enforcement under Article 777 of the Code of Civil Procedure
15.	Raiffeisen Bank Polska S.A.	26 314	removal of faults and defects, retention, good performance of the contract, refund of the advance	declaration of submission to enforcement, authorization to bank accounts
16.	TUiR WARTA S.A.	48 562	good performance of the contract	blank promissory notes with promissory note agreements, declaration of submission to enforcement under Article 777 of the Code of Civil Procedure
		467 555		

(in PLN thousand)

47. Related party disclosures

In the 12-month periods of 2011 and 2010, the Company did not enter into any significant transactions with related parties on other than arm's length terms.

Total amounts of transactions with related parties for the 12-month periods ended 31 December 2011 and 31 December 2010:

Related party	*12-month period ended 31 December:*	*Sales to related parties*	*Purchases from related parties*	*Receivables from related parties*	*Liabilities towards related parties*
Parent company:					
PBG S.A.**	2011	–	12	–	–
	2010	–	–	–	–
Parent company:					
ELEKTRIM S.A. *	2011	–	106	–	–
	2010	–	87	–	1
Entities of the PBG S.A. Capital Group:					
GasOil Engineering a.s.	2011	–	329	–	329
	2010	–	–	–	–
Entities of the ELEKTRIM S.A. Capital Group:					
ELEKTRIM-MEGADEX S.A.	2011	–	–	–	–
	2010	–	–	–	16
PAK S.A.	2011	2 835	13	–	–
	2010	3 675	17	612	4
Polska Telefonia Cyfrowa Sp. z o.o.	2011	–	–	–	–
	2010	–	574	–	94
DARIMAX Limited***	2011	2 000	–	–	–
	2010	–	–	–	–
Laris Investment Sp. z o. o.	2011	–	13	–	–
	2010	–	–	–	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	2011	–	64	–	2
	2010	10	65	6 003	–
RAFAKO Engineering Sp. z o. o.	2011	928	3 484	292	310
	2010	320	3 274	56	296
RAFAKO Engineering Solution doo.	2011	–	1 989	–	98
	2010	–	1 146	–	122
FPM S.A.	2011	–	64	–	59
	2010	2	15	–	17
ENERGOMONTAŻ POŁUDNIE S.A.	2011	–	506	–	619
	2010	–	–	–	–
Associates:					
	2011	–	–	–	–
SANBEI-RAFAKO Sp. z o.o.	2010	–	–	–	–

* *parent company until 25 October 2011, data for the 10-month period of 2011*

** *parent company since 25 October 2011, data for the 2-month period of 2011*

*** *during the 10-month period ended 31 December 2011, the Company sold receivables from ELEKTRIM-MEGADEX S.A. to DARIMAX Limited for a total amount of PLN 2 million.*

(in PLN thousand)

In the 12-month period of 2011, the Company paid a dividend from the net profit for 2010 in the total amount of PLN 39,672 thousand, as described in detail in Note 35.7.

47.1. Parent of the Company

As at the date of these financial statements, the Company's parent is PBG S.A.; the change in the shareholding structure has been described in Note 36.

As at 31 December 2011, PBG S.A. with its registered office in Wysogotowo held 66% of the Company's ordinary shares (directly: 16% of shares, indirectly: 50% + 1 share).

47.2. Joint ventures in which the Company is a partner

The Company is not a party to any joint ventures.

47.3. Terms of related party transactions

In the 12-month period of 2011, the Company did not enter into any significant transactions with related parties on other than arm's length terms. All transactions with related parties are made on terms applied by the Company in business relations with non-related parties. Consideration is usually determined by way of a tender and standard payment terms are agreed. The related party must ensure performance of a contract in line with the documentation, give a warranty for a specified period and submit collateral in the form of a bank guarantee of good performance of the contract. In addition, related parties are also subject to standard contractual penalties and clauses relating to confidentiality, industrial property, contract insurance, force majeure and dispute resolution.

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

In the reporting and comparable periods, no loans were granted to members of the Management Board or Supervisory Board of the Company.

In the reporting and comparable periods, the Company did not enter into any transactions with members of the Management Board or Supervisory Board.

47.5. Shares held by members of executive and supervising bodies

The number of shares held in the Company or in the Company's related entities by members of executive and supervising bodies as at 31 December 2011 is presented below:

	Company name	*Total number of shares*	*Nominal value of shares in PLN*
Executive personnel			
Wiesław Różacki	RAFAKO S.A.	10 000	20 000,00
Jarosław Dusiło	PBG S.A.	100	100,00
	Hydrobudowa Polska S.A.	150	150,00
Supervising personnel			
Tomasz Woroch	PBG S.A.	1 778	1 778,00
Małgorzata Wiśniewska	PBG S.A.	3 279	3 279,00
Przemysław Szkudlarczyk	PBG S.A.	4 390	4 390,00

47.6. Participation of senior management in employee share option scheme

The Company does not run any employee share option scheme.

47.7. Compensation of senior management personnel

	12-month period ended 31 December 2011	*12-month period ended 31 December 2010*
Short-term employee benefits (salaries and surcharges)	6 993	5 555
Jubilee bonuses	8	–
Post-employment benefits	–	–
Employment termination benefits	–	–
Share-based employee benefits	–	–
Total compensation paid to key management personnel*	**7 001**	**5 555**

* including: members of the Company's Management and Supervisory Boards

Remuneration paid to members of the Management Board and Supervisory Board for the year ended 31 December 2011 is presented below:

data in PLN thousand

	Base pay	*Awards*	*Other*
Management Board	**2 004**	**276**	**255**
Wiesław Różacki	600	180	–
Krzysztof Burek	480	96	–
Jarosław Dusiło	50	–	–
Maciej Kaczorowski	347	–	240
Dariusz Karwacki	58	–	–
Bożena Kawałko	50	–	–
Piotr Wawrzynowicz	418	–	15
Supervisory Board	**748**	–	**12**
Roman Jarosiński	87	–	–
Witold Okarma	97	–	–
Wojciech Piskorz	57	–	–
Krzysztof Pawelec	148	–	–
Piotr Rutkowski	12	–	–
Maciej Stradomski	85	–	–
Przemysław Szkudlarczyk	12	–	–
Sławomir Sykucki	85	–	–
Piotr Wawrzynowicz	26	–	12
Małgorzata Wiśniewska	16	–	–
Tomasz Woroch	25	–	–
Leszek Wysłocki	97	–	–
Total	**2 752**	**276**	**267**

*- additional remuneration for independent performance of supervisory activities

Remuneration paid to members of the Management Board and Supervisory Board for the year ended 31 December 2010 is presented below:

data in PLN thousand

	Base pay	*Awards*	*Other*
Management Board	**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	**266.0**	**–**	**–**
Roman Jarosiński	150.0	–	–
Piotr Wawrzynowicz	116.0	–	–
Total	**2 612.8**	**570.2**	**180.0**

*- additional remuneration for independent performance of supervisory activities

48. Statement of the Management Board regarding realization of previously published forecasts

The Company did not publish any forecasts for 2011.

49. Information on contract with auditor or entity authorized to audit financial statements

On 8 July 2011, the Company's Supervisory Board, acting based on authorization granted by the Company's Articles of Association, appointed Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw, Rondo ONZ 1, entered in the KIBR (National Chamber of Statutory Auditors) register under number 130 as the entity authorized to audit financial statements. The auditor was chosen in accordance with binding regulations and professional standards. In the past, the above-mentioned entity provided the Company with services relating to the review and audit of separate financial statements as well as the financial statements of the RAFAKO Capital Group for 2002-2005.

On 16 August 2011, the Company signed a contract with Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw for a review and audit of separate and consolidated financial statements for the half-year and annual period of 2011. The total amount of the fees for the review and audit of the financial statements was set at PLN 179 thousand.

In addition, the Company signed a contract with Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw for a review of the Specific Purpose Interim Consolidated Information for the 3-month period ended 31 December 2010, audit of the Specific Purpose Interim Consolidated Financial Information for the 9-month period ended 30 September 2011 and for performance of work related to preparation of an Information Memorandum by the parent i.e. PBG S.A. for the purpose of conducting an issue of Eurobonds, in order to prepare the so-called "Comfort Letter". The total amount of the fees under this contract is PLN 434 thousand.

(in PLN thousand)

The table below presents the fees paid or payable to the entity authorized to audit financial statements for the years ended 31 December 2011 and 31 December 2010 by category of services:

Category of services	*Year ended 31 December 2011***	*Year ended 31 December 2010**
Statutory audit of separate and consolidated financial statements	179	96
Other attest services	–	–
Tax advisory services	–	–
Other services	434	–
Total	**613**	**96**

** relates to DORADCA Zespół Doradców Finansowo – Księgowych Sp. z o.o.*
*** relates to Ernst & Young*

50. Financial risk management objectives and policies

The objective of financial risk management in RAFAKO S.A. is to limit the variability of cash flows generated and results achieved on principal business activities to an acceptable level. The main financial instruments used by the Company include: cash and cash equivalents, short-term deposits, forward currency transactions and lease agreements. The main objective of those instruments is to provide support for and ensure financial security of day-to-day activities of the Company by stabilizing and neutralizing liquidity risks and foreign exchange and interest rate variability as well as to ensure safe and effective investment of surplus cash. Other financial instruments such as trade receivables and payables arise in the course of day-to-day business activities carried out by the Company and are an inherent part of such activities.

The Company does not engage in trading in financial instruments. The purpose of all of the instruments discussed in this section is to support direct business processes resulting from principal activities of the Company. The Company does not allow for the use of financial instruments for speculative or other purposes that are not closely related to principal operating activities.

Currency risk has been the most significant type of financial risk in the Company. The magnitude of this risk is presented in Note 50.2.

After the balance sheet date, the Company signed an Overdraft Agreement with PKO BP S.A. for an amount of PLN 300 million, as a result of which it is exposed to an interest rate risk which will affect the amount of finance charges incurred by the Company in the subsequent periods.

The Company's participation in investment funds is part of its efforts to disperse the risk associated with concentration of financial assets in one place. Such instruments (fund units) have no significant share in the Company's deposit portfolio; in addition, the Company only allows for investing in instruments with a stable level of safety (cash, securities), excluding engagement in any aggressive funds.

Accounting policies relating to derivative instruments are discussed in Note 12.13.

50.1. Interest rate risk

As at 31 December 2011, the Company had no active loan agreements. Credit risk and potential changes in interest rates did not pose any threat for RAFAKO S.A.'s operations. Due to absence of loans and the related exposure to interest rate risk the Company does not contemplate entering into interest rate swaps. The potential risk associated with a decline in interest rates may only affect the interest rates of the deposits held by the Company. Sensitivity to such changes is presented in the table below.

(in PLN thousand)

Interest rate risk – sensitivity to changes

The table below presents sensitivity of profit before tax to reasonably possible changes in interest rates, with all other variables held constant (deposits). Effect on the Company's equity has not been presented.

	Increase / decrease by percentage points	***Effect on profit before tax***
Period ended 31 December 2011		
PLN	+ 1%	2 595
EUR	+ 1%	565
SEK	+ 1%	2
PLN	- 1%	(2 595)
EUR	- 1%	(565)
SEK	- 1%	(2)
Period ended 31 December 2010		
PLN	+ 1%	1 420
EUR	+ 1%	24
SEK	+ 1%	–
PLN	- 1%	(1 136)
EUR	- 1%	(19)
SEK	- 1%	–

50.2. Currency risk

The most significant type of financial risk to which the Company is exposed is currency risk, which arises from changes in exchange rates causing uncertainty around the level of future cash flows denominated in foreign currencies. The Company's exposure to currency risk arises from the fact that a significant part of its cash flows is denominated in foreign currencies. Changes in the PLN exchange rate against foreign currencies, especially those that take place within a short time horizon and are characterized by a significant dynamics, may have a significant impact on both the profitability of the Company's contracts denominated in foreign currencies as well as the level of exchange differences calculated on assets and liabilities expressed in foreign currencies and translated into PLN.

In the period under review, over 26% of the Company's invoiced revenue was expressed in foreign currencies, mainly in EUR.

The currency risk management strategy applied by the Company provides for the use of natural hedging to the largest extent possible. The Company aims at ensuring the best possible structural matching of contract revenues and expenses in the same currency. From 30% to 70% of the estimated net exposure to currency risk that is not covered by natural hedging is hedged using only the accepted types of derivative instruments.

As at 31 December 2011, the Company hedged around 88% of its currency exposure in EUR and around 35% of its currency exposure in SEK (exposure understood as the estimated difference between future proceeds and expenses denominated in EUR/SEK, taking into account the balance of advances and cash and cash equivalents).

(in PLN thousand)

The table below presents sensitivity of profit before tax (due to the change in the fair value of monetary assets and liabilities) to reasonably possible changes in the EUR, USD, GBP, TRY exchange rates, with all other variables held constant.

	Increase / decrease of currency rate	***Effect on profit before tax***	***Effect on equity***
31 December 2011 – EUR	+10%	11 362	9 203
	-10%	(11 362)	(9 203)
31 December 2011 – SEK	+10%	75	61
	-10%	(75)	(61)
31 December 2011 – TRY	+10%	145	117
	-10%	(145)	(117)
31 December 2010 – EUR	+10%	7 261	5 881
	-10%	(7 261)	(5 881)
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)

50.3. Commodity price risk

The Company is exposed to the risk of a rise in prices, especially the prices of materials strategic for its operations. The level of this risk is significantly affected by the conditions on global commodities markets (steel, precious metals, fuel and energy), resulting from both fluctuations in the exchange rates as well as manufacturers' concentration aiming to achieve a joint control of prices. The commodities risk management strategy provides for entering in contracts with sub-suppliers of materials and services in the currency of the principal contract, locating materials supplies on the side of the client as well as entering in purchase contracts at fixed prices. The Company does not enter into multi-year contracts with sub-suppliers; the scope of supplies and the suppliers are determined individually according to the needs.

50.4. Credit risk

Credit risk of the Company is closely related to principal activities. It arises from concluded commercial contracts and is associated with potential credit events that may take the form of a contractor's insolvency, payment of part of a receivable or a significant delay in the payment of a receivable. Granting trade credits to clients is currently an inherent part of business operations; however, the Company takes a number of steps to minimize the risk of entering in cooperation with potentially unreliable clients. All clients who wish to trade on credit terms are subject to preliminary verification procedures.

Those clients whom the Company believes to be not creditworthy based on the credit verification procedure are obliged to submit proper collaterals to minimize the risk of their insolvency against the Company. In addition, due to the fact that receivable balances are monitored on an ongoing basis and debt collection procedures are immediately started with respect to any overdue balances, the Company's exposure to credit risk is insignificant.

50.5. Liquidity risk

The Company is exposed to liquidity risk arising from the mismatch of maturities of cash flows generated from contracts performed. The Company aims at ensuring so-called positive cash flows, which eliminate liquidity risk given timely payment of receivables. The nominal value of credit facilities available to the Company effectively prevents any negative events associated with a delay in timely payment of receivables. In addition, due to healthy financial condition of the Company and a high level of the liquidity ratio, the Company has become, to a large extent, independent of external sources of funding. The level of utilization of credit facility limits available at banks was minimal.

(in PLN thousand)

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December 2011 and 31 December 2010 based on contractual undiscounted payments:

31 December 2011	*On demand*	*Less than 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total*
Interest-bearing loans and borrowings	–	–	–	–	–	–
Lease liabilities	–	23	70	176	–	269
Derivatives	–	3 780	2 206	–	–	5 986
Trade and other payables	15 761	120 504	37 552	16 504	1 749	192 070
Interest / Discount related to liabilities ?		487	1 083	2 053	715	4 338
	15 761	**124 794**	**40 911**	**18 733**	**2 464**	**202 663**

31 December 2010	*On demand*	*Less than 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total*
Interest-bearing loans and borrowings	–	–	–	–	–	–
Lease liabilities	–	–	–	–	–	–
Derivatives	–	1 087	2 256	–	–	3 343
Trade and other payables	12 166	122 283	13 842	27 021	2 247	177 559
Interest / Discount related to liabilities ?	–	–	–	1 942	624	2 566
	12 166	**123 370**	**16 098**	**28 963**	**2 871**	**183 468**

51. Financial instruments

51.1. Carrying amount of categories and classes of financial instruments

The carrying amounts of the categories and classes of financial instruments as at 31 September 2011 and 31 December 2010 are presented in tables below.

The Company presents the particular categories and classes of financial instruments at carrying amount, whose fair value approximates their carrying amount.

Categories and classes of financial assets	*Carrying amount 31 December 2011*	*Carrying amount 31 December 2010*
Assets at fair value through profit or loss	**16 112**	**29 661**
Investment fund units	15 769	27 304
Derivatives	343	2 357
Financial assets available for sale	**491**	**491**
Long-term shares	491	491
Loans and receivables	**270 279**	**217 442**
Trade receivables	183 781	209 831
Other receivables	78 682	6 090
Loans granted	605	481
Long-term deposits	–	–
Short-term deposits	7 211	1 040
Cash and cash equivalents	**173 401**	**156 246**
	460 283	**403 840**

Investment fund units, which were classified incorrectly in prior periods as financial assets available for sale, have been reclassified to assets at fair value through profit or loss (with an appropriate presentation adjustment in this Note).

(in PLN thousand)

Categories and classes of financial liabilities	*Carrying amount 31 December 2011*	*Carrying amount 31 December 2010*
Financial liabilities at fair value through profit or loss	**5 986**	**4 087**
Derivatives	5 986	4 087
Financial liabilities measured at amortized cost	**192 070**	**177 559**
Loans and borrowings	–	–
Trade payables (including capital commitments)	192 070	177 559
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**269**	–
Finance lease and hire purchase commitments	269	–
	198 325	**181 646**

As at 31 December 2011 and 31 December 2010, the Company held the following financial instruments measured at fair value:

31 December 2011	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	**15 769**	**343**	–
Investment fund units	15 769	–	–
Derivatives	–	343	–
Financial assets available for sale	**491**	**–**	**–**
Long-term shares	491	–	–
Financial liabilities at fair value through profit or loss	–	**5 986**	–
Derivatives	–	5 986	–

31 December 2010	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	**27 304**	**2 357**	–
Investment fund units	27 304	–	–
Derivatives	–	2 357	–
Financial assets available for sale	**491**	**–**	**–**
Long-term shares	491	–	–
Financial liabilities at fair value through profit or loss	–	**4 087**	–
Derivatives	–	4 087	–

(in PLN thousand)

51.2. Items of income, expense, gains and losses recognized in the income statement, by category of financial instruments

12-month period ended 31 December 2011	*Category according to IAS 39*	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Reversal / (recognition) of impairment write-downs/allowances*	*Gains / (losses) on valuation*	*Gain / (loss) on sale of financial instruments*	*Other*	*Total*
Financial assets								
Financial (long-term) assets available for sale, of which:	AFS	–	–	–	–	4	11	15
- shares	AFS	–	–	–	–	4	11	15
Other (long-term) financial assets, of which:	LaR	30	(2)	–	(9)	–	–	19
- long-term deposits	LaR	–	–	–		–	–	–
- long-term loans	LaR	30	(2)	–	(9)	–	–	19
Other (short-term) financial assets, of which:		1 535	1 372	–	(1 330)	2 213	22	3 812
- short-term deposits	LaR	1 535	1 372	–	–	–	–	2 907
- certificates of deposit	FVtPL	–	–	–	–	–	–	–
- TFI KBC fund units	FVtPL	–	–	–	276	–	22	298
- TFI Allianz fund units	FVtPL	–	–	–	(1 606)	2 213	–	607
Trade and other receivables	LaR	45	7 597	(22 547)	(798)	–	–	(15 703)
Derivative financial instruments, of which:	FVtPL	–	–	–	(4 141)	(3 307)	–	(7 448)
- *forward* currency contracts	FVtPL	–	–	–	(4 141)	(3 307)	–	(7 448)
Cash and cash equivalents	LaR	8 836	2 575	–	–	–	–	11 411
Total		**10 446**	**11 542**	**(22 547)**	**(6 278)**	**(1 090)**	**33**	**(7 894)**

(in PLN thousand)

12-month period ended 31 December 2011	*Category according to IAS 39*	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Reversal / (recognition) of impairment write-downs/ allowances*	*Gains / (losses) on valuation*	*Gain / (loss) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing loans and borrowings, of which:	FLaAC	–	–	–	–	–	–	–
- variable interest rate overdrafts	FLaAC	–	–	–	–	–	–	–
- other short-term variable interest rate loans	FLaAC	–	–	–	–	–	–	–
Other financial liabilities, of which:	FLaAC	(12)	–	–	–	–	–	(12)
- finance lease and hire purchase commitments	FLaAC	(12)	–	–	–	–	–	(12)
Trade and other payables	FLaAC	(14)	(2 759)	–	1 795	–	–	(978)
Hedging instruments	FLaAC	(84)	–	–	–	–	–	(84)
Derivative financial instruments, of which:	FVtPL	–	–	–	–	–	–	–
- *forward* currency contracts	FVtPL	–	–	–	–	–	–	–
Total		**(110)**	**(2 759)**	**–**	**1 795**	**–**	**–**	**(1 074)**

(in PLN thousand)

12-month period ended 31 December 2010 *Financial assets*	*Category according to IAS 39*	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Reversal / (recognition) of impairment write-downs/allowances*	*Gains / (losses) on valuation*	*Gain / (loss) on sale of financial instruments*	*Other*	*Total*
Financial (long-term) assets available for sale, of which:	AFS	–	–	–	–	220	392	612
- shares	AFS	–	–	–	–	220	392	612
Other (long-term) financial assets, of which:	LaR	67	–	–	7	–	–	74
- long-term deposits	LaR	40	–	–	–	–	–	40
- long-term loans	LaR	27	–	–	7	–	–	34
Other (short-term) financial assets, of which:		1 986	(65)	–	1 138	364	57	3 480
- short-term deposits	LaR	1 986	(65)	–	–	–	–	1 921
- certificates of deposit	FVtPL	–	–	–	(118)	364		246
- TFI KBC fund units	FVtPL	–	–	–	309	–	57	366
- TFI Allianz fund units	FVtPL	–	–	–	947	–		947
Trade and other receivables	LaR	43	(5 494)	(25 221)	(160)	–	–	(30 832)
Derivative financial instruments, of which:	FVtPL	–	–	–	8 398	–	–	8 398
- *forward* currency contracts	FVtPL	–	–	–	8 398	–	–	8 398
Cash and cash equivalents	LaR	2 726	(736)	–	–	–	–	1 990
Total		**4 822**	**(6 295)**	**(25 221)**	**9 383**	**584**	**449**	**(16 278)**

Investment fund units, which were classified incorrectly in prior periods as financial assets available for sale, have been reclassified to assets at fair value through profit and loss (with an appropriate presentation adjustment in this note).

(in PLN thousand)

12-month period ended 31 December 2010	*Category according to IAS 39*	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Reversal / (recognition) of impairment write-downs/allowances*	*Gains / (losses) on valuation*	*Gain / (loss) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing loans and borrowings, of which:	FLaAC	–	–	–	–	–	–	–
- variable interest rate overdrafts	FLaAC	–	–	–	–	–	–	–
- other short-term variable interest rate loans	FLaAC	–	–	–	–	–	–	–
Other financial liabilities, of which:	FLaAC	–	–	–	–	–	–	–
- finance lease and hire purchase commitments	FLaAC	–	–	–	–	–	–	–
Trade and other payables	FLaAC	(530)	(3 008)	–	103	–	4	(3 431)
Derivative financial instruments, of which:	FVtPL	–	–	–	–	(2 070)	–	(2 070)
- *forward* currency contracts	FVtPL	–	–	–	–	(2 070)	–	(2 070)
Total		**(530)**	**(3 008)**	**–**	**103**	**(2 070)**	**4**	**(5 501)**

(in PLN thousand)

51.3. Interest rate risk

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

31 December 2011

Fixed interest rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	–	–	–	–	–	–
Short-term deposits	7 211	–	–	–	–	–	7 211
Floating interest rate							
Cash and cash equivalents	173 401	–	–	–	–	–	173 401
Finance lease and hire purchase commitments	93	105	71	–	–	–	269
Loans granted	133	–	–	–	–	472	605
Loans and borrowings	–	–	–	–	–	–	–
	173 627	**105**	**71**	–	–	**472**	**174 275**

(in PLN thousand)

31 December 2010

Fixed interest rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	–	–	–	–	–	–
Short-term deposits	1 040	–	–	–	–	–	1 040
Floating interest rate							
Cash and cash equivalents	156 246	–	–	–	–	–	156 246
Finance lease and hire purchase commitments	–	–	–	–	–	–	–
Loans granted	–	–	–	–	–	481	481
Loans and borrowings	–	–	–	–	–	–	–
	156 246	–	–	–	–	**481**	**156 727**

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Other financial instruments of the Company that are not included in the tables above are non-interest bearing and are therefore not subject to interest rate risk.

52. Employment structure

Average employment in the Company in the period from January to December 2011 was 2,013 employees.

53. Events after the balance sheet date

After the end of the reporting period, there were no events that were not recognized in the result of the Company's operations.

On 2 January 2012, RAFAKO S.A. in consortium with EFOR MAKINA signed a valid contract with the EUAS company of Turkey with a value of EUR 13.3 million. The subject of this contract is modernization of electrostatic precipitators in units Nos. 3 and 4 in the SOMA CHP Plant in Turkey.

On 3 January 2012, the Company received by courier the original "Declaration on Set-off" from Bank Gospodarki Żywnościowej S.A. in Warsaw, signed by Jacek Bartkiewicz – President of the Management Board and Dariusz Odzioba – Vice President of the Management Board, in which the Bank stated that it had made payments to Alstom Power Sp. z o.o. under the guarantees indicated by the Company in the report dated 20 December 2011. The above-mentioned payments were made by the Bank, among others, despite the fact that a copy of the request for an injunctive relief in respect of the Issuer's claims against Alstom Power Sp. z o.o. together with all the appendices was delivered to the Bank by RAFAKO S.A. already on 21 December 2011 (i.e. on the next day after the date of submitting the request to the Regional Court in Warsaw, XX Commercial Department) and despite the Bank having been provided by RAFAKO S.A. on an ongoing basis with information about the injunctive proceedings conducted by the Regional Court in Warsaw, XX Commercial Department, which, on 30 December 2011, issued a Decision that was favorable for the Issuer, as informed by the Management Board in the current report dated 3 January 2012.

On 10 January 2012, the Company granted a loan to its affiliate for an amount of approx. PLN 32 million.

On 2 February 2012, the Company received a notification from the Management Board of JP Elektroprivreda Bosne i Hercegovine d.d. Sarajevo about the choice of the bid submitted by the Consortium of RAFAKO S.A., Energoinvest d.d. Sarajevo and Deling d.o.o. Tuzla for the replacement of an electrostatic precipitator and modernization of the ash and cinder transportation system of unit No. 6 - 215 MW in the Tuzla CHP Plant as the most favorable of all bids. The value of the bid is EUR 10,150,000.

On 2 February 2012, RAFAKO S.A. was notified by its attorneys ad litem about the institution of proceedings against the HPE company incorporated under German law before the ICC International Court of Arbitration in Paris. The subject of arbitration proceedings covers monetary claims of RAFAKO S.A. 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 was indicated by the Company in the suit as the total value of disputed receivables amounting to EUR 13,386,595.11, which exceeds 10% of equity of RAFAKO S.A. In accordance with Article 4 of the ICC Rules of Arbitration, the date on which a Request is received by the ICC Court's Secretariat is the date of the commencement of arbitration proceedings.

On 8 February 2012, RAFAKO S.A. signed a loan agreement with PKO BP S.A. based in Warsaw ("the Bank"), under which the Bank granted the Company an overdraft facility of PLN 300,000,000 to be used for funding its day-to-day operations.

In the most recent 12-month period, the Company entered into several contracts with JP EPS Belgrade – PD "Termoelektrane Nikola Tesla" (TENT) d.o.o. Obrenovac (the Orderer) based in Obrenovac (Serbia), for a total amount of approx. EUR 15,030,000.00. The contract with the largest value of EUR 14,000,000.00 (PLN 58,727,200.00), signed on 13 February 2012, is for the production and supply of boiler devices, parts and components, oversight and service for the B1 Unit boiler, which is the first of four stages of work to be performed at the TENT B Power Plant.

On 15 February 2012, RAFAKO S.A. as the Leader of the Consortium comprising: the Issuer, 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) 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 perform the engagement within 54 (fifty four) months of the date of issuing the order to begin work in relation to unit 5 and within 62 (sixty two) months of the date of issuing the order to begin work in relation to unit 6. The total value of the contract is PLN 9,397,000,000.00 net, and the gross value of the contract is PLN 11,558,310,000.00.

(in PLN thousand)

In the most recent 12-month period, RAFAKO S.A. entered into several contracts with Metso Power Oy based in Tampere (Finland), for a total amount of approx. PLN 53 million. The contract with the largest value of EUR 4.3 million (approx. PLN 17 million), signed on 14 April 2011, is for the supply of boiler pressure parts for the Suwanow Maranhao Cellulose Production Plant (Brasil).

On 17 February 2012, the Company received a Bank Guarantee Agreement validly signed by Powszechna Kasa Oszczędności Bank Polski S.A. based in Warsaw as well as the original bank guarantee for the refund of an advance of PLN 79,310,400, issued for the benefit of PGE Elektrownia Opole S.A. The guarantee was issued at the request of the Issuer in connection with the agreement signed between the Consortium comprising: the Issuer (Leader), Polimex-Mostostal S.A. and Mostostal Warszawa S.A., and PGE Elektrownia Opole S.A., for the "turn-key" construction of power units Nos. 5 and 6 in PGE Elektrownia Opole S.A. (described in detail in Current Report No. 18/2012). The guarantee is valid until 15 February 2013.

On 29 February 2012, the Consortium comprising: RAFAKO S.A., Energoinvest d.d. Sarajevo and Deling d.o.o. Tuzla validly signed a contract with JPE Elektroprivreda Bosne i Hercegovine d.d. Sarajewo with a value of EUR 10,150,000. This contract is for the replacement of electrostatic precipitator and modernization of ash and cinder transportation system in unit No. 6 - 215 MW in the Tuzla, Bosnia i Herzegovina CHP Plant.

In the most recent 12-month period, the Company signed several contracts with Constructions Industrielles de la Mediterranee ("Orderer") with a total value of approx. EUR 13 million. The contract with the largest value of EUR 10.28 million, validly signed on 6 March 2012, is for the supply of pressure parts for two boilers in the Oxfordshire (UK) household waste incineration plant.

These financial statements of the Company were authorized for publication on 30 April 2012 based on resolution number 34 of the Management Board of RAFAKO S.A. dated 30 April 2012.

Signed by:

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	....
30 April 2012	Jolanta Markowicz	Chief Accountant	....