RAFAKO S.A.

THE PBG GROUP

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

with the auditor's opinion

COPY NO. 1

Table of content

(in PLN thousand)

Statement of comprehensive income

	Note	*12-month period ended 31 December 2012*	*12-month period ended 31 December 2011*
Continuing operations			
Sales revenue		**1 078 589**	**1 030 092**
Sale of products and services	16.1	1 074 811	1 027 158
Sale of materials	16.2	3 778	2 934
Cost of sales	16.4	(925 938)	(897 075)
Gross profit		**152 651**	**133 017**
Other operating income	16.7	11 738	10 941
Selling and distribution expenses	16.416.4	(21 062)	(50 997)
Administrative expenses	16.4	(33 809)	(26 108)
Other operating expenses	16.8	(3 208)	(6 786)
Operating profit		**106 310**	**60 067**
Finance income	16.9	14 724	16 961
Finance costs	16.10	(29 910)	(3 354)
Result on the loss of control of a subsidiary	46	(67 756)	–
Profit before tax		**23 368**	**73 674**
Income tax expense	17.1	(16 231)	(18 829)
Net profit from continuing operations		**7 137**	**54 845**
Other comprehensive income for the period		**(98)**	**204**
Exchange differences on translation of a foreign entity	16.11	(98)	204
Total comprehensive income for the period		**7 039**	**55 049**
Weighted average number of shares	20	69 600 000	69 600 000
Earnings per share in PLN	20	0.10	0.79

Racibórz, 19 March 2013

Paweł Mortas	Krzysztof Burek	Jarosław Dusiło	Edward Kasprzak	Maciej Modrowski	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 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	23	148 007	133 567
Investment properties		–	–
Intangible assets	27	8 883	9 393
Long-term trade receivables	30	31	–
Long-term financial assets		178 816	204 198
Shares in subsidiaries	29	59 705	203 216
Shares in other entities	29	366	510
Long-term loans granted	30	471	472
Long-term deposits	30	–	–
Other long-term assets	30	118 274	–
Deferred tax asset	17.3	32 587	48 273
		368 324	**395 431**
Current assets			
Inventories	32	22 587	26 882
Trade receivables, other receivables and prepayments		649 708	302 870
Trade receivables	33	283 129	183 781
Corporate income tax receivable		21 326	–
Other receivables and prepayments	33	345 253	119 089
Receivables from valuation of construction contracts and related prepayments	15	151 416	78 519
Short-term financial assets		49 954	196 857
Derivative instruments	34.1	53	343
Short-term investments	34.2	–	15 769
Short-term deposits	34.3	–	7 211
Short-term loans granted	34.4	–	133
Other short-term financial assets	34.5	14 500	–
Cash and cash equivalents	34.6	35 401	173 401
Other short-term nonfinancial assets	31	5 676	–
		879 341	**605 128**
Non-current assets held for sale	25	34	37
TOTAL ASSETS		**1 247 699**	**1 000 596**

Racibórz, 19 March 2013

Pawel Mortas	Krzysztof Burek	Jaroslaw Dusilo	Edward Kasprzak	Maciej Modrowski	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 - continued

	Note	*31 December 2012*	*31 December 2011*
EQUITY AND LIABILITIES			
Equity			
Issued capital	35.1	139 200	139 200
Share premium	35.4	36 778	36 778
Reserve capital	35.5	213 845	158 654
Exchange differences on translation of a foreign entity	35.6	532	630
Retained earnings/Accumulated losses	35.7	7 137	55 191
		397 492	**390 453**
Non-current liabilities			
Interest-bearing loans and borrowings	35.7	–	–
Finance lease liabilities	43	64	176
Deferred tax liability	39.9	–	–
Provision for employee benefits	38	21 472	19 922
Trade and other payables		29 465	16 717
Trade payables	39.1	17 443	15 812
Capital commitments	39.1	128	48
Other liabilities	39.1	11 894	857
		51 001	**36 815**
Current liabilities			
Trade and other payables		273 122	245 208
Trade payables	39.2	236 235	172 117
Capital commitments	39.2	3 729	4 093
Income tax payable	39.9	–	21 026
Other liabilities	39.2	33 158	47 972
Current portion of interest-bearing loans and borrowings	37	291 987	–
Other financial liabilities and finance lease liabilities	39.2, 43	111	6 079
Provision for employee benefits	38	1 895	1 424
Liabilities, provisions and deferred income relating to valuation of construction contracts		232 091	320 617
Liabilities arising from valuation of construction contracts	15	135 274	248 519
Provisions for valuation of construction contracts	15	96 333	71 853
Grants	40	484	245
		799 206	**573 328**
Total liabilities		**850 207**	**610 143**
TOTAL EQUITY AND LIABILITES		**1 247 699**	**1 000 596**

Racibórz, 19 March 2013

Paweł Mortas	Krzysztof Burek	Jarosław Dusiło	Edward Kasprzak	Maciej Modrowski	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 2012*	*12-month period ended 31 December 2011*
Cash flows from operating activities			
Profit/(loss) before taxation		23 368	73 674
Adjustments for:		(370 326)	143 942
Depreciation and amortization	16.5	10 517	10 558
(Gain)/loss on foreign exchange differences		(1)	9
Interest and dividends, net		4 311	(1 537)
(Gain)/loss on investing activities	21	14 447	(936)
Increase/ (decrease) in financial liabilities/financial assets from valuation of derivatives		(5 696)	3 913
Loss of control of a subsidiary	46	67 756	–
(Increase)/ decrease in receivables	31	(325 516)	(43 510)
(Increase)/ decrease in inventories		4 295	(761)
Increase/ (decrease) in payables and provisions for employee benefits excluding loans and borrowings		64 549	25 607
Change in prepayments and accruals for construction contracts		(161 662)	158 672
Income tax paid		(42 892)	(7 644)
Other		(434)	(429)
Net cash generated from / (used in) operating activities		**(346 958)**	**217 616**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		364	386
Purchase of property, plant and equipment and intangible assets		(25 534)	(14 753)
Sale of financial assets		22 773	163 434
Purchase of financial assets		(602)	(156 886)
Share capital increase in the subsidiary	29	(17 201)	–
Acquisition of a subsidiary net of cash acquired		–	(160 784)
Redemption of shares in a subsidiary		–	5 965
Dividends and interest received		507	1 213
Loans granted	34.4	(32 000)	(133)
Repayment of loans granted		135	–
Other	21	(20 176)	22
Net cash used in investing activities		**(71 734)**	**(161 536)**
Cash flows from financing activities			
Proceeds from issuance of shares		–	–
Payment of finance lease liabilities		(94)	(105)
Proceeds from loans		291 063	–
Dividends paid to shareholders		–	(39 672)
Interest paid		(10 851)	–
Other		672	648
Net cash generated from / (used in) financing activities		**280 790**	**(39 129)**
Net increase/(decrease) in cash and cash equivalents		(137 902)	16 951
Net foreign exchange difference		(98)	204
Cash and cash equivalents at the beginning of the period	34.6	**173 401**	**156 246**
Cash and cash equivalents at the end of the period, of which:	34.6	**35 401**	**173 401**
- restricted cash	34.6	872	496

Racibórz, 19 March 2013

Paweł Mortas	Krzysztof Burek	Jarosław Dusiło	Edward Kasprzak	Maciej Modrowski	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)

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Statement of changes in equity

	Issued capital	*Share premium*	*Reserve capital*	*Exchange differences on translation of a foreign entity*	*Retained earnings/ Accumulated losses*	*Total*
As at 1 January 2012	**139 200**	**36 778**	**158 654**	**630**	**55 191**	**390 453**
Total comprehensive income for the period	–	–	–	(98)	7 137	7 039
Appropriation of prior year profits	–	–	55 191	–	(55 191)	–
Dividend	–	–	–	–	–	–
As at 31 December 2012	**139 200**	**36 778**	**213 845**	**532**	**7 137**	**397 492**
As at 1 January 2011	**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**

Racibórz, 19 March 2013

Pawel Mortas	Krzysztof Burek	Jaroslaw Dusilo	Edward Kasprzak	Maciej Modrowski	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 a 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 Company was granted statistical number REGON 270217865.

The duration of the Company is unlimited.

The Company's financial statements cover the year ended 31 December 2012 and include comparative data for the year ended 31 December 2011.

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 25.11.Z),
- 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).
- Forging, pressing, stamping and roll forming of metal; powder metallurgy (PKD 25.50.Z)

- Manufacture of instruments and appliances for measuring, testing and navigation (PKD 26.51.Z)
- Manufacture of electric motors, generators and transformers (PKD 27.11.Z)
- Production of electricity distribution and control apparatus (PKD 27.12.Z)
- Manufacture of engines and turbines, except aircraft, vehicle and cycle engines (PKD 28.11.Z)
- Manufacture of hydraulic and pneumatic drive equipment and accessories (PKD 28.12.Z)
- Manufacture of other pumps and compressors (PKD 28.13.Z)
- Manufacture of lifting and handling equipment (PKD 28.22.Z)
- Repair and maintenance of electrical equipment (PKD 33.14.Z)
- Treatment and disposal of non-hazardous waste (PKD 38.21.Z)
- Dismantling of wrecks (PKD 38.31.Z)
- Remediation activities and other services related to waste management (PKD 39.00.Z)
- Construction of residential and non-residential buildings (PKD 41.20.Z)
- Construction of roads and motorways (PKD 42.11.Z)
- Construction of railways and underground railways (PKD 42.12.Z)
- Construction of pipelines and distribution networks (PKD 42.21.Z)
- Construction of telecommunications lines and power lines (PKD 42.22.Z)
- Construction of other civil engineering facilities, not classified elsewhere (PKD 42.99.Z)
- Dismantling and demolition of buildings (PKD 43.11.Z)
- Site preparation (PKD 43.12.Z)
- Digging, drilling and boring for geological and engineering purposes (PKD 43.13.Z)
- Installation of electrical wiring and fittings (PKD 43.21.Z)
- Installation of plumbing, heat, gas and air-conditioning systems (PKD 43.22.Z)
- Other building installation (PKD 43.29.Z)
- Erection of roof covering and frames (PKD 43.91.Z)
- Wholesale of waste and scrap (PKD 46.77.Z)
- Warehousing and storage of other goods (PKD 52.10.B)
- Software related activities (PKD 62.01.Z)
- Computer consultancy (PKD 62.02.Z)
- IT equipment management activities (PKD 62.03.Z)
- Other services in the field of information and computer technology (PKD 62.09.Z)
- Data processing; hosting and similar activities (PKD 63.11.Z)
- Specialized design activities (PKD 74.10.Z)
- Renting and leasing of cars and vans (PKD 77.11.Z)
- Rental and leasing of other motor vehicles, except motorcycles (PKD 77.12.Z)
- Renting and leasing of construction machinery and equipment (PKD 77.32.Z)
- Renting and leasing of office machinery and equipment including computers (PKD 77.33.Z)
- Renting and leasing of other machinery, equipment and tangible goods not classified elsewhere (PKD 77.39.Z)
- Repair and maintenance of computers and peripheral equipment (PKD 95.11.Z)
- Operation of sports facilities (PKD 93.13.Z)
- Other sporting activities (PKD 93.19.Z)
- Other business and management consultancy activities (PKD 70.22.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.

2. Identification of consolidated financial statements

The Company also prepares consolidated financial statements of the RAFAKO Capital Group for the year ended 31 December 2012, which were authorized for issue on 19 March 2013.

(in PLN thousand)

3. Composition of the Management Board and Supervisory Board

In the 12-month period ended 31 December 2012, the following changes took place in the composition of the Company's Management Board:

On 29 October 2012, the Supervisory Board of RAFAKO S.A. dismissed Wiesław Różacki, Bożena Kawałko and Dariusz Karwacki from their positions in the Management Board and appointed Paweł Mortas as President of the Management Board and Maciej Kaczorowski as Management Board Member.

On 15 November 2012, the Regional Court in Gliwice (at the request of Wiesław Różacki, Bożena Kawałko and Dariusz Karwacki) issued a decision on the suspension of the resolutions of the Supervisory Board of RAFAKO S.A. dated 29 October 2012 and prohibited the Supervisory Board Members from making any changes in the Management Board of RAFAKO S.A. until the date of holding and closing the Extraordinary General Meeting convened on 26 November 2012.

On 16 November 2012, the Supervisory Board adopted resolutions suspending members of RAFAKO S.A.'s Management Board: Wiesław Różacki, Bożena Kawałko and Dariusz Karwacki in the fulfillment of their duties until 16 February 2013.

On 19 November 2012, the Company's Management Board communicated that, on 18 November 2012, it was notified of Maciej Kaczorowski's resignation from taking a position of a Management Board Member of RAFAKO S.A., submitted on 2 November 2012 for personal reasons (following explanations, the ultimate date of the resignation is 18 November 2012).

On 22 November 2012, the Regional Court in Gliwice issued a decision on the motion submitted by Wiesław Różacki, Dariusz Karwacki and Bożena Kawałko. The Regional Court in Gliwice stated that the decision of 15 November 2012 did not concern suspension of Management Board members in their activities. The Supervisory Board of RAFAKO S.A. had not been deprived of its powers, whether arising from law or the Company's Statutes, to suspend Management Board members in their activities for important reasons. Thus, there is no legal basis to challenge, based on the Court's decision of 15 November 2012, the effectiveness of suspension of Wiesław Różacki, Dariusz Karwacki and Bożena Kawałko in their activities as Management Board members in accordance with the resolute ions of the Supervisory Board dated 16 November 2012.

On 26 November 2012, the Supervisory Board of RAFAKO S.A. unanimously adopted a resolution on dismissal of suspended Management Board Members: Wiesław Różacki, Dariusz Karwacki and Bożena Kawałko, determined the number of Management Board members to be 3 and appointed Paweł Mortas as President of the Management Board with effect from 26 November 2012.

On 19 March 2013, the Supervisory Board of RAFAKO S.A. determined the number of Management Board members to be 5 and appointed Edward Kasprzak and Maciej Modrowski as Management Board Members.

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

Paweł Mortas	- President
Krzysztof Burek	- Vice President
Jarosław Dusiło	- Vice President
Edward Kasprzak	- Vice President
Maciej Modrowski	- Vice President

(in PLN thousand)

In the 12-month period ended 31 December 2012, the following changes took place in the composition of the Company's Supervisory Board.

On 12 January 2012, the Management Board of RAFAKO S.A. received a declaration of Witold Okarma's resignation from being a member of the Company's Supervisory Board as of 16 January 2012.

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

On 8 May 2012, the Company's Management Board received a declaration of Robert Koński's resignation from being a member of the Company's Supervisory Board as of 8 May 2012.

On 14 June 2012, the Ordinary General Meeting of RAFAKO S.A. determined the number of Supervisory Board members to be six.

On 26 November 2012, the Ordinary General Meeting of RAFAKO S.A determined the number of Supervisory Board members to be 7, dismissed Piotr Rutkowski and Leszek Wysłocki from their positions in the Supervisory Board and appointed Przemysław Cieszyński, Agenor Gawrzyał, Edyta Senger-Kałat and Ryszard Wojnowski as members of the 6th term Supervisory Board. At the same time, the Management Board of RAFAKO S.A. communicates that, prior to taking the above-mentioned resolutions, the Company received a declaration of Przemysław Szkudlarczyk's resignation from being a member of the Company's Supervisory Board as of 26 November 2012.

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

Agenor Gawrzyał	- Chairman of the Supervisory Board
Jerzy Wiśniewski	- Vice Chairman of the Supervisory Board
Piotr Wawrzynowicz	- Secretary of the Supervisory Board
Małgorzata Wiśniewska	- Member of the Supervisory Board
Edyta Senger - Kałat	- Member of the Supervisory Board
Przemysław Cieszyński	- Member of the Supervisory Board
Ryszard Wojnowski	- Member of the Supervisory Board

4. Authorization of the financial statements

These financial statements for the year ended 31 December 2012 were authorized by the Company's Management Board on 19 March 2013.

(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 of the Company in the capital*	
		31 December 2012	*31 December 2011*
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%
ENERGOTECHNIKA ENGINEERING Sp. z o.o.** Gliwice	Activities relating to construction, urban, technological design and engineering consultancy	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%	100%
ENERGOMONTAŻ-POŁUDNIE S.A. Katowice	Services in the field of construction and assembly-related production, general execution of investments, assembly, modernization, overhaul of energy and industrial devices and installations	0%****	64.84%****
ENERGOMONTAŻ-POŁUDNIE SP. Z O. O. (formerly Modus II Sp. z o.o.)*** Katowice	Management and sale of real estate on one's own account	0%****	64.84%****

* 100% subsidiary of FPM S.A. and indirect subsidiary of RAFAKO S.A.
** 100% subsidiary of RAFAKO ENGINEERING Sp. z o.o. and indirect subsidiary of RAFAKO S.A., acquired on 29 August 2012
*** 100% subsidiary of ENERGOMONTAŻ POŁUDNIE S.A. (formerly Modus II sp z o.o.) and indirect subsidiary of RAFAKO S.A.
****with reference to the Court's approval of the petition for PBG S.A.'s bankruptcy by way of arrangement with creditors, considering the fact that the acquisition of 64.84% of shares was recognized as void by virtue of law, RAFAKO S.A. lost control over ENERGOMONTAŻ POŁUDNIE S.A. on 13 June 2012 - this issue is discussed in detail in Note 46.

As at 31 December 2012 and 31 December 2011, the Company's share in the total number of votes held in the subsidiaries 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. 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.

Syndicated agreements

Each time after signing a construction contract to be implemented as part of a consortium, Management evaluates the nature of the contract in order to determine the method of accounting for contract revenue and expenses.

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 2012 and the values of assets and liabilities as at 31 December 2012:

- 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),
- the recoverable amount / fair value of receivables, including receivables under arbitration and arrangement proceedings,
- 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 reporting period are discussed below.

Impairment of assets

At the end of the reporting period, the Company conducts a test for impairment of goodwill and an analysis of the 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 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 made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the 12-month period ended 31 December 2012 there were no such indications.

The amounts of impairment write-downs at the end of the reporting period are presented in Notes 23, 27 and 33.1.

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 their estimated residual values. 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 reporting date.

Provision for expected losses on contracts

At the end of each reporting period the Company makes a remeasurement 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 15 to these financial statements.

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 of Explanatory notes to the financial statements.

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. The issue of fair value/ recoverable amount of receivables from related parties in the process of bankruptcy is discussed in detail in Note 46.

Recognition of a financial asset (receivable) due to loss of control of a subsidiary

As a result of the loss of control of a subsidiary as discussed in detail in Note 46, the Company recognized, in the statement of financial position, a receivable which was initially recognized at fair value i.e. the present value of the expected inflows. This valuation was performed based on a set of assumptions, such as the estimated discounting period, estimated amount of the inflow, estimated discount rate. Given the uncertainty as to the Company's ability to claim a refund of the price paid for the shares of ENERGOMONTAŻ - POŁUDNIE S.A., the estimation of the parameters for measurement of the receivable in question, in particular at its initial recognition, is difficult and subject to uncertainty around the realization of these estimates.

7. Authorization of the financial statements

These financial statements were authorized for issue by the Management Board on 19 March 2013.

8. Basis of preparation of the financial statements

These financial statements have been prepared on a historical cost basis, modified in respect of financial instruments measured at fair value.

These financial statements have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the balance sheet date i.e. 31 December 2012.

In 2012, the Company recorded a profit, despite the fact that it recognized significant allowances for doubtful debts and provisions for expected losses/penalties on some contracts. The key issue for the Company's ability to continue as a going concern is its financial liquidity i.e. the ability to obtain sufficient funding for its contracts. As a result, the Management Board has prepared financial forecasts for 2013 based on the following key assumptions:

- commencement of the implementation of the Company's strategic PGE Opole and Jaworzno Power Plant projects in 2013, affecting both the level of sales and operating cash flows related to prepayments received;
- extension of external funding in the form of a bank loan (under the Annex of 7 March 2013, the date of repayment of the Company's loan was extended until 30 June 2013) and access to bank/insurance guarantees allowing for the performance of key contracts as referred to, among others, in the paragraph above;
- recoverability of contested receivables.

With respect to the above-mentioned assumptions, the Company's Management Board has identified:

- the risks/uncertainties relating to delays in performance of the Company's ever-biggest Opole contract due to external factors (unresolved court dispute regarding environmental permit, revision of investment strategy by the PGE Group), delays in performance of the Jaworzno contract (due to pending appeal procedure before the National Chamber of Appeal);
- uncertainty around settlement of receivables from ALSTOM Group companies,
- the requirement to extend funding by financial institutions and obtain the necessary bank/insurance guarantees enabling performance of key contracts.

The realization of the above-mentioned risks/uncertainties together with the need to employ significant funds to provide a security for contract guarantees issued for the Company mainly by banks (at the 2012 year-end, the value of deposits placed as security for guarantees amounted to PLN 192.7 million) may give rise to significant uncertainty as to the Company's ability to continue as a going concern. As a result, the Company's Management, having considered alternative scenarios for the key assumptions underlying financial forecasts, plans to take the following actions:

a) partial repayment of bank debt and extending the loan limit at the required level (the Company has complied with all loan covenants both at the balance sheet date and at the date of these financial statements) until 31 December 2013 by renegotiating the terms of the loan agreement (readiness to establish collateral on non-current assets and present financial projections),
b) entering into negotiations to change the type of contract guarantee collaterals granted to banks and insurance companies from cash deposits to other forms of collateral, e.g. insurance guarantees or contract receivables.

To conclude, the key factors critical for the success of the actions taken by the Company's Management include the ability to retain continued external funding, obtain bank/insurance guarantees and implement the strategic PGE Opole or Jaworzno Power Plant projects in 2013.

Based on the Company's financial forecasts for 2013, which reflect both the risks of delay in the completion of key contracts as well as chances embedded in possible effects of the actions taken by the Company, the Management Board has prepared the accompanying financial statements on a going concern basis.

8.1. Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the IFRSs endorsed by the European Union. At the date of authorization of these financial statements for issue, in light of the ongoing process of IFRS endorsement in the European Union and the nature of the Company's activities, within the scope of the accounting policies applied by the Company there is no difference between the IFRSs that came into force 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 applicable to financial statements prepared for the year beginning on 1 January 2012.

8.2. 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.

9. 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 2012, except for the application of the following amendments to standards and new interpretations applicable to annual periods beginning on or after 1 January 2012:

- Amendments to IFRS 7 *Financial Instruments: Disclosures: Transfers of Financial Assets* – applicable to annual periods beginning on or after 1 July 2011 – the application of these amendments had no impact on the Company's financial position, results of its operations or the scope of disclosures presented in its financial statements,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 – the application of these amendments had no impact on the Company's financial position, results of its operations or the scope of disclosures presented in its financial statements.

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

10. 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 Phase 1 of IFRS 9 will have an effect on classification and measurement of the Company's financial assets. The Company will assess that effect in conjunction with other phases once they are issued so as to present a consistent picture,
- Amendments to IAS 19 *Employee benefits* – applicable to annual periods beginning on or after 1 January 2013,
- Amendments to IAS 1 *Presentation of financial statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 January 2012,
- 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 – in the EU, applicable to annual periods beginning on or after 1 January 2013 at the latest,
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – 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,
- IAS 27 *Separate Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - applicable to annual periods beginning on or after 1 January 2013,
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013,
- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014,
- 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,
- *Improvements to IFRSs* (issued in May 2012) – 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 10, IFRS 12 and IAS 27 *Investment Entities* (issued on 31 October 2012) – 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.

(in PLN thousand)

As at the date of these financial statements, the introduction of the above-mentioned standards, amendments and interpretations as well as their effect on financial information resulting from first-time application of these standards, amendments or interpretations is being analyzed by the Company's Management Board.

11. Change in estimates

In the year ended 31 December 2012 and as at 31 December 2012, the Company reviewed and updated estimates in significant areas as discussed in Note 6.2.

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 remeasurement to fair value.

The following exchange rates were used for valuation purposes:

	31 December 2012	*31 December 2011*
USD	3.0996	3.4174
EUR	4.0882	4.4168
GBP	5.0119	5.2691
CHF	3.3868	3.6333
SEK	0.4757	0.4950
TRY	1.7357	1.7835

(in PLN thousand)

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 carried 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.

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

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 impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalized development costs, are not capitalized and are charged against profits in the period 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 year 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 acquiree
- 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 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:
   i. acquired principally for the purpose of selling it in the near term,
   ii. 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
   iii. 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 transaction 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 due to old age or disability.

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 retirement benefits due to old age and disability, contributions to the Social Fund and jubilee bonuses 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 due to old age or disability and contributions to the Social Fund 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 reporting 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.

13. Operating segments

The Company operates in a single market segment i.e. the "Power and environmental protection facilities" segment. The Company's Management evaluates the Company's performance based on its financial statements.

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.

(in PLN thousand)

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 2012	*31 December 2011*
Contract costs incurred to date (cumulative)	3 737 891	3 332 150
Recognized profits less recognized losses to date (cumulative)	413 710	418 867
Contract revenue recognized by reference to the stage of completion of the contract activity (cumulative)	4 151 601	3 751 017
Progress billings (cumulative)	4 045 485	3 777 193
Gross amount due to customers for contract work (presented under liabilities), of which:	(135 274)	(248 519)
- advances received (liabilities arising from advances received)	(186 307)	(215 677)
- adjustment to advances received arising from amounts due from customers	94 268	139 840
- gross amount due to customers for contract work	(43 235)	(172 682)
Gross amount due from customers for contract work (presented as an asset)	151 416	78 519
Provision for penalties due to late performance of contracts or failure to meet guaranteed technical specifications	(64 584)	(50 072)
Provision for losses on contracts	(31 749)	(21 781)

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, 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 desulfurization system 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.

(in PLN thousand)

16. Revenues and expenses

16.1. Revenue from sale of products and services

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Net revenue from sale of goods	1 032 448	1 058 618
- of which: from related parties	6 000	2 835
Net revenue from sale of services	63 048	35 333
- of which: from related parties	170	928
Gain /(loss) on realization of derivatives	(288)	(3 307)
Gain /(loss) on valuation of derivatives	5 853	(4 141)
Contractual penalties	(21 134)	(66 572)
Realized exchange differences on trade receivables	(735)	4 013
Exchange differences on valuation of trade receivables	(4 381)	3 214
Net revenue from sale of products, total	**1 074 811**	**1 027 158**
- of which: from related parties	6 170	3 763

16.2. Revenue from sale of materials

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Revenue from sale of materials	3 778	2 934
- of which: from related parties	22	–
Net revenue from sale of goods and materials, total	**3 778**	**2 934**
- of which: from related parties	22	–

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

Revenue from sales to related parties are presented in detail in Note 48.

Sales by type of market are presented in section 3.1 of the Director's Report of RAFAKO S.A. for 2012.

16.3. Geographical structure of revenues

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Revenue from sales to domestic customers	644 130	675 173
- of which: from related parties	233	3 763
Revenue from sales to foreign customers	434 459	354 919
- of which: from related parties	5 959	–
Net sales revenue, total	**1 078 589**	**1 030 092**
- of which: from related parties	6 192	3 763

(in PLN thousand)

16.4. Cost of sales

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Depreciation/amortization	10 517	10 558
Materials and energy consumption	426 690	433 239
External services	427 502	339 873
Taxes and charges	5 618	5 230
Wages and salaries	120 051	107 461
Social security and other benefits	28 235	26 753
Business trip expenses	6 619	6 401
Advertising expenses	4 464	3 176
Gain /(loss) on valuation of derivatives	157	(227)
Gain /(loss) on realization of derivatives	–	41
Realized exchange differences	(1 870)	1 280
Unrealized exchange differences	(2 451)	1 470
Other	2 468	2 130
Costs by type, total	**1 028 000**	**937 385**
Change in inventories, provisions, prepayments and accruals (including adjustment resulting from IAS 11)	(46 167)	37 573
Cost of goods produced for internal purposes	(3 376)	(2 841)
Selling and distribution expenses (negative value)	(21 062)	(50 997)
Administrative expenses (negative value)	(33 809)	(26 108)
Cost of products sold	**923 586**	**895 012**
Cost of materials sold	2 352	2 063
Costs of sales	**925 938**	**897 075**

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

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Items included in cost of sales (cost of goods for resale and products sold)	9 095	9 454
Depreciation of property, plant and equipment	7 646	8 357
Amortization of intangible assets	1 449	1 097
Impairment of property, plant and equipment	–	–
Items recognized in selling and distribution expenses:	507	430
Depreciation of property, plant and equipment	308	263
Amortization of intangible assets	199	167
Items recognized in administrative expenses:	915	674
Depreciation of property, plant and equipment	783	612
Amortization of intangible assets	132	62

(in PLN thousand)

16.6. Employee benefit expenses

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Wages and salaries, of which:	120 051	107 461
- current wages and salaries expense	115 524	104 592
- other benefits, including post-employment benefits	4 527	2 869
Social security costs	28 235	26 753
	148 286	**134 214**

16.7. Other operating income

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Revenue from contractual penalties	4 974	4 992
Reversal of provision for amounts due to the state budget	3 237	–
Gain on sale of property, plant and equipment	81	286
Grants	433	430
Compensations received	964	1 213
Revenue from sale of CO_2 emission allowances	329	68
Stock-take surpluses	267	–
Gain on sale of receivables	–	2 000
Reimbursement of the cost of training of juvenile workers	817	852
Income from recovered debt previously written-down	–	523
Other	636	577
	11 738	**10 941**

16.8. Other operating expenses

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Donations	326	1 310
Costs of scrap materials	494	296
Remuneration for invention proposals	896	–
Legal costs	289	–
Recognition of a provision for amounts due to the state budget	–	3 412
Impairment of property, plant and equipment	–	72
“Power Engineer’s Day” organization cost	418	296
Exchange differences on investing activities	–	9
Other	785	1 391
	3 208	**6 786**

(in PLN thousand)

16.9. Finance income

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Interest on financial instruments	1 727	10 416
Interest on granted deposits	6 826	–
Other interest	13	30
Gains from valuation of financial instruments	650	885
Reversal of accruals for finance costs	952	–
Net foreign exchange gains	–	4 315
Discount of long-term settlements	4 490	988
Dividends	23	11
Other finance income	43	316
	14 724	**16 961**

16.10. Finance costs

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Net foreign exchange losses	3 643	–
Interest on financial instruments	11 833	88
Other interest	34	22
Bank commission on loans taken out	666	–
Acquisition costs	6	1 733
Costs arising from valuation of financial instruments	144	–
Recognition of an allowance for granted loans	13 426	–
Settlements under financial guarantees	–	1 160
Other finance costs	158	351
	29 910	**3 354**

Details of finance income and finance costs related to financial instruments are presented in Note 52.2.

16.11. Items of other comprehensive income

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Exchange differences on translation of a foreign entity	(98)	204
	(98)	**204**

(in PLN thousand)

17. Income tax

17.1. Income tax expense

Main components of income tax expense in the statement of comprehensive income are as follows:

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Income statement		
Current income tax	(545)	(24 117)
Current income tax expense	(545)	(24 117)
Adjustments to current income tax from previous years	–	–
Deferred tax	(15 686)	5 288
Related to recognition and reversal of temporary differences	(15 686)	5 288
Adjustments to deferred tax from previous years	–	–
Income tax expense in the income statement	**(16 231)**	**(18 829)**

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 2012 is as follows:

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Profit before tax from continued operations	23 368	73 675
Profit before tax from discontinued operations	–	–
Profit before taxation	23 368	73 675
	23 368	**73 675**
Tax at Poland's statutory tax rate of 19%	4 440	13 998
Non-tax-deductible costs (permanent differences), of which:	13 979	5 921
due to recognition of provision for contractual penalties	1 265	3 804
due to the write-off of receivables, classified as non-tax-deductible	183	824
due to donations given	62	249
due to representation costs	150	119
due to recognition of non-deductible provisions/accruals for costs	77	340
due to recognition of a doubtful debt allowance arising from loss of control of a subsidiary	9 434	–
due to manufacturing costs relating to the foreign branch	238	11
due to recognition of a doubtful debt allowance for granted loans	1 886	–
other	684	574
Income not included in taxable profit (permanent differences)	(2 384)	(848)
from contractual penalties	(1 806)	–
from non-deductible VAT on receivables	(3)	(748)
other	(575)	(100)
Other	196	(242)
Tax at the effective tax rate of 69.46%	16 231	18 829
Income tax (expense) in the income statement	16 231	18 829
Income tax attributable to discontinued operations	–	–
	16 231	**18 829**

(in PLN thousand)

17.3. Deferred income tax calculated as at 31 December 2012

Deferred income tax calculated as at 31 December 2012 relates to the following:

	Statement of financial position		*Statement of comprehensive income for the period ended*	
	31 December 2012	*31 December 2011*	*31 December 2012*	*31 December 2011*
- investment tax credits	(5)	(6)	1	–
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(12 296)	(11 187)	(1 109)	(946)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	–	(146)	146	253
- difference between tax base and carrying amount of loans and receivables	6 118	9 898	(3 780)	634
- different timing of recognition of revenue from sale of products and services for tax purposes	(39 678)	(9 436)	(30 242)	28 107
- difference between tax base and carrying amount of inventories	1 284	1 154	130	4
- provisions	26 301	19 198	7 103	(170)
- difference between tax base and carrying amount of financial liabilities measured at amortized cost	187	–	187	–
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	(10)	1 072	(1 082)	743
- difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	33	310	(277)	(541)
- different timing of recognition of cost of sales for tax purposes	47 391	37 872	9 519	(21 778)
- tax loss	2 935	–	2 935	–
- other	327	(456)	783	(1 018)
Deferred tax expense			**(15 686)**	**5 288**
Net deferred tax asset / liability, of which:	**32 587**	**48 273**		
Deferred tax asset	32 587	48 273		
Deferred tax liability	–	–		

The Company recorded a tax loss for the 12-month period ended 31 December 2012, which will be utilized in future reporting periods.

18. Discontinued operations

The Company did not discontinue any operations in the 12-month period ended 31 December 2012.

19. Proposed appropriation of profit for the year 2012

The Company's Management Board recommends allocating the profit for 2012 of PLN 7,137,017.78 to the reserve capital.

(in PLN thousand)

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.

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 2012	*12-month period ended 31 December 2011*
Net profit from continued operations	7 137	54 845
Profit from discontinued operations	–	–
Net profit	7 137	54 845
Net profit attributable to ordinary shareholders, used to compute earnings per share	**7 137**	**54 845**
Weighted average number of ordinary shares, used to calculate basic earnings per share	69 600 000	69 600 000
Effect of dilution:	–	–
Stock options	–	–
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	0.10	0.79

The Company does not present diluted earnings per share for the 12-month period ended 31 December 2012 as it does not hold any dilutive financial instruments.

(in PLN thousand)

21. Significant items presented in the statement of cash flows

	31 December 2012
Balance sheet change in receivables, of which:	(325 543)
(Increase)/ decrease in trade receivables	(99 379)
(Increase)/ decrease in advances paid	1 823
(Increase)/ decrease in receivables from deposits	(191 156)
(Increase)/ decrease in receivables from the Social Fund	1 539
(Increase)/ decrease in other receivables	(38 370)
Settlement of a loan granted to a subsidiary	27
Change in receivables presented in the cash flow statement	**(325 516)**
Other cash flows from investing activities, of which:	
Prepayment for acquisition of rights to a loan	(10 500)
Prepayment for acquisition of shares	(5 676)
Additional payments to the share capital of a subsidiary	(4 000)
	(20 176)
(Gain)/loss on investing activities, of which:	
Gain (loss) on sale of non-financial long-term assets	440
Gain (loss) on sale of financial assets (other than derivatives)	(125)
Allowance for loans granted	13 426
Valuation of financial assets	144
Other	562
	14 447

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 2012	*31 December 2011*
Social Fund assets	2 386	3 627
Cash of the Social Fund	2 007	3 300
Loans granted to employees	379	327
Social Fund liability	(2 269)	(1 971)
Net balance	**117**	**1 656**

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Transfers made to the Social Fund during the reporting period	2 421	4 320
	2 421	**4 320**

(in PLN thousand)

23. Property, plant and equipment

31 December 2012	*Land*	*Buildings and structures*	*Plant and equipment*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Net carrying amount as at 1 January 2012	**9 169**	**69 541**	**44 201**	**3 572**	–	**7 084**	**133 567**
Purchase	7	–	–	–	–	23 545	23 552
Liquidation / sale	(4)	(49)	(320)	–	–	–	(373)
Transfers from assets under construction	–	11 661	10 339	62	–	(22 062)	–
Exchange differences on translation of foreign entities	–	–	(1)	–	–	–	(1)
Depreciation charge for the period	–	(2 733)	(5 483)	(522)	–	–	(8 738)
Impairment of property, plant and equipment for the period	–	–	–	–	–	–	–
Other, including reclassification to/from assets held for sale	–	–	(29)	29	–	–	–
Net carrying amount as at 31 December 2012	**9 172**	**78 420**	**48 707**	**3 141**	–	**8 567**	**148 007**
As at 1 January 2012							
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**
As at 31 December 2012							
Cost	9 172	96 562	97 999	6 251	2 721	8 567	221 272
Accumulated depreciation and impairment loss	–	(18 142)	(49 292)	(3 110)	(2 721)	–	(73 265)
Net carrying amount	**9 172**	**78 420**	**48 707**	**3 141**	–	**8 567**	**148 007**

(in PLN thousand)

31 December 2011	*Land*	*Buildings and structures*	*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 to/from assets 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)

Description of fixed assets pledged as security

As at 31 December 2012 and 31 December 2011, 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 2012, 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 acquisition of the leased asset.

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

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 acquisition of the leased asset.

25. Non-current assets held for sale

As at 31 December 2012, the Company separated fixed assets with a value of PLN 34 thousand (as at 31 December 2011: PLN 37 thousand) and classified them as held for sale.

	31 December 2012	*31 December 2011*
Non-current assets held for sale, of which:		
Land	–	–
Buildings and structures	–	–
Plant and equipment	34	9
Motor vehicles	–	28
	34	**37**

26. Investment properties

As at 31 December 2012 and 31 December 2011, the Company held no investment properties.

27. Intangible assets

31 December 2012	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at 1 January 2012	**376**	**9 017**	–	–	**9 393**
Purchase	–	–	–	1 698	1 698
Liquidation / sale	–	(429)	–	–	(429)
Transfers from intangible assets under development	–	1 698	–	(1 698)	–
Impairment loss	–	–	–	–	–
Amortization charge for the period	–	(1 779)	–	–	(1 779)
Exchange differences on translation of a foreign entity	–	–	–	–	–
As at 31 December 2012	**376**	**8 507**	–	–	**8 883**
As at 1 January 2012					
Cost	376	18 665	108	2 255	21 404
Accumulated amortization and impairment loss	–	(9 648)	(108)	(2 255)	(12 011)
Net carrying amount	**376**	**9 017**	–	–	**9 393**
As at 31 December 2012					
Cost	376	19 903	108	1 698	22 085
Accumulated amortization and impairment loss		(11 396)	(108)	(1 698)	(13 202)
Net carrying amount	**376**	**8 507**	–	–	**8 883**

(in PLN thousand)

31 December 2011	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at 1 January 2011	**376**	**8 089**	–	–	**8 465**
Purchase	–	–	–	2 255	2 255
Liquidation / sale	–	–	–	–	–
Transfers from intangible assets under development	–	2 255	–	(2 255)	–
Impairment loss	–	–	–	–	–
Amortization charge for the period	–	(1 327)	–	–	(1 327)
Exchange differences on translation of a foreign entity	–	–	–	–	–
As at 31 December 2011	**376**	**9 017**	–	–	**9 393**
As at 1 January 2011					
Cost	376	16 411	108	3 257	20 152
Accumulated amortization and impairment loss	–	(8 322)	(108)	(3 257)	(11 687)
Net carrying amount	**376**	**8 089**	–	–	**8 465**
As at 31 December 2011					
Cost	376	18 665	108	2 255	21 404
Accumulated amortization and impairment loss	–	(9 648)	(108)	(2 255)	(12 011)
Net carrying amount	**376**	**9 017**	–	–	**9 393**

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 2,011 thousand as at 31 December 2012 (as at 31 December 2011: PLN 2,346 thousand); the remaining period of amortization of the license from 31 December 2012 is 6 years;
- the Primavera 6 software, the carrying amount of which is PLN 1,247 thousand as at 31 December 2012 (as at 31 December 2011: PLN 0 thousand); the remaining period of amortization of the license from 31 December 2012 is 9 years.

Description of intangible assets pledged as security

No intangible assets were pledged to secure the Company's liabilities as at 31 December 2012 or 31 December 2011.

Intangible assets held for sale

There were no intangible assets held for sale as at 31 December 2012 or 31 December 2011.

Goodwill

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

Amortization of patents and licenses

In the 12-month periods ended 31 December 2012 and 31 December 2011, patents, licenses and computer software were amortized on a systematic basis over their useful lives of 2 to 10 years.

Development expenses

The Company did not incur any development expenses in the 12-month periods ended 31 December 2012 or 31 December 2011.

(in PLN thousand)

Business combinations

The Company did not merge with other business entities in the 12-month periods ended 31 December 2012 or 31 December 2011.

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 2012 or 31 December 2011.

29. Shares in other entities

	31 December 2012	*31 December 2011*
Shares in subsidiaries listed on the stock exchange	–	160 712
Shares in subsidiaries not listed on the stock exchange	59 705	42 504
Shares in other companies listed on the stock exchange	347	491
Shares in other companies not listed on the stock exchange	19	19
	60 071	**203 726**

None of the Company's shares in subsidiaries were pledged to secure the Company's liabilities as at 31 December 2012 or 31 December 2011.

In the 12-month period ended 31 December 2012, the Company recorded a change of PLN 160,712 thousand in the balance of shares held in listed subsidiaries, which was due to the loss of control of a subsidiary (details are included in Note 46).

Furthermore, in the 12-month period ended 31 December 2012 a change of PLN 17,201 thousand was recorded in the balance of shares held in unlisted subsidiaries, which results from the increase of a subsidiary's share capital. On 30 March 2012, the subsidiary PGL – DOM Sp. z o.o. increased its share capital by PLN 17,200,000 i.e. up to PLN 23,270,000 by creating 1,720 new shares with a nominal value of PLN 10,000 each. On 30 March 2012, RAFAKO S.A., based on a declaration of acquisition of shares in the increased share capital, acquired 1,720 shares in PGL – DOM Sp. z o.o. for an amount of PLN 17,200,000. The parent's percentage share in the share capital of PGL – DOM Sp. z o.o. did not change.

30. Other long-term financial assets

	31 December 2012	*31 December 2011*
Loans granted	471	472
Long-term deposits, of which:	–	–
- pledged as security for bank guarantees granted to the Company	–	–
Long-term trade receivables	31	–
Other long-term financial assets, of which:	118 274	–
receivable from the return of the shares of ENERGOMONTAŻ – POŁUDNIE S.A.	98 110	–
receivable from loan granted to HYDROBUDOWA S.A. in liquidation bankruptcy	20 164	–
	118 776	**472**

31. Other short-term non-financial assets

As at 31 December 2012, the Company presented a separate item of "Other short-term non-financial assets" in its statement of financial position, under which it included an advance payment for the purchase of shares amounting to PLN 5,676 thousand.

(in PLN thousand)

32. Inventories

	31 December 2012	*31 December 2011*
Materials (at cost)	22 587	26 882
Cost	29 347	32 957
Net realizable value	22 587	26 882
Work-in-progress	–	–
Cost	–	–
Products:	–	–
Cost	–	–
Net realizable value	–	–
Total inventories, at the lower of cost and net realizable value	**22 587**	**26 882**
- of which: pledged as security for liabilities	–	–

Write-downs against inventories

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Opening balance	(6 075)	(6 051)
- recognition of write-downs	(868)	(301)
- reversal of write-downs	183	277
Closing balance	**(6 760)**	**(6 075)**

33. Trade and other receivables and prepayments

	31 December 2012	*31 December 2011*
Trade receivables, of which:	283 129	183 781
Trade receivables from related parties	29	292
Trade receivables from other entities	283 100	183 489
Income tax receivable	21 326	–
Other receivables and prepayments, of which:	345 228	119 059
Advance payments made to related parties	245	180
Advance payments made to other entities	27 793	29 682
Receivables from the state budget	24 021	5 656
Receivables from contractual penalties	4 263	–
Property insurance	1 029	690
Social Fund settlements	117	1 656
Disputed claims	76 386	77 065
Prepaid expenses	619	1 473
Prepayments for bank and insurance guarantees	17 925	1 007
Deposits	192 743	1 587
Other	87	63
Other receivables from related parties	25	30
Total receivables (net)	**649 708**	**302 870**
Doubtful debts allowance	44 539	64 170
Receivables (gross)	**694 247**	**367 040**

Receivables from the state budget include mainly domestic and foreign VAT receivables.

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.

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.

(in PLN thousand)

During the year, there was an increase in the level of prepaid expenses in respect of financial and insurance guarantees as well as receivables from deposits, which was due to the realization by RAFAKO S.A. of a contract for the design, delivery, construction, assembly and start-up, with all related services, of a facility comprising power units 5 and 6 in PGE Elektrownia Opole S.A. together with plant and equipment as well as the related buildings and structures, performed on a "turn key" basis, which was signed on 15 February 2012 with PGE Elektrownia Opole S.A. with its registered office in Bełchatów. The value of costs/commissions related to insurance and bank guarantees securing the contract, deferred and amortized until its completion, amounted to PLN 16,086 thousand as at 31 December 2012. The value of deposits paid to PGE Elektrownia Opole S.A. to secure performance of the contract amounted to PLN 133,284 thousand as at 31 December 2012.

The increase in the balance of other receivables from deposits is also due to the signing of the following contracts:

- contract with EDF Polska CUW Sp. z o.o., signed on 6 December 2012, for the design, construction and start-up of a wet flue gas desulfurization system using the lime and gypsum technology in the Gdynia CHP Plant; the value of deposits paid to secure performance of the contract amounted to PLN 9,087 thousand as at 31 December 2012;
- contract with EDF Polska CUW Sp. z o.o., signed on 6 December 2012, for the design, construction and start-up of a wet flue gas desulfurization system using the lime and gypsum technology in the Gdańsk CHP Plant; the value of deposits paid to secure performance of the contract amounted to PLN 11,490 thousand as at 31 December 2012;
- contract with EDF Polska CUW Sp. z o.o., signed on 6 December 2012, for the design, construction and start-up of a wet flue gas desulfurization system using the lime and gypsum technology in the Wrocław CHP Plant; the value of deposits paid to secure performance of the contract amounted to PLN 12,293 thousand as at 31 December 2012;
- contract with EDF Polska CUW Sp. z o.o., signed on 6 December 2012, for the design, construction and start-up of a wet flue gas desulfurization system using the lime and gypsum technology in EDF Kraków S.A.; the value of deposits paid to secure performance of the contract amounted to PLN 14,689 thousand as at 31 December 2012.

Trade receivables with the carrying amount of PLN 42,866 thousand were pledged as security for guarantees granted and loans taken out as at 31 December 2012 (31 December 2011: PLN 159,000 thousand).

33.1. Allowances for doubtful debts

	31 December 2012	*31 December 2011*
Opening balance, of which:	(64 170)	(62 738)
- receivables from related parties	–	(21 639)
Recognition of allowance for trade receivables	(11 245)	(44 412)
Recognition of allowance for other receivables	(9 013)	(1 836)
Reversal of allowance for trade receivables, of which:	26 351	44 680
- receivables from related parties	–	21 639
Reversal of allowance for other receivables	2 451	136
Utilization of allowance for trade receivables	11 087	–
Closing balance	**(44 539)**	**(64 170)**
- receivables from related parties	–	–

Utilization/decrease of allowances for doubtful debts is mainly due to the final settlement of contracts with HPE in Germany under the agreement made with this company, under which an allowance of PLN 11,067 thousand was utilized and allowances for trade receivables of a total amount of PLN 20,012 thousand were reversed. In addition, in 2012, the Company reversed an allowance for trade receivables from HPE of PLN 1,038 thousand due to payments received in respect of overdue receivables.

In 2012, the Company recognized an allowance for receivables from contractual penalties amounting to PLN 9,004 thousand and reversed an allowance of PLN 2,434 thousand due to the payments received in this respect.

(in PLN thousand)

Presented below is an ageing analysis of short-term trade and other receivables which were past due as at 31 December 2012 and 31 December 2011, 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 2012	556 577	418 927	6 058	11 467	2 964	91 933*	25 228*

* mainly receivables from the Alstom Group (details in Note **Błąd! Nie można odnaleźć źródła odwołania.**)

			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	–

34. Short-term financial assets

34.1. Derivatives

	31 December 2012	*31 December 2011*
Forward contracts	53	343
Currency options	–	–
	53	**343**

As at 31 December 2012, the Company had outstanding forward currency transactions with positive fair value. These were transactions for the sale of EUR in the amount of EUR 900 thousand. The value of these transactions determined by the banks was PLN 53 thousand (31 December 2011: PLN 343 thousand).

Forward currency transactions were entered into due to commercial contracts denominated in EUR, 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).

34.2. Short-term investments

	31 December 2012	*31 December 2011*
Investment fund units in Allianz Pieniężny Fundusz Inwestycyjny Otwarty	–	10 199
Investment fund units in KBC Gamma Specjalistyczny Fundusz Inwestycyjny Otwarty	–	5 570
	–	**15 769**

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

34.3. Short-term deposits

	31 December 2012	*31 December 2011*
Short-term deposits, of which:	–	7 211
- representing security for payment under a letter of credit*	–	7 211
	–	**7 211**

* collateral maintained until the date of payment

(in PLN thousand)

34.4. Loans granted

Loans	*Collateral*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Receivables from loans granted as at 31 December 2012*	*31 December 2011*
Long-term loans:							
RAFAKO Engineering Sp. z o.o.*	blank promissory note together with a promissory note agreement	agreement for a cash loan to be used for funding day-to-day operations	PLN	WIBOR 1Y + margin	10 June 2019	471	472
						471	**472**
Short-term loans:							
RAFAKO Engineering Solution Sp. z o.o.*	blank promissory note	agreement for a cash loan of EUR 30 thousand to be used for funding day-to-day operations	EUR	EURIBOR 1Y + margin	31 December 2012	–	133
						–	**133**

* subsidiary

34.5. Other short-term financial assets

	31 December 2012	*31 December 2011*
Other short-term financial assets, of which:	14 500	–
- additional payments to the share capital of a subsidiary	4 000	–
- advance payment to acquire a right to a loan	10 500	–
	14 500	–

On 5 April 2012, the Shareholders' Meeting of the Company's subsidiary resolved to make refundable additional payments to the subsidiary's share capital in order to increase the level of its own funds. The Company's Management Board expects that these additional payments will be refunded by the end of 2013.

34.6. Cash and cash equivalents

	31 December 2012	*31 December 2011*
Cash on hand and at bank	34 210	42 313
Short-term deposits up to 3 months, of which:	1 191	131 088
- deposits representing security for contingent liabilities	–	–
	35 401	**173 401**
of which: restricted cash	872	496

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.

The Company is in the possession of restricted cash, under which it includes cash received from grants and held in separate bank accounts.

35. Equity

35.1. Issued share capital

In the 12-month period ended 31 December 2012, 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.

(in PLN thousand)

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 2012 and 31 December 2011, there were no events resulting in a movement in the share premium reserve, which amounted to PLN 36,778 thousand as at 31 December 2012 (31 December 2011: 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 profit appropriations in excess of 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 the Company's foreign branch.

35.7. Retained earnings and dividends paid

As at 31 December 2012, as a result of recognition of a net profit for the 12-month period ended 31 December 2012 amounting to PLN 7,137 thousand and transfer of profits from previous years of PLN 55,191 thousand to the reserve capital, the Company's retained earnings amounted to PLN 7,137 thousand.

In 2012, no dividend was paid by the Company or proposed by the Management Board.

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 proportion of equity to total assets).

	31 December 2012	*31 December 2011*
Share of debt in equity		
Equity	397 492	390 453
External funding (bank loan)	291 987	–
Total assets	1 247 699	1 000 596
Capitalization ratio	**0.32**	**0.39**

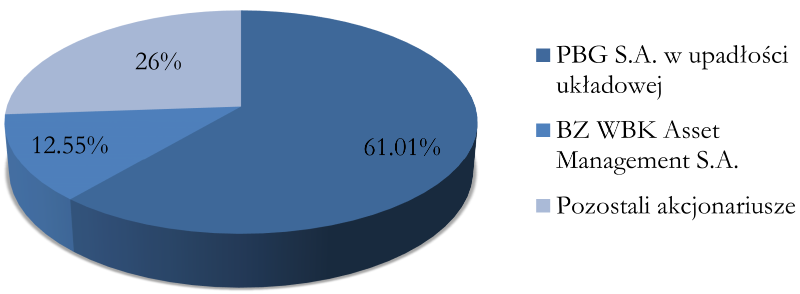
(in PLN thousand)

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

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:	42 466 000	42 466 000	61.01%	61.01%
directly	7 665 999	7 665 999	11.01%	11.01%
indirectly through Multaros Trading Company Limited [5] (subsidiary of PBG S.A.)	34 800 001	34 800 001	50% + 1 share	50% + 1 share

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

Shareholding structure as at 31 December 2012



On 15 March 2013, the Company received a notification of a change in the number of shares held by the customers of BZ WBK Asset Management S.A. As a result of sale of shares, as at the date of these financial statements the customers of BZ WBK Asset Management S.A. held 6,956,681 votes at the General Meeting, accounting for 9.995% of the total vote at the General Meeting of RAFAKO S.A.

(in PLN thousand)

37. Interest-bearing loans and borrowings

As at 31 December 2012, the Company had liabilities under bank loans.

Short-term loans	*Collateral*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Loan liabilities as at 31 December 2012*	*Loan liabilities as at 31 December 2011*
Short-term loans:							
PKO BP S.A.	blank promissory note with a promissory note agreement, transfer of receivables from contracts, clause providing for deduction of claims against RAFAKO S.A.'s bank accounts	Agreement for a renewable overdraft of PLN 300 million	PLN	WIBOR 1M + margin	8 February 2013*	291 987	–
						291 987	–

* on 7 March 2013, RAFAKO S.A. signed an Annex to the loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. extending the original term of the loan agreement until 30 June 2013

The Company expects that the loan agreement will be extended for subsequent periods. Under the annex to the loan agreement signed on 7 March 2013, the conditions for obtaining a positive decision of the bank with regard to extending the deadline for loan repayment are as follows: filling in an appropriate loan request form together with all appendices, confirmation of cancellation of the registered pledge established on the shares of RAFAKO S.A. in favor of Adaptorinvest Ltd., submitting financial forecasts for a period of at least 12 months and establishing a collateral for the amounts due to PKO BP S.A. in the form of a real estate mortgage and a registered pledge on a set of movables and rights representing the economic whole of the enterprise of RAFAKO S.A. (the bank allows for waiver of this condition in the event of the contract relating to the Opole or Jaworzno III Power Plants).

(in PLN thousand)

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 2012	*31 December 2011*
As at 1 January	21 346	20 389
Interest expense	1 174	1 121
Current service costs	967	886
Actuarial (gains)/losses	2 386	862
Costs of benefits paid	(2 506)	(1 912)
End of period	**23 367**	**21 346**
Long-term provisions	21 472	19 922
Short-term provisions	1 895	1 424

The main assumptions adopted by the actuary as at 31 December 2012 and for the 12-month period then ended as well as for the 12-month period ended 31 December 2011 in determining the amount of the liability are as follows:

	31 December 2012	*31 December 2011*
Discount rate (%)	4.0	5.5
Anticipated inflation index (%)*	–	–
Staff turnover rate *	5	5
Anticipated salary increase rate (%)	4	5

* Data not available in actuary's report

39. Trade and other payables

39.1. Trade and other long-term payables

	31 December 2012	*31 December 2011*
Trade and other payables		
Trade payables, of which:	17 443	15 812
- to related parties	61	–
- to other entities	17 382	15 812
Capital commitments	128	48
Other payables, of which:	11 894	857
Accruals for unpaid bonuses	1 101	857
Accruals for costs of warranty repairs	10 793	–
Finance lease liabilities	64	176
	29 529	**16 893**

(in PLN thousand)

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

	31 December 2012	*31 December 2011*
Trade payables, of which:		
- to related parties	3 530	1 417
- to other entities	232 705	170 700
	236 235	**172 117**
Capital commitments	3 729	4 093
	3 729	**4 093**

	31 December 2012	*31 December 2011*
Other liabilities		
Value Added Tax	928	–
Personal Income Tax	1 590	1 779
Social security liabilities	6 475	6 189
Payables to the Tax Office	–	–
Other taxation, customs duty and social security liabilities	16	56
Payroll	8 088	5 434
Accruals for unused leave	2 320	1 996
Accruals for unpaid bonuses	5 309	10 804
Accruals for warranty repairs	1 130	9 257
Financial guarantee and suretyship liabilities	745	800
Accrual for costs of uninvoiced materials and services	5 100	4 826
Accruals for state budget liabilities	–	4 027
Accrual for audit fees	100	207
Other	1 357	2 597
	33 158	**47 972**
Other financial liabilities		
Derivatives' valuation	–	5 986
Finance lease liabilities	111	93
Loan interest liabilities	–	–
	111	**6 079**

39.3. Derivative instrument liabilities

As at 31 December 2012, the Company had no outstanding forward currency transactions with a negative fair value.

39.4. Capital commitments

As at 31 December 2012, the Company reported capital commitments for purchase of property, plant and equipment of PLN 3,857 thousand.
As at 31 December 2012, the Company had no signed agreements for planned capital expenditures that were not invoiced as at the end of the reporting period.

(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 2012	*31 December 2011*
Opening balance	1 996	1 834
Recognition of the accrual	2 246	1 783
Costs of benefits paid	(1 922)	(1 621)
Reversal of the accrual	–	–
Closing balance	**2 320**	**1 996**
Current as at	2 320	1 996
Non-current as at	–	–
	2 320	**1 996**

39.6. Accrual for unpaid 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 2012	*31 December 2011*
Opening balance	11 661	9 792
Recognition of the accrual	5 891	15 913
Costs of benefits paid	(7 702)	(10 932)
Reversal of the accrual	(3 440)	(3 112)
Closing balance	**6 410**	**11 661**
Current as at	5 309	10 804
Non-current as at	1 101	857
	6 410	**11 661**

(in PLN thousand)

39.7. Accrual 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 2012	*31 December 2011*
Opening balance	9 257	8 595
Recognition of the accrual	12 723	13 641
Costs of warranty repairs incurred	(10 057)	(12 979)
Reversal of the accrual	–	–
Closing balance	**11 923**	**9 257**
Current as at	1 130	9 257
Non-current as at	10 793	–
	11 923	**9 257**

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 Company reversed part of the accrual and, at the same time, recognized an allowance for the receivable under dispute.

	31 December 2012	*31 December 2011*
Opening balance	800	2 144
Recognition of the accrual	–	82
Costs incurred	–	–
Reversal of the accrual*	(55)	(1 426)
Closing balance	**745**	**800**
Current as at	745	800
Non-current as at	–	–
	745	**800**

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

(in PLN thousand)

39.9. Income tax payable

	31 December 2012	*31 December 2011*
Corporate income tax	–	21 026
	–	**21 026**

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 2012, the following tax audits were held at the Company:

- in the period from 26 July 2012 to 21 August 2012, a tax audit was held with respect to VAT for March 2012 and the accuracy of settlements made under one of the contracts with foreign counterparties; the tax audit did not reveal any irregularities resulting in tax penalties;
- in the period from 26 July 2012 to 27 August 2012, a tax audit was held with respect to VAT for May 2012 and the validity of the data included in the tax identification application form as at the date of commencement of the tax audit; the tax audit did not reveal any irregularities resulting in tax penalties;
- in June 2012, a tax audit was held with respect to CIT for 2006-2009 paid in Lithuania; the tax audit did not reveal any significant irregularities resulting in tax penalties;
- in May 20012, a tax audit was held with respect to VAT for 2006-2009 paid in Lithuania; the tax audit did not reveal any irregularities resulting in tax penalties.

40. Grants

Grants recorded in the financial statements as at 31 December 2012 amounted to PLN 916 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 2012*	*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 2012*
Modernization of fixed assets	27	–	(2)	–	–	25
Implementation of part of the research project	218	673	(432)	–	–	459
	245	673	**(434)**	–	–	**484**

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 2012, the Company had no 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 2008-2010 and in 2012 amounted to 52,764 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 2012 (in tonnes)

Company	*Balance at the beginning of period*	*Granted*	*Purchased*	*CO_2 emission*	*Sale*	*Balance at the end of period*
RAFAKO S.A.	18 703	–	–	(6 393)	(12 310)	–
	18 703	**–**	**–**	**(6 393)**	**(12 310)**	–

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 18 April 2012, as part of the settlement of the CO_2 emission for 2011, the Company surrendered for cancellation 1,319 CERs and 5,074 EUAs.

On 8 August 2012, the Company sold 1,319 CERs and 10,991 EUAs. As a result, the Company had no CO_2 emission allowances as at 31 December 2012.

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 reporting 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 2012 and 31 December 2011, 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 2012, future minimum lease payments under such agreements and the present value of the minimum net lease payments are as follows:

	31 December 2012		*31 December 2011*	
	Minimum lease payments	*Present value of lease payments*	*Minimum lease payments*	*Present value of lease payments*
Within 1 year	111	111	93	93
Within 1 to 5 years	64	64	176	176
More than 5 years	–	–	–	–
Minimum lease payments, total	**175**	**175**	**269**	**269**
Less finance charges	–	–	–	–
Present value of minimum lease payments, of which:	**175**	**175**	**269**	**269**
Current	111	111	93	93
Non-current	64	64	176	176

44. Movements in off-balance sheet items

	31 December 2012	*31 December 2011*
Off-balance sheet items resulting from bank guarantees received mainly as security for performance of commercial contracts, of which:	171 663	241 301
- from related parties	–	–
Receivables from suretyships received, of which:	7 600	7 600
- from related parties	–	–
Promissory notes/bills of exchange received as security, of which:	49 700	8 235
- from related parties	13 407	1 982
Letters of credit	1 865	11 030
Restricted cash in subcontractors' bank accounts	–	–
	230 828	**268 166**

	31 December 2012	*31 December 2011*
Off-balance sheet items resulting from bank guarantees granted mainly as security for performance of commercial contracts, of which:	484 612	467 555
- to related parties	–	–
Liabilities arising from suretyships granted, of which:	–	–
- to related parties	–	–
Promissory notes/bills of exchange issued as security, of which:	15	4 257
- to related parties	–	–
Letters of credit	1 881	6 590
	486 508	**478 402**

In 2012, at the Company's request, banks and insurance companies issued guarantees to its contractors, mainly for the refund of advance payments and proper performance of contracts, for a total amount of PLN 316,331 thousand. The largest item in this group of contingent liabilities is the guarantee of refund of an advance for an amount of PLN 79.3 million, issued as a result of signing a contract for construction of power units. The largest item of guarantees granted which expired in 2012 was a tender guarantee of PLN 33.3 million, relating to participation in a tender for construction of power units.

In 2012, RAFAKO S.A. recorded a PLN 25,913 thousand decrease in the level of contingent assets. This was due to a considerable decrease in the level of receivables from guarantees granted, amounting to PLN 69,638 thousand. The largest item in this group of contingent assets is comprised of guarantees for proper performance of contracts. On the other hand, a PLN 41,465 thousand increase was recorded in the level of receivables from promissory notes/ bills of exchange. The largest item in this group of contingent assets is comprised of promissory notes received in respect of the contract for construction of power units.

45. Claims under dispute, litigation

Presented below are key claims under dispute and litigations, including those concerning receivables from the Alstom Group.

On 3 November 2009, RAFAKO S.A. brought a suit for payment against ING Bank Śląski S.A. in the Regional Court in Warsaw, XX Commercial Department. RAFAKO S.A. claims the refund of the amount of PLN 9 million 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 currently exchanging their standpoints. The date for the next hearing has been set at 3 April 2013.

In July 2010, ING Bank Śląski S.A. brought a suit against RAFAKO S.A. and RAFAKO Engineering Sp. z o.o. in 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 RAFAKO S.A. 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. On 21 March 2012, the Court passed a judgment which overruled the judgment by default in full, awarded an amount of PLN 1,333,783.10 together with statutory interest as well as statutory interest calculated on the amount of PLN 128,392.90 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 an appeal which was dismissed in full during the hearing held on 21 February 2013 and the Court awarded reimbursement of legal representation costs to be made jointly and severally by the Defendant Companies.

In the second half of December 2011, 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 desulfurization system for the 858 MW power unit in PGE Elektrownia Bełchatów S.A. The total value of the claim was around PLN 135 million. The Company has challenged this claim as it believes it to be groundless. In consequence of the activities undertaken by the Company, 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. Despite the Court's decision, upon the request of the consortium member, the Bank made guarantee payments of PLN 135 million.

Due to performance of the contract for the supply of a boiler and flue gas desulfurization system, in its financial statements as at 31 December 2012 the parent recognized past due receivables from Alstom Power Sp. z o.o. with a total amount of PLN 108 million (the past due period was from about 4 to 7 months). Those uncontestable (in the opinion of 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 financial statements as at 31 December 2012 is PLN 185 million. The Company's Management Board, based on performed legal analyses, believes that these assets are recoverable.

As a result of the events described above, on 1 June 2012 RAFAKO S.A. filed a claim against ALSTOM Power Systems GmbH and ALSTOM Power Sp. z o. o. (jointly Alstom) with the Court of Arbitration of the International Chamber of Commerce (ICC) in Paris; place of the arbitration: Zurich, Switzerland, for a total amount of approx. PLN 375.1 million and EUR 4.3 million. The dispute results from performance of the contract for the supply of a boiler and flue gas desulfurization system for the 858 MW power unit in PGE Elektrownia Bełchatów S.A. The amounts claimed include the following:

- the amounts of bank guarantees that were utilized by Alstom Power Sp. z o.o. despite the court's injunctive relief (approx. PLN 135 thousand),
- the amounts of overdue payments (approx. PLN 109.3 million),
- additional claims arising from the defaults of defendant companies in the course of performing the contract.

RAFAKO S.A. believes that its claims are valid and hopes that the Court of Arbitration resolves the dispute in favor of the Company.

On 8 February 2013, Case Management Conference was held in Zurich during which the contents of the Terms of Reference (a document containing a brief description of the parties, substance and value of the dispute) and Time Table (the schedule of successive steps in the proceedings, currently established until the end of May 2014) were agreed. The deadline for preparing a detailed Statement of Claim by RAFAKO S.A. was set at 2 April 2013.

On 17 April 2012, the Company received a statement of claim from Alstom Power Systems GmbH (APS) for a total amount of approx. EUR 7.3 million. The case is pending before the Court of Arbitration of the International Chamber of Commerce in Paris; place of the arbitration: Zurich, Switzerland. The case relates to the contract for the supply of T24 pressure components for the 910 MW power plant in Karlsruhe. The main claims relate to the allegedly defective quality of welding works of RAFAKO S.A., which are supposed to have caused severe delays in the performance of the contract.

In the opinion of RAFAKO S.A., these claims are completely groundless. The Company believes that the only reason of the defects described in the statement of claim is the selection of materials and technology made by APS and imposed on the Company in the contract. On 9 July 2012, the Company sent an answer to the statement of claim rejecting all of the claims in full, together with a counter-claim for payment of (mainly) overdue invoices for an amount of approx. EUR 1 million.

On 5 February 2013, APS filed a detailed statement of claim to which RAFAKO S.A. must provide an answer by 6 May 2013. The dispute is expected to be resolved at the end of May 2014.

On 28 May 2012, the Company received a statement of claim from Alstom Power Systems GmbH (APS) for a total amount of approx. EUR 28.7 million. The case is pending before the Commercial Chamber of the Court in Stuttgart. The dispute relates to the agreement for the supply of pressure parts for two power units (unit D and unit E) for an investment project concerning the power plant of RWE Power AG in Hamm/Westphalia and the alleged non-performance or undue performance by RAFAKO S.A. of the agreement under which RAFAKO S.A. acted as a subcontractor of APS. In the opinion of the Management Board of RAFAKO S.A., the claim should be dismissed in full due to the fact that the liability of RAFAKO S.A. under the signed agreement did not include the subject matter of the claims raised by APS in the statement of claim. As in the case of the Karlsruhe project, the reason of the dispute is the compilation of materials and technology imposed by the plaintiff in the contract.

On 9 July 2012, the attorney of RAFAKO S.A. filed an answer to the statement of claim together with an extensive justification and a motion to dismiss the claim in full (the answer was delivered to the Court on 10 July 2012).

In addition, a counter-claim is being prepared which includes unpaid invoices and additional costs incurred by RAFAKO S.A. (approx. EUR 5.4 million). After the first hearing (4 September 2012), on 12 October 2012 another pleading was sent by RAFAKO S.A.'s attorney to the court in Stuttgart, to which APS sent an answer dated 19 November 2012. There is no set deadline for addressing this answer and the date of the next hearing is yet unknown.

Irrespective of the proceedings pending before the Court of Arbitration and other courts, in January 2013 the parent's Management Board took steps to enter into a settlement with the Alstom Group companies. The basic condition for entering into the agreement is the payment by Alstom of the amount of the receivable reported by the Company in the financial statements as at 31 December 2012 (approx. EUR 43.5 million). If no agreement is reached, the Company's Management Board will continue to enforce the Company's claims in the proceedings before the Court of Arbitration and the other Courts, which have not been suspended and are still in progress as at the date of these financial statements.

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 gave rise to the obligation to pay an amount of PLN 2,369,923.72 (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. All of the planned hearings were held in December 2012 and each of them ended with a judgment in favor of RAFAKO S.A. The next hearings are to be held in March 2013 (the last one on March 26th). From the grounds for one of the judgments it follows that the court is entirely on the side of RAFAKO S.A. On 12 February 2013, ZUS filed an appeal with the Court. Due to the fact that the court's judgment was favorable for the Company, RAFAKO S.A. reversed the provision of PLN 2,370 thousand that had been recognized in this respect, as well as the provision for the related interest of PLN 952 thousand.

The remaining amount relates to the action for damages brought against the Ukrainian company Donieckobłenergo for an amount of USD 11,500 thousand (PLN 39,300 thousand) 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 defendant's cassation appeal, 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. RAFAKO S.A.'s attorney informed that, in July 2012, the Commercial Court of the Donieck Region resumed the case due to Donieckobłenergo's demand to declare the contract of 16 May 1994 invalid. In the attorney's opinion, there are no new arguments or evidence to allow that claim. The next hearing is expected to take place in March 2013.

46. Receivables from related parties in the process of bankruptcy by way of arrangement with creditors

At the balance sheet date, the Company recognized in the statement of financial position a receivable of PLN 118 million from a related party in the process of bankruptcy by way of arrangement with creditors.

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. The purchase price was paid on 30 December 2011. 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.

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

The acquisition of shares in ENERGOMONTAŻ – POŁUDNIE S.A. was accounted for in the Company's financial statements for the year ended 31 December 2011 as an acquisition of an investment in a subsidiary. The carrying amount of this investment as at 31 December 2011 was PLN 160,712.3 thousand. In accordance with the Company's accounting policy, its shares in the subsidiary were recognized at historical cost (net of impairment, if any).

On 4 June 2012, PBG S.A. filed a petition for bankruptcy. On 13 June 2012, this petition was approved by the court, and PBG S.A.'s bankruptcy was declared with the possibility of entering into an arrangement with creditors.

On 16 July 2012, the Company's Management Board received a letter from the Court Supervisor of PBG S.A. in arrangement bankruptcy addressed to PBG S.A. in arrangement bankruptcy ("PBG"), informing PBG S.A. that the transaction of sale of 46,021,520 shares in ENERGOMONTAŻ – POŁUDNIE S.A. by PBG S.A. to the Company on 20 December 2011, "as a legal transaction made by the Bankrupt (PBG) for a consideration, within 6 months before the date of submitting a petition for bankruptcy (i.e. 4 June 2012), with a related party for which the Bankrupt (PBG) was additionally a parent, is ineffective against the Bankrupt's (PBG S.A.'s) estate", in accordance with Article 128 Clause 2 of the Bankruptcy and Reorganization Law ("the Letter"). The Court Supervisor called upon the Management Board of PBG S.A. to take immediate action pursuant to Article 134 of the Bankruptcy and Reorganization Law to transfer 46,021,520 shares in ENERGOMONTAŻ – POŁUDNIE S.A. back to the account of PBG S.A.

On 7 August 2012, the Company's Management Board entered into an agreement with PBG S.A. in arrangement bankruptcy, with its registered office in Wysogotowo, for the transfer of shares in ENERGOMONTAŻ – POŁUDNIE Spółka Akcyjna [Joint Stock Company] with its registered office in Katowice. The agreement provides for the transfer of 46,021,520 of the company's ordinary bearer shares with a nominal value of PLN 1 each, accounting for 64.84% of the share capital of EPD and 64.84% of the total vote at the General Meeting of ENERGOMONTAŻ – POŁUDNIE S.A., i.e. giving the right to exercise 46,021,520 votes. The transfer of shares was registered in the brokerage office's account on 7 August 2012.

In accordance with legal analyses held by the Company's Management Board, as a result of the bankruptcy of PBG S.A. declared on 13 June 2012, the sale of shares in ENERGOMONTAŻ – POŁUDNIE S.A. by PBG S.A. to RAFAKO S.A. under the agreement signed on 20 December 2011 has become ineffective against the bankrupt's estate by virtue of law as of the date of the court's decision to declare PBG S.A.'s bankruptcy with a possibility of entering into an arrangement with creditors, i.e. as of 13 June 2012 (the date of loss of control). This means that the Company is obliged to return the shares of ENERGOMONTAŻ – POŁUDNIE S.A. to the bankrupt's estate, i.e. to cause that they are recorded in the securities account of PBG S.A. This obligation arose by virtue of law at the moment of declaring bankruptcy of PBG S.A. Taking this into consideration, and having analyzed legal opinions concerning ineffectiveness of the purchase of the shares of ENERGOMONTAŻ – POŁUDNIE S.A. from PBG S.A. in arrangement bankruptcy, the Company's Management Board has decided to submit to the procedure of return of the above-mentioned shares.

Given the ineffectiveness of PBG S.A.'s disposal of shares in ENERGOMONTAŻ – POŁUDNIE S.A. to RAFAKO S.A., the Company is entitled to a claim for the refund of the price paid for the shares of ENERGOMONTAŻ – POŁUDNIE S.A. RAFAKO S.A.'s right to the refund of the price paid for the shares of ENERGOMONTAŻ – POŁUDNIE S.A. results in the recognition in the statement of financial position of a receivable which was initially recognized at fair value by reference to the present value of the expected inflows. Accordingly, the fair value of the receivable was estimated taking into account the expected cash inflows to the Company, taking into consideration PBG S.A.'s arrangement proposals providing for a 31% reduction of the debt (for which no deferred tax asset was recognized) and the expected timing of the inflow of cash to the Company, assessed by the Company's Management Board as the end of 2014. As at 31 December 2012, the value of the receivable determined based on the assumptions as discussed above, recognized under "Other long-term financial assets", amounts to PLN 98.1 million. The difference between the value of the investment in the subsidiary and the value of the receivable recognized by the Company, amounting to PLN 67.8 million, was recognized in the statement of comprehensive income under the "Result on the loss of control of a subsidiary".

In addition, on 10 January 2012, RAFAKO S.A. entered into a loan agreement with Hydrobudowa Polska S.A. with its registered office in Wysogotowo, under which RAFAKO S.A. granted a loan of PLN 32 million to Hydrobudowa Polska S.A. for a period of 12 months (i.e. until 9 January 2013) to be used for funding its day-to-day activities. To secure the repayment of the loan, Hydrobudowa Polska S.A. granted a blank promissory note with the "without protest" clause to RAFAKO S.A., guaranteed by PBG S.A. and Multaros Trading Company Ltd., together with the accompanying promissory note agreements. RAFAKO S.A. is entitled to fill in the note with the amount of any unpaid loan together with interest, up to the amount of PLN 35,000,000 (say: thirty-five million zlotys). This loan bears interest at WIBOR 1M plus margin per annum. Until the date of these financial statements, RAFAKO S.A. did not receive any amount from Hydrobudowa Polska S.A., either in respect of the repayment of loan principal or interest.

On 4 June 2012, PBG S.A. and Hydrobudowa Polska S.A. filed petitions with the District Court Poznań – Stare Miasto in Poznań, XI Commercial Department for Bankruptcy and Reorganization, for declaring bankruptcy of PBG S.A. and Hydrobudowa Polska S.A. with the possibility of entering into an arrangement with creditors. On 13 June 2012, the District Court Poznań – Stare Miasto in Poznań, XI Commercial Department for Bankruptcy and Reorganization issued a decision declaring bankruptcy of PBG S.A. with a possibility of entering into an arrangement with creditors. On 11 June 2012, the District Court Poznań – Stare Miasto in Poznań, XI Commercial Department for Bankruptcy and Reorganization issued a decision declaring bankruptcy of Hydrobudowa Polska S.A. including liquidation of the company's assets. Due to the declaration of bankruptcy by Hydrobudowa Polska S.A., pursuant to Article 124 Clause 2 of the Bankruptcy and Reorganization Law, RAFAKO S.A. is entitled to claim a refund of the actually granted loan according to the rules set out in the Bankruptcy and Reorganization Law. On 26 October 2012, the Company's Management Board filed a proof of the Company's claim in respect of the loan in the bankruptcy proceedings of Hydrobudowa Polska S.A.

In light of the process of liquidation bankruptcy of Hydrobudowa Polska S.A., in order to claim a refund of the loan, on 21 September 2012 the Company's Management Board filed a proof of the Company's claim in respect of the loan in the bankruptcy proceedings of PBG S.A. with a possibility of entering into an arrangement with creditors. Accordingly, the fair value of the receivable was estimated taking into account the expected cash inflows to the Company, taking into consideration PBG S.A.'s arrangement proposals providing for a 31% reduction of the debt (for which no deferred tax asset was recognized) and the expected timing of the inflow of cash to the Company, assessed by the Company's Management Board as the end of 2014. As at 31 December 2012, the value of the receivable determined based on the assumptions as discussed above, recognized under "Other long-term financial assets", amounts to PLN 20.2 million.

(in PLN thousand)

47. Guarantees

As at 31 December 2012, the Company had contingent liabilities resulting from bank and insurance guarantees with a total value of PLN 484,612 thousand, including:

No.	*Bank/insurer granting guarantee*	*Guarantee amount*	*Subject of guarantee*	*Security*
1.	T.U. ALLIANZ Polska S.A.	19 466	good performance of the contract and proper removal of faults and defects	blank promissory notes with promissory note agreements
2.	BOŚ S.A.	17 068	good performance of the contract, refund of the advance, proper 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.	24 740	proper removal of faults and defects, good performance of the contract, refund of the advance	blank promissory note with promissory note agreement, transfer of receivables under the contract
4.	DEUTSCHE Bank Polska S.A.	19 133	proper removal of faults and defects, good performance of the contract	declaration of submission to enforcement, transfer of receivables under the contract
5.	DnB Nord S.A.	5 561	refund of the advance	declaration of submission to enforcement, transfer of receivables under the contract, authorization to bank accounts
6.	T.U. Euler HERMES S.A.	18 616	proper removal of faults and defects, good performance of the contract, refund of the advance	blank promissory note with promissory note agreement
7.	STU ERGO HESTIA S.A.	33 262	proper removal of faults and defects, good performance of the contract	blank promissory notes with promissory note agreements
8.	Kredyt Bank S.A.	105 892	proper removal of faults and defects, good performance of the contract, retention, refund of the advance, participation in tender	blank promissory note with promissory note agreement, declaration of submission to enforcement, authorization to bank accounts
9.	PKO BP S.A.	177 254	proper removal of faults and defects, good performance of the contract, retention, refund of the advance, participation in tender	declaration of submission to enforcement, clause of deduction from bank accounts, transfer of receivables under the contract
10.	PZU S.A.	28 241	proper removal of faults and defects, 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
11.	Raiffeisen Bank Polska S.A.	14 957	proper removal of faults and defects, good performance of the contract, refund of the advance	declaration of submission to enforcement, authorization to bank account
12.	TuiR WARTA S.A.	20 422	good performance of the contract and proper removal of faults and defects	blank promissory notes with promissory note agreements, declaration of submission to enforcement under Article 777 of the Code of Civil Procedure
		484 612		

(in PLN thousand)

48. Related party disclosures

In the 12-month periods of 2012 and 2011, 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 2012 and 31 December 2011:

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.*	2012	–	243	118 274***	22
	2011	–	12	–	–
Parent company:					
ELEKTRIM S.A. **	2012	–	–	–	–
	2011	–	106	–	–
Entities of the PBG S.A. Capital Group:					
GasOil Engineering a.s..	2012	–	1 466	–	390
	2011	–	329	–	329
Entities of the ELEKTRIM S.A. Capital Group:					
PAK S.A.	2012	–	–	–	–
	2011	2 835	13	–	–
DARIMAX Limited****	2012	–	–	–	–
	2011	2 000	–	–	–
Laris Investment Sp. z o. o.	2012	–	–	–	–
	2011	–	13	–	–
ENERGOMONTAŻ POŁUDNIE S.A. in arrangement bankruptcy	2012	62	2 604	–	999
	2011	–	506	–	619
ENERGOMONTAŻ POŁUDNIE Sp. z o.o.	2012	–	12 221	–	228
	2011	–	–	–	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	2012	–	69	–	2
	2011	–	64	–	2
RAFAKO Engineering Sp. z o. o.	2012	167	2 889	37	18
	2011	928	3 484	322	310
RAFAKO Engineering Solution doo.	2012	5 960	415	17	41
	2011	–	1 989	–	98
FPM S.A.	2012	–	712	–	99
	2011	–	64	–	59
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	2012	–	780	–	242
	2011	–	–	–	–

** parent company since 25 October 2011, data for the 2-month period of 2011*
*** parent company until 25 October 2011, data for the 10-month period of 2011*
**** receivables from related parties also include a receivable resulting from the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A. and a receivable from a loan granted to HYDROBUDOWA S.A. in liquidation bankruptcy, which are discussed in detail in Note 46*
***** relates to sale of receivables*

(in PLN thousand)

48.1. Parent of the Company

As at the date of these financial statements, the Company's parent is PBG S.A.

As at 31 December 2012, PBG S.A. with its registered office in Wysogotowo held 61.1% of the Company's ordinary shares (directly: 11.01% of shares, indirectly: 50% + 1 share).

48.2. Joint ventures in which the Company is a partner

The Company is not a party to any joint ventures.

48.3. Terms of related party transactions

In the 12-month period of 2012, 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 its 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 concerning confidentiality, industrial property, contract insurance, force majeure and dispute resolution.

48.4. 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.

48.5. Shares held by members of management and supervisory bodies

The number of shares held in the Company or in the Company's related entities by members of management and supervisory bodies as at 31 December 2012 is presented below:

	Company name	*Total number of shares*	*Nominal value of shares in PLN*
Management personnel			
Pawel Mortas	RAFAKO S.A.	10 693	21 386
Jarosław Dusiło	PBG S.A.	100	100,00
	Hydrobudowa Polska S.A.	150	150,00
Supervisory personnel			
Małgorzata Wiśniewska	PBG S.A.	3 279	3 279,00
Jerzy Wiśniewski	PBG S.A.	3 881 224	3 881 224

48.6. Participation of senior management in employee share option scheme

The Company does not run any employee share option scheme.

48.7. Compensation of senior management personnel

	12-month period ended 31 December 2012	*12-month period ended 31 December 2011*
Short-term employee benefits (salaries and surcharges)	3 390	6 993
Jubilee bonuses	–	8
Post-employment benefits	493	–
Employment termination benefits	–	–
Share-based employee benefits	–	–
Total costs of compensation for key management personnel *	**3 883**	**7 001**

* 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 2012 was as follows:

figures in PLN thousand

	Base pay	*Awards*	*Other*
Management Board	**2 426**	**715**	**53**
Paweł Mortas	112	–	2
Krzysztof Burek	480	192	2
Jarosław Dusiło	480	–	–
Wiesław Różacki	496	360	22
Dariusz Karwacki	461	23	27
Bożena Kawałko	397	20	–
Piotr Wawrzynowicz	–	77	–
Maciej Kaczorowski	–	43	–
Supervisory Board	**977**	–	**202**
Witold Okarma	4		
Robert Koński	25	–	–
Piotr Rutkowski	98	–	–
Przemysław Szkudlarczyk	98	–	–
Piotr Wawrzynowicz	220	–	60
Jerzy Wiśniewski	208	–	142
Małgorzata Wiśniewska	141	–	–
Tomasz Woroch	29	–	–
Leszek Wysłocki	98	–	–
Agenor Gawrzyał	23	–	–
Przemysław Cieszyński	11	–	–
Ryszard Wojnowski	11	–	–
Edyta Senger-Kałat	11	–	–
Total	**3 403**	**715**	**255**

Remuneration paid to members of the Management Board and Supervisory Board for the year ended 31 December 2011 was as follows:

figures 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**

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

The Company did not publish any forecasts for 2012.

50. Information on contract with the statutory auditor or entity authorized to audit the financial statements for the above-mentioned periods

On 11 April 2012, the Company's Supervisory Board, acting based on authorization granted by the Company's Statutes, 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 the financial statements for 2012, 2013 and 2014. 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 and 2011.

On 15 June 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 years 2012-2014. The total amount of the fees for the review and audit of the financial statements was set at PLN 537 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 2012 and 31 December 2011 by category of services:

Category of services	*Year ended 31 December 2012*	*Year ended 31 December 2011*
Statutory audit of separate and consolidated financial statements	177	179
Other attest services	–	–
Tax advisory services	–	–
Other services	353	434
Total	**530**	**613**

51. 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 in 2012 include: cash and cash equivalents, short-term deposits, forward currency transactions, loans granted, overdraft and lease agreements. The main objective of those instruments is to provide support and financial security for the Company's day-to-day activities 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.

Liquidity risk, which has been discussed in detail in Note 8, is the most significant type of financial risk in the Company.

In 2012, 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.

Other financial risks to which the Company was exposed in the period under review and continues to be exposed now are currency risk and interest rate risk. The magnitude of those risks is presented in detail in Notes 51.1 and 51.2.

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. However, at the date of these financial statements the Company held no investment fund units.

Accounting policies relating to derivative instruments are discussed in Note 12.3.

51.1. Interest rate risk

As at 31 December 2012, the Company had an active loan agreement, thus credit risk and potential changes in interest rates represent a risk for RAFAKO S.A.'s operations. The risk associated with a change in interest rates may result in a change of the interest rate of the loan and 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, loans granted, bank loan). Effect on the Company's equity has not been presented.

	Increase / decrease by percentage points	*Effect on profit before tax*
Period ended 31 December 2012		
PLN	+ 1%	(1 174)
EUR	+ 1%	1 070
BAM	+ 1%	31
PLN	- 1%	1 174
EUR	- 1%	(1 070)
BAM	- 1%	(31)
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)

51.2. 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 52% 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 2012, the Company had one open hedged item (a forward transaction for purchase by the bank) of EUR 0.9 million, with the estimated currency exposure of approx. EUR -25.1 million (exposure understood as the estimated difference between future proceeds and expenses denominated in EUR, taking into account the balance of advances and cash and cash equivalents).

Due to the Orderers' selection of the most favorable proposals in significant tenders and the anticipated change of its net currency exposure position from the so-called exporter to the importer, the Company did not enter into any new transactions for sale of foreign currencies within the limits set by the adopted policy for hedging currency risk. After final decisions are taken in the tenders, the Company will remeasure its currency positions and will decide on whether or not to hedge them.

(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 mainly in the EUR, CHF, DKK and BAM exchange rates, with all other variables held constant.

	Increase / decrease of currency rate	*Effect on profit before tax*	*Effect on equity*
31 December 2012 – EUR	+10%	19 808	16 044
	-10%	(19 808)	(16 044)
31 December 2012 – CHF	+10%	17	14
	-10%	(17)	(14)
31 December 2012 – DKK	+10%	107	87
	-10%	(107)	(87)
31 December 2012 – BAM	+10%	314	254
	-10%	(314)	(254)
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)

51.3. 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.

51.4. 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.

51.5. 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. Since 2012, the Company has been using external funding for its operations. Credit limits available at banks were utilized to a significant extent and were sufficient to fund the Company's operating activities.

The issue of the Company's financial liquidity (going concern) with respect to 2013 has been discussed in detail in Note 8.

(in PLN thousand)

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December 2012 and 31 December 2011 based on contractual undiscounted payments:

31 December 2012	*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	–	–	291 987*	–	–	291 987
Lease liabilities	–	27	84	64	–	175
Derivatives	–	53	–	–	–	53
Trade payables and capital commitments	84 110	114 758	41 096	16 999	572	257 535
Discount related to liabilities	–	–	–	1 878	237	2 115
	84 110	**114 838**	**333 167**	**18 941**	**809**	**551 865**

* in accordance with the annex to the loan agreement signed on 7 March 2013

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
Discount related to liabilities		487	1 083	2 053	715	4 338
	15 761	**124 794**	**40 911**	**18 733**	**2 464**	**202 663**

52. Financial instruments

52.1. Carrying amount of categories and classes of financial instruments

The carrying amounts of the categories and classes of financial instruments as at 31 December 2012 and 31 December 2011 are presented in the 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 2012*	*Carrying amount 31 December 2011*
Assets at fair value through profit or loss	**53**	**16 112**
Investment fund units	–	15 769
Derivatives	53	343
Financial assets available for sale	**347**	**491**
Long-term shares	347	491
Loans and receivables	**689 791**	**270 279**
Trade receivables	283 129	183 781
Other receivables	273 417	78 682
Loans granted	471	605
Long-term deposits	–	–
Short-term deposits	–	7 211
Other long-term financial assets	118 274	–
Other short-term financial assets	14 500	–
Cash and cash equivalents	**35 401**	**173 401**
	725 592	**460 283**

(in PLN thousand)

Categories and classes of financial liabilities	*Carrying amount 31 December 2012*	*Carrying amount 31 December 2011*
Financial liabilities at fair value through profit or loss	–	**5 986**
Derivatives	–	5 986
Financial liabilities measured at amortized cost	**549 522**	**192 070**
Loans and borrowings	291 987	–
Trade payables (including capital commitments)	257 535	192 070
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**175**	**269**
Finance lease and hire purchase commitments	175	269
	549 697	**198 325**

As at 31 December 2012 and 31 December 2011, the Company held the following financial instruments measured at fair value:

31 December 2012	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	**53**	–
Investment fund units	–	–	–
Derivatives	–	53	–
Financial assets available for sale	**347**	–	–
Long-term shares	347	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivatives	–	–	–

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	–

(in PLN thousand)

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

12-month period ended 31 December 2012	*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								
(Long-term) financial assets available for sale, of which:	AFS	–	–	–	(144)	–	23	(121)
- shares	AFS	–	–	–	(144)	–	23	(121)
Other (long-term) financial assets, of which:		29	(10)	–	(1)	–	–	18
- long-term deposits	LaR	–	–	–	–	–	–	–
- long-term loans	LaR	29	(10)	–	(1)	–	–	18
Other (short-term) financial assets, of which:		197	–	–	506	125	–	828
- short-term deposits	LaR	197	–	–	–	–	–	197
- certificates of deposit	FVtPL	–	–	–	–	–	–	–
- TFI KBC fund units	FVtPL	–	–	–	–	–	–	–
- TFI Allianz fund units	FVtPL	–	–	–	506	125	–	631
- short-term loans	LaR	–	–	–	–	–	–	–
Trade and other receivables	LaR	13 577	(6 104)	21 970	–	–	–	29 443
Derivative financial instruments, of which:	FVtPL	–	–	–	5 853	(288)	–	5 565
- forward currency contracts	FVtPL	–	–	–	5 853	(288)	–	5 565
Cash and cash equivalents	LaR	1 377	(2 646)	–	–	–	–	(1 269)
Total		**15 180**	**(8 760)**	**21 970**	**6 214**	**(163)**	**23**	**34 464**

(in PLN thousand)

12-month period ended 31 December 2012	*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	(11 833)	–	–	–	–	(666)	(12 499)
- variable interest rate overdrafts	FLaAC	(11 833)	–	–	–	–	(666)	(12 499)
- other short-term variable interest rate loans	FLaAC	–	–	–	–	–	–	–
Other financial liabilities, of which:	FLaAC	–	–	–	–	–	–	–
- finance lease and hire purchase commitments	FLaAC	(22)	–	–	–	–	–	(22)
Trade and other payables	FLaAC	(13)	4 323	–	(2 221)	–	–	2 089
Hedging instruments	FLaAC	–	–	–	–	–	–	–
Derivative financial instruments, of which:	FVtPL	–	–	–	(157)	–	–	(157)
- forward currency contracts	FVtPL	–	–	–	(157)	–	–	(157)
Total		**(11 868)**	**4 323**	–	**(2 378)**	–	**(666)**	**(10 589)**

(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 assets								
(Long-term) financial assets available for sale, of which:	AFS	–	–	–	–	4	11	15
- shares	AFS	–	–	–	–	4	11	15
Other (long-term) financial assets, of which:		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)

52.3. 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 2012

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	–	–	–	–	–	–	–
Floating interest rate							
Cash and cash equivalents	35 401	–	–	–	–	–	35 401
Loans granted	–	–	–	–	–	471	471
Finance lease and hire purchase commitments	111	64	–	–	–	–	175
Loans received	291 987	–	–	–	–	–	291 987
	327 499	**64**	–	–	–	**471**	**328 034**

(in PLN thousand)

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**

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.

53. Employment structure

Average employment in the Company in the period from January to December 2012 was 2,038 employees.

54. 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 24 January 2013, RAFAKO S.A. as the Leader of the Consortium received a notification from TAURON Wytwarzanie S.A. of selection, as the most favorable one, of the proposal submitted by the Consortium of RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. in the procedure for granting a public contract, conducted by way of negotiated procedure with publication, for the "Construction of new capacities using coal-based technologies in TAURON Wytwarzanie S.A. – Construction of a 800-910 MW supercritical power unit in the Jaworzno III Power Plant – Power Plant II – comprising: steam boiler, turbo set, main building, electrical and measurement, control and automation systems of the power unit". The proposed price is approx. PLN 5.4 billion including VAT (PLN 4.4 billion net of VAT). Since 4 February 2013, appeal proceedings have been held before the National Chamber of Appeal.

On 8 February 2013, RAFAKO S.A. signed an annex to the loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. in Warsaw, which extends the original term of the loan agreement until 7 March 2013. The interest rate of the loan was established based on WIBOR 1M + margin. The annex also provides for customary commissions. Interest is payable on a monthly basis.

On 18 December 2012, the Management Board of RAFAKO S.A. (Contractor) notified the Polish Financial Supervision Authority of a delay in communicating confidential information to the public together with the reasons for the delay, with a proviso that the current report concerning that event will be provided to the public until 14 January 2013. Subsequently, the deadline for communicating confidential information to the public was finally postponed until 28 February 2013. On 18 December 2012, RAFAKO S.A. entered into a conditional agreement with Mostostal Warszawa S.A. The agreement was concluded under a condition precedent involving obtaining an unconditional acceptance of the Contractor and of the terms and conditions of the Agreement by the end customer i.e. Zakład Unieszkodliwiania Odpadów Sp. z o.o. no later than by 14 January 2013. This deadline was, however, postponed until 28 February 2013 as a result of signing Annex 1 to the Agreement on 12 January 2013. On 28 February 2013, due to the lapse of the deadline for obtaining an unconditional acceptance of the Contractor and of the terms and conditions of the Agreement by the end customer, the parties signed Annex 2 to the Agreement, under which the condition precedent was cancelled, as a result of which the Agreement came into force on 28 February 2013. At the same time, the parties included in Annex 2 a clause terminating the Agreement in the event the end customer does not accept unconditionally the Contractor or the terms and conditions of the Agreement by 29 March 2013. The Agreement is for the design, supply and assembly of the technological part for two power lines of the Thermal Waste Treatment Plant for the Szczecin Metropolitan Area, comprising a grate, boiler and flue gas cleaning system, and its value is PLN 227,370,000 net (PLN 279,665,100 including VAT). The agreement will be performed until 14 November 2015.

On 7 March 2013, RAFAKO S.A. signed an annex to the loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. in Warsaw, which extends the term of the agreement until 30 June 2013. The Company expects that the loan agreement will be extended for subsequent periods. The conditions for obtaining a positive decision of the bank with regard to extending the deadline for loan repayment are as follows: filling in an appropriate loan request form together with all appendices, confirmation of cancellation of the registered pledge established on the shares of RAFAKO S.A. in favor of Adaptorinvest Ltd., submitting financial forecasts for a period of at least 12 months and establishing a collateral for the amounts due to PKO BP S.A. in the form of a real estate mortgage and a registered pledge on a set of movables and rights representing the economic whole of the enterprise of RAFAKO S.A. (the bank allows for waiver of this condition in the event of the contract for the Opole or Jaworzno III Power Plant).

On 19 March 2013, the Supervisory Board of RAFAKO S.A. determined the number of Management Board members to be 5 and appointed Edward Kasprzak and Maciej Modrowski as Management Board members.

(in PLN thousand)

These financial statements of the Company were authorized for issue on 19 March 2013 based on resolution No. 29 of the Management Board of RAFAKO S.A. dated 19 March 2013.

Signed by:

19 March 2013	Paweł Mortas	President of the Management Board	....
19 March 2013	Krzysztof Burek	Vice President of the Management Board	....
19 March 2013	Jarosław Dusiło	Vice President of the Management Board	....
19 March 2013	Edward Kasprzak	Vice President of the Management Board	....
19 March 2013	Maciej Modrowski	Vice President of the Management Board	....
19 March 2013	Jolanta Markowicz	Chief Accountant	....