The RAFAKO Group

THE PBG GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2013

with the auditor's opinion

COPY NO. 1

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Consolidated statement of comprehensive income
for the 12 months ended December 31st 2013

	Note	*12 months ended Dec 31 2013*	*12 months ended Dec 31 2012*
Continuing operations			
Revenue		**836,015**	**1,291,391**
Sales of finished goods	15.1	806,617	1,270,509
Sales of materials	15.2	29,398	20,882
Cost of sales	15.4	(778,330)	(1,176,807)
Gross profit/(loss)		**57,685**	**114,584**
Other income	15.7	4,732	18,847
Distribution costs	15.4	(40,991)	(27,451)
Administrative expenses	15.4	(43,536)	(53,928)
Other expenses	15.8	(3,586)	(37,006)
Profit/(loss) from continuing operations		**(25,696)**	**15,046**
Finance income	15.9	16,379	16,762
Finance costs	15.10	(32,150)	(34,683)
Result on loss of control of a subsidiary by owners of the Parent	43	–	1,955
Effect of changes in estimates on valuation of receivables from related entities in arrangement proceedings	43	(94,205)	–
Pre-tax profit/(loss)		**(135,672)**	**(920)**
Income tax expense	16.1	1,024	(26,379)
Profit/(loss) from continuing operations		**(134,648)**	**(27,299)**

Racibórz, March 21st 2014

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	Member of the Management Board	Member of the Management Board	Chief Accountant

Consolidated statement of comprehensive income
for the 12 months ended December 31st 2013

	Note	*12 months ended Dec 31 2013*	*12 months ended Dec 31 2012*
Other comprehensive income for the period		**(816)**	**(161)**
Items to be reclassified to profit/(loss) in subsequent reporting periods			
Exchange differences on translating foreign operations	15.11	(328)	(161)
Other net comprehensive income to be reclassified to profit/(loss) in subsequent reporting periods		**(328)**	**(161)**
Items not subject to reclassification to profit/(loss) in subsequent reporting periods			
Other comprehensive income from actuarial gains/(losses)	15.11	(601)	–
Income tax on other comprehensive income	15.11	113	–
Other comprehensive income not subject to reclassification to profit/(loss) in subsequent reporting periods		**(488)**	**–**
Total comprehensive income for the period		**(135,464)**	**(27,460)**
Net profit/(loss) attributable to:		(134,648)	(27,299)
Owners of the Parent		(135,349)	9,835
Non-controlling interests		701	(37,134)
Comprehensive income attributable to:		(135,464)	(27,460)
Owners of the Parent		(136,165)	9,687
Non-controlling interests		701	(37,147)
Earnings/(loss) per share:			
Basic earnings/(loss) per share, PLN	20	(1.94)	0.14

Racibórz, March 21st 2014

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	Member of the Management Board	Member of the Management Board	Chief Accountant

Consolidated statement of financial position
as at December 31st 2013

	Note	*Dec 31 2013*	*Dec 31 2012*
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	22	197,927	201,859
Investment property	25	–	–
Intangible assets	26	11,831	13,373
Non-current trade receivables, other receivables and prepayments	29	4,624	855
Trade receivables		3,715	855
Other receivables and prepayments		909	–
Non-current financial assets		32,650	120,093
Shares in other entities	28	338	366
Non-current loans advanced	30	–	–
Non-current deposits	30	905	1,444
Other non-current financial assets	30	31,407	118,283
Deferred tax asset	16.3	44,936	33,078
		291,968	**369,258**
Current (short-term) assets			
Inventories	31	26,884	29,115
Current trade receivables, other receivables and prepayments	32	519,827	657,633
Trade receivables		144,199	288,916
Income tax receivable		13,587	21,510
Other receivables and prepayments		362,041	347,207
Gross amount due from customers for contract work	14	168,211	158,150
Current financial assets		57,490	85,663
Derivative instruments	33.1	15	53
Current deposits	33.2	892	6,367
Other current financial assets	0	1,863	10,500
Cash and cash equivalents	33.4	54,720	68,743
Other current non-financial assets	34	–	5,676
		772,412	**936,237**
Non-current assets held for sale	24	1,022	916
TOTAL ASSETS		**1,065,402**	**1,306,411**

Racibórz, March 21st 2014

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	Member of the Management Board	Member of the Management Board	Chief Accountant

Consolidated statement of financial position

as at December 31st 2013

	Note	Dec 31 2013	Dec 31 2012
EQUITY AND LIABILITIES			
Equity (attributable to owners of the Parent)			
Share capital	35.1	139,200	139,200
Share premium	35.4	36,778	36,778
Reserve funds	35.5	252,821	243,011
Exchange differences on translating foreign operations	35.6	134	462
Retained earnings / Accumulated losses	35.7	(145,980)	(333)
		282,953	**419,118**
Equity (attributable to non-controlling interests)	35.10	11,136	10,435
Total equity		**294,089**	**429,553**
Non-current liabilities			
Interest-bearing borrowings	36	–	–
Finance lease liabilities	41	1,683	1,012
Deferred tax liability	16.3	3,067	2,640
Provision for employee benefits	37	22,119	22,223
Non-current trade and other payables		18,807	32,198
Trade payables	38.1	13,631	17,443
Capital commitments	38.1	2,132	2,861
Other liabilities	38.1	3,044	11,894
		45,676	**58,073**
Current liabilities			
Current trade and other payables		269,477	287,368
Trade payables	38.2	206,992	240,523
Capital commitments	38.2	1,396	5,511
Income tax payable	38.9	45	53
Other liabilities	38.2	61,044	41,281
Current portion of interest-bearing borrowings	36	256,816	291,987
Other financial liabilities and finance lease liabilities	38.2, 41	691	559
Provision for employee benefits	37	1,550	1,910
Gross amount due to customers for contract work and provisions for contract work		197,103	236,961
Gross amount due to customers for contract work	14	110,646	140,040
Provisions for contract work	14	85,899	96,415
Grants	39	558	506
Liabilities directly related to assets classified as held for sale		–	–
		725,637	**818,785**
Total liabilities		**771,313**	**876,858**
TOTAL EQUITY AND LIABILITIES		**1,065,402**	**1,306,411**

Racibórz, March 21st 2014

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	Member of the Management Board	Member of the Management Board	Chief Accountant

Consolidated statement of cash flows
for the 12 months ended December 31st 2013

	Note	*12 months ended Dec 31 2013*	*12 months ended Dec 31 2012*
Cash flows from operating activities			
Pre-tax profit/(loss)		**(135,672)**	**(920)**
Adjustments for:		**175,640**	**(343,773)**
Depreciation and amortisation	15.5	12,645	17,689
Foreign exchange gains/(losses)		(1)	813
Interest and dividends, net		5,501	6,676
(Gain)/loss from investing activities	21	15,236	17,722
Increase/(decrease) in financial liabilities/financial assets from valuation of derivative instruments		38	(5,341)
Loss of control of a subsidiary	43	–	(1,955)
Effect of changes in estimates on valuation of receivables from related entities in arrangement proceedings	43, 30, 0	94,205	–
(Increase)/decrease in receivables	21	124,163	(292,466)
(Increase)/decrease in inventories		2,231	22,850
Increase/(decrease) in employee benefit provisions and obligations, excluding borrowings	21	(25,441)	80,702
Change in prepayments and accruals for construction contracts	21	(49,971)	(144,010)
Income tax paid		(2,351)	(43,736)
Other		(615)	(2,717)
Net cash from operating activities		**39,968**	**(344,693)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		1,502	2,234
Purchase of property, plant and equipment and intangible assets	21	(10,967)	(44,382)
Sale of financial assets		11,150	28,531
Purchase of financial assets		(5,177)	(7,912)
Decrease in cash resulting from loss of control of a subsidiary		–	(4,547)
Change in cash related to acquisition of a subsidiary		–	532
Dividends and interest received		627	1,079
Loans advanced		–	(34,271)
Repayment of loans advanced		–	16
Other		–	(16,176)
Net cash from investing activities		**(2,865)**	**(74,896)**
Cash flows from financing activities			
Payment of finance lease liabilities		(1,140)	(6,712)
Proceeds from borrowings	21	10,064	310,886
Repayment of borrowings	21	(44,879)	(469)
Interest paid		(13,558)	(14,068)
Bank fees		(1,795)	(30)
Other		586	673
Net cash from financing activities		**(50,722)**	**290,280**
Net increase/(decrease) in cash and cash equivalents		**(13,619)**	**(129,309)**
Net foreign exchange difference		(404)	(551)
Cash at the beginning of the period	33.4	**68,743**	**198,603**
Cash at the end of the period, of which:	33.4	**54,720**	**68,743**
- restricted cash	33.4	1,052	872

Racibórz, March 21st 2014

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	Member of the Management Board	Member of the Management Board	Chief Accountant

Consolidated statement of changes in equity
for the 12 months ended December 31st 2013

	Share capital	*Share premium*	*Reserve funds*	*Exchange differences on translating foreign operations*	*Retained earnings/ Accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
As at January 1st 2013	**139,200**	**36,778**	**243,011**	**462**	**(333)**	**419,118**	**10,435**	**429,553**
Total comprehensive income for the period	–	–	–	(328)	(135,837)	(136,165)	701	(135,464)
Distribution of prior year profits	–	–	9,810	–	(9,810)	–	–	–
Dividend	–	–	–	–	–	–	–	–
As at December 31st 2013	**139,200**	**36,778**	**252,821**	**134**	**(145,980)**	**282,953**	**11,136**	**294,089**
As at January 1st 2012	**139,200**	**36,778**	**183,101**	**610**	**49,742**	**409,431**	**56,184**	**465,615**
Total comprehensive income for the period	–	–	–	(148)	9,835	9,687	(37,147)	(27,460)
Distribution of prior year profits	–	–	59,910	–	(59,910)	–	–	–
Dividend	–	–	–	–	–	–	–	–
Loss of control of a subsidiary	–	–	–	–	–	–	(8,602)	(8,602)
As at December 31st 2012	**139,200**	**36,778**	**243,011**	**462**	**(333)**	**419,118**	**10,435**	**429,553**

Racibórz, March 21st 2014

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	Member of the Management Board	Member of the Management Board	Chief Accountant

EXPLANATORY NOTES

1. General information

The RAFAKO Group (the "Group") is composed of RAFAKO S.A. (the "Parent") and its subsidiaries presented in Note 2.

RAFAKO S.A. (the "Company" or the "Parent") is a publicly-traded joint stock company with its registered office at ul. Łąkowa 33 in Racibórz, Poland. The Company was established under a notary deed of January 12th 1993. On August 24th 2001 it was entered in the Register of Entrepreneurs maintained by the District Court in Gliwice, 10th Commercial Division of the National Court Register, under No. KRS 34143. The Parent's Industry Identification Number (REGON) is 270217865.

The Group companies have been established for an indefinite term.

The Group's consolidated financial statements cover the year ended December 31st 2013 and include comparative data as at December 31st 2012 and for the year ended on that date.

The Group's principal business activities are as follows:

- Production of steam generators, excluding hot water central heating boilers
- Repair and maintenance of metal finished goods
- Installation of industrial machinery, plant and equipment
- Manufacture of metal structures and parts thereof
- Other specialist construction work, not elsewhere classified
- Production of industrial cooling and ventilation equipment
- Production of other metal reservoirs, tanks and containers
- Mechanical treatment of metal parts
- Metalworking and coating
- Manufacture of machinery for metalworking
- Repair and maintenance of machinery
- Activities in the field of architecture
- Engineering activities and related technical consultancy
- Manufacture of ovens, furnaces and furnace burners
- Wholesale of other machinery and equipment
- Wholesale of metals and metal ores
- Production of other general-purpose machinery, not elsewhere classified
- Production of tools
- Generation of electricity
- Transmission of electricity
- Distribution of electricity
- Trading in electricity
- Production and supply of steam, hot water and air for air-conditioning systems
- Wholesale of hardware, plumbing and heating equipment and supplies
- Rental and management of freehold or leasehold property
- Other technical testing and analyses
- Other non-school forms of education, not elsewhere classified
- Sewage disposal and treatment
- Hotels and similar accommodation facilities
- Tourist lodging and short-stay accommodation facilities
- Restaurants and other permanent catering facilities
- Other catering services
- Activities of cultural facilities
- Other recreation and entertainment facilities
- Activities related to organization of fairs, exhibitions and congresses
- Scientific research and development work in the field of other natural and technical sciences

- Forging, pressing, stamping and roll forming of metal; powder metallurgy
- Manufacture of instruments and appliances for measuring, testing and navigation
- Manufacture of electric motors, generators and transformers
- Production of electricity distribution and control apparatus
- Manufacture of engines and turbines, except aircraft, vehicle and cycle engines
- Manufacture of hydraulic and pneumatic drive equipment and accessories
- Manufacture of other pumps and compressors
- Manufacture of lifting and handling equipment
- Repair and maintenance of electrical equipment
- Treatment and disposal of non-hazardous waste
- Dismantling of wrecks
- Remediation activities and other services related to waste management
- Construction of residential and non-residential buildings
- Construction of roads and motorways
- Construction of railways and underground railways
- Construction of pipelines and distribution networks
- Construction of telecommunications lines and power lines
- Construction of other civil engineering facilities, not elsewhere classified
- Dismantling and demolition of buildings
- Site preparation
- Digging, drilling and boring for geological and engineering purposes
- Installation of electrical wiring and fittings
- Installation of plumbing, heat, gas and air-conditioning systems
- Other building installation
- Erection of roof covering and frames
- Wholesale of waste and scrap
- Warehousing and storage of other goods
- Software related activities
- Computer consultancy
- IT equipment management activities
- Other services in the field of information and computer technology
- Data processing; hosting and similar activities
- Specialist design activities
- Renting and leasing of cars and vans
- Renting and leasing of other motor vehicles, except motorcycles
- Renting and leasing of construction machinery and equipment
- Renting and leasing of office machinery and equipment including computers
- Renting and leasing of other machinery, equipment and tangible goods, not elsewhere classified
- Repair and maintenance of computers and peripheral equipment
- Operation of sports facilities
- Other sporting activities
- Other business and management consultancy activities

The Parent 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.

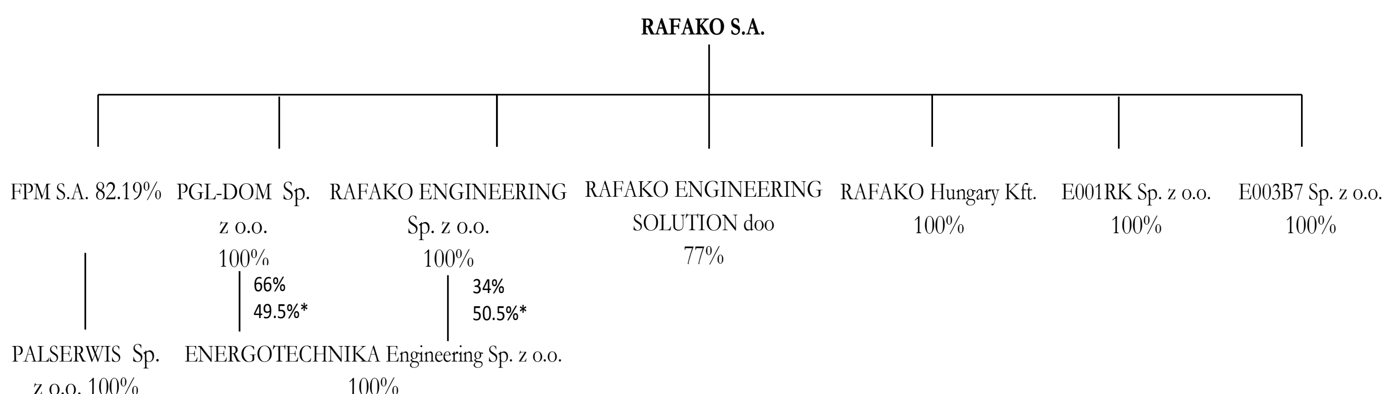
2. Composition of the Group

The consolidated financial statements incorporate the financial statements of RAFAKO S.A. and its subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the Parent, with the use of consistent accounting policies. The consolidated financial statements are prepared in accordance with IAS 27 Consolidated and Separate Financial Statements.

As at December 31st 2013, the RAFAKO Group was composed of the Parent and nine subsidiaries operating in the power construction, services and trade sectors.

As at December 31st 2013, the following subsidiaries were consolidated in the Group's consolidated financial statements:



* % share of voting rights at the General Meeting.

The table below lists the consolidated RAFAKO Group companies:

Name and registered office	*Principal business activity*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method used*
RAFAKO S.A. Racibórz	Manufacture of steam generators except central heating hot water boilers	District Court of Gliwice KRS 34143	–
FPM S.A. Mikolów	Manufacture of ovens, furnaces and furnace burners	District Court of Katowice KRS 15844	full
PALSERWIS Sp. z o.o.* Mikolów	Manufacture of ovens, furnaces and furnace burners	District Court of Katowice KRS 166867	full
PGL-DOM Sp. z o.o. Racibórz	Real property activities with own property	District Court of Gliwice KRS 58201	full
RAFAKO Engineering Sp. z o.o. Racibórz	Construction and process design, urban planning	District Court of Gliwice KRS 287033	full
ENERGOTECHNIKA ENGINEERING Sp. z o.o.** Gliwice	Construction and process design, urban planning, engineering consultancy	District Court of Gliwice KRS 417946	full
RAFAKO ENGINEERING SOLUTION doo Belgrade	Process design, construction, industry, and environmental protection consultancy and supervision	Commercial Register Agency of the Republic of Serbia 20320524	full

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

** 34% subsidiary of RAFAKO ENGINEERING Sp. z o.o. and 66% subsidiary of PGL-DOM Sp. z o.o., indirect subsidiary of RAFAKO S.A.

Name and registered office	*Principal business activity*	*Registry court and number in the National Court Register (KRS)*	*Consolidation method used*
RAFAKO Hungary Kft. Budapest	Equipment assembly in the power and chemical industry	Registry Court of the Capital City of Budapest	full
E001RK Sp. z o.o. Racibórz	Development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity	District Court of Gliwice KRS 479758	full
E003B7 Sp. z o.o. Racibórz	Development of construction projects, business consultancy and construction design, engineering and technology	District Court of Gliwice KRS 486911	full

As at December 31st 2013, the Group's share in total voting rights held in the subsidiaries was equal to the Group's interest in the share capital of those entities, except for ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 34% of preference shares (conferring the right to 50.5% of the total vote); the remaining 66% of the shares (conferring the right to 49.5% of the total vote) are held by PGL-DOM Sp. z o.o.

As at December 31st 2012, the Group's share in total voting rights held in the subsidiaries was equal to the Group's interest in the share capital of those entities.

In the 12 months ended December 31st 2013, the following changes took place in the composition of the RAFAKO Group:

On February 1st 2013, the Extraordinary General Meeting of the subsidiary ENERGOTECHNIKA ENGINEERING Sp. z o.o. passed a resolution to increase the company's share capital from PLN 5,000.00 to PLN 755,000.00, that is by PLN 750,000.00, through an issue of 1,500 new shares with a par value of PLN 500.00 per share, and a total par value of PLN 750,000.00. The newly issued shares were acquired as follows:

- RAFAKO ENGINEERING Sp. z o.o. acquired 500 shares with a par value of PLN 250,000.00 and paid for the shares in cash; the shares acquired by RAFAKO ENGINEERING Sp. z o.o. are preference shares, each carrying two votes;
- PGL-DOM Sp. z o.o. acquired 1,000 shares with a total par value of 500,000.00 and paid for the shares in cash.

Following the increase, the share capital of ENERGOTECHNIKA ENGINEERING Sp. z o.o. amounts to PLN 755,000.00, and equity interests in the company are held by:

- RAFAKO ENGINEERING Sp. z o.o. – 34% of shares (with voting preference), representing 50.50% of total voting rights at the General Meeting,
- PGL-DOM Sp. z o.o. – 66% of shares, representing 49.50% of total voting rights at the General Meeting.

On April 24th 2013, the Extraordinary General Meeting of RAFAKO ENGINEERING Sp. z o.o. passed a resolution to increase the company's share capital by PLN 500,000.00 through an issue of 1,000 new shares with a par value of PLN 500.00 per share. Based on a declaration to acquire new shares in RAFAKO ENGINEERING Sp. z o.o. of April 30th 2013, all new shares were acquired by RAFAKO S.A.

On June 6th 2013, the Annual General Meeting of ENERGOTECHNIKA ENGINEERING Sp. z o.o. passed a resolution on additional contributions to the company's share capital, of PLN 1,200 per share (PLN 1,812,000 in total):

- RAFAKO ENGINEERING Sp. z o.o. made a contribution of PLN 612,000.
- PGL-DOM Sp. z o.o. made a contribution of PLN 1,200,000.

The contributions did not result in any changes in the ownership interests held by each shareholder in ENERGOTECHNIKA ENGINEERING Sp. z o.o.

On October 9th 2013, E001RK Sp. z o.o. of Racibórz, a subsidiary incorporated under Articles of Association of August 8th 2013, was registered with the National Court Register. RAFAKO S.A. is the main shareholder and holds 100% of the company shares for a total amount of PLN 5,000.

On November 22st 2013, E003B7 Sp. z o.o. of Racibórz, a subsidiary incorporated under Articles of Association of November 15th 2013, was registered with the National Court Register. RAFAKO S.A. is the main shareholder and holds 100% of the company shares for a total amount of PLN 5,000.

3. Composition of the Parent's Management and Supervisory Boards

In the 12 months ended December 31st 2013, the following changes took place in the composition of the Parent's Management Board:

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

As at the date of these financial statements, the composition of the Parent's Management Board was as follows:

Paweł Mortas – President of the Management Board
Krzysztof Burek – Vice-President of the Management Board
Jarosław Dusiło – Vice-President of the Management Board
Edward Kasprzak – Member of the Management Board
Maciej Modrowski – Member of the Management Board.

In the 12 months ended December 31st 2013, the following changes took place in the composition of the Parent's Supervisory Board:

On June 21st 2013, the Annual General Meeting of RAFAKO S.A. determined the number of Supervisory Board members to be seven, and appointed the following Supervisory Board of the 7th term of office:

Agenor Gawrzyał
Dariusz Sarnowski
Przemysław Schmidt
Edyta Senger-Kałat
Piotr Wawrzynowicz
Małgorzata Wiśniewska
Jerzy Wiśniewski

As at the date of these financial statements, the composition of the Supervisory Board was as follows:

Agenor Gawrzyał – Chairman of the Supervisory Board
Jerzy Wiśniewski – Deputy Chairman of the Supervisory Board
Piotr Wawrzynowicz – Secretary of the Supervisory Board
Dariusz Sarnowski – Member of the Supervisory Board
Przemysław Schmidt – Member of the Supervisory Board
Edyta Senger-Kałat – Member of the Supervisory Board
Małgorzata Wiśniewska – Member of the Supervisory Board

4. Authorization of the financial statements

These consolidated financial statements for the year ended December 31st 2013 were authorised for issue by the Parent's Management Board on March 21st 2014.

5. Going concern assumption

The most material factor affecting the RAFAKO Group's ability to continue as a going concern is the financial standing of the Parent. These consolidated financial statements of the RAFAKO Group have been prepared on the assumption that the Group will continue as a going concern for at least 12 months after the reporting date, i.e. December 31st 2013.

To be able to continue its business activities, the RAFAKO Group must maintain its financial liquidity, that is the ability to secure sufficient financing for the current contracts. In view of the above, the Parent's Management Board has prepared financial projections for 2014 and subsequent years, based on a number of assumptions, the most important of which relate to securing long-term external financing for RAFAKO S.A.'s operations in the form of a bank facility (under an annex of December 20th 2013, the repayment date of the Parent's bank facility was extended until March 31st 2014), and availability of bank/insurance guarantees which would make the performance of new contracts possible and would free the cash tied up in security deposits for the current contracts.

The above assumptions relate to the key risks provided for in the financial projections. Materialisation of these risks/uncertainties, trade payables becoming past due, and the need to commit significant funds by the Parent as security for contract guarantees (as at the reporting date, the value of deposits used to secure guarantees was PLN 110m, excluding the security deposit for the Opole project, which was returned by the employer after the reporting date) may significantly affect the Group's ability to continue as a going concern.

For these reasons, for over a year the Parent's Management Board has been negotiating with its financing bank the terms of extending the availability of the current credit facility into subsequent years and maintaining the facility's amount close to its current level, and the terms of obtaining further facilities that would enable the Parent to provide contract guarantees without the need to commit its own funds. Last year, the Parent reduced its debt towards the bank from ca. PLN 300m to ca. PLN 180m at the reporting date; significantly reduced past due trade payables; secured a significant part of budgeted revenue; and provided the financing bank with appropriate security under the current credit facility, as required by the institution. All these activities clearly indicate an improvement of the Group's financial standing, which should positively affect the assessment of the Group's financial standing by the financing institutions. The bank is also closely involved in the process related to the launch of the Jaworzno project, and is aware of the Group's improving financial position and of the key factors with a bearing on the Group's forecast future financial standing. In view of the above, the Parent's Management Board believes that the negotiations with the bank will result in a change of the structure and maturity of the current credit facility, which will ensure continued operation in accordance with the assumptions set forth in the financial projections. Additionally, the Parent's Management Board believes that the negotiations concerning the Jaworzno project will be successful, and in effect cash will be released and allow the Parent to use guarantee lines enabling the hold on other funds to be lifted and to secure the execution of new contracts.

In conclusion, the key factors important for the success of the initiatives of the Parent's Management Board include extension of the repayment date of the current credit facility, and securing the availability of bank/insurance guarantees to enable the Parent to win new and continue the existing contracts.

Considering the risks discussed above, the improved financial standing of the Group, and the status of negotiations with the financing bank, the RAFAKO Management Board believes that its efforts, in particular the negotiations with the bank, will prove successful, and has prepared these financial statements based on the assumption that the Company would continue as a going concern.

6. Significant judgments and estimates

6.1. Professional judgment

Apart from the accounting estimates, the management's professional judgement, which affects the amounts recognised in the consolidated financial statements and the explanatory notes thereto, was of key importance in the application of the accounting policies in the cases described below. The assumptions underlying these estimates are based on the management's best knowledge of current and future activities and events in the particular areas.

Classification of leases where the Group is the lessee

Group companies are parties to lease agreements. The companies classify leases as either finance leases or operating leases based on the assessment of the extent to which 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 management of the companies 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, the companies evaluate 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 months ended December 31st 2013 and the amounts of assets and liabilities as at December 31st 2013:

- the level of budgeted construction contract revenue and costs which provide 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 Group incurs costs of jubilee bonuses and post-employment benefits),
- impairment of assets, including financial assets (e.g. receivables under arbitration and arrangement proceedings),
- applied depreciation/amortisation rates,
- realisation of the deferred tax asset (including the asset arising from tax loss).

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

Impairment of assets

At the end of the reporting period, the Group 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 Group made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the 12 months ended December 31st 2013 there were no such indications.

For the value of impairment losses on assets as at the end of the financial year, see Notes 22, 32.1, 0 and 43 of these consolidated financial statements.

Depreciation and amortisation rates

Depreciation and amortisation rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment and their estimated residual values. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

Deferred tax asset

The Group recognises deferred tax assets based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. 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 realised, based on tax laws in effect at the reporting date.

Provision for expected losses on contracts

At the end of each reporting period the Group remeasures total estimated revenues and costs of construction contracts accounted for using the percentage of completion method. Any expected loss on the contract is recognised as an expense in accordance with IFRS. Details of accounting for construction contract revenue and costs for the reporting period are presented in Notes 11.27.6 and 14 to these consolidated financial statements.

Provision for costs due to late performance of contract

The Group recognises a provision for contractual penalties arising from late performance of contracts if the probability of being charged for delay in the performance of the contract is significant and the delay is due to the fault of the Group companies as contractors. The amount of the provision reflects the amount of the contractual penalty that may be charged for a given period of delay. Details of provisions estimated in this manner are presented in Note 14 to these consolidated financial statements.

Impairment of financial assets

At the reporting date, the Group makes an assessment of whether there is any objective evidence of impairment of a receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the entity recognises an allowance to bring down the carrying amount to the present value of the expected cash flows. For a detailed discussion of the fair value/recoverable amount of receivables from related parties in bankruptcy, see Note 43.

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

As a result of loss of control of a subsidiary, as discussed in detail in Note 43, the Parent recognised in the statement of financial position for 2012 a receivable which was initially recognised at fair value, i.e. the present value of expected inflows. This valuation was performed based on a set of assumptions, such as the estimated discounting period, estimated amount of the inflow, and estimated discount rate. Given the uncertainty as to RAFAKO S.A.'s ability to claim a refund of the price paid for the shares of ENERGOMONTAŻ-POŁUDNIE S.A., the estimation of the parameters for the measurement of the receivable, in particular at its initial recognition, was difficult and subject to uncertainty.

Valuation of receivables from related parties under arrangement proceedings

In light of the arrangement proceedings pending with respect to the Company's related entity, as discussed in detail in Note 43, and in light of the current arrangement proposals which have not yet been approved at the date of issue of these consolidated financial statements, the Parent's Management Board remeasured the related receivable based on new assumptions, i.e. the fair value of the receivable was estimated taking into account the expected cash inflows to RAFAKO S.A., taking into consideration PBG S.A.'s arrangement proposals providing for the repayment of PLN 500 thousand and an 80% reduction of the debt in excess of PLN 500 thousand (for which no deferred tax asset was recognised), and the expected timing of the first inflow of cash in the 5-year repayment period, assessed by the Management Board of RAFAKO S.A. as at December 31st 2014.

7. Basis of preparation of the financial statements

These consolidated financial statements have been prepared in accordance with the historical cost principle, modified with respect to financial instruments measured at fair value.

7.1. Statement of compliance

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRSs") and the IFRSs endorsed by the European Union ("EU IFRSs"). At the date of authorisation of these consolidated financial statements for issue, in light of the ongoing process of IFRS endorsement in the European Union and the nature of the Group's activities, within the scope of the accounting policies applied by the Group there is a difference between the IFRSs that came into force and the IFRSs endorsed by the European Union. The Group has chosen the option, available in the case of application of the EU-endorsed IFRSs, of applying IFRS 10, IFRS 11, IFRS 12, amended IAS 27, and IAS 28 starting from annual periods beginning on January 1st 2014.

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

The Group applied the IFRSs applicable to financial statements prepared for the year beginning on January 1st 2013.

7.2. Functional currency and presentation currency

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

The operational currency of the Parent and the subsidiaries, except for RAFAKO Engineering Solution doo. and RAFAKO Hungary Kft., is the Polish złoty. For RAFAKO Engineering Solution doo. the functional currency is the Serbian dinar, and for RAFAKO Hungary Kft. − the Hungarian forint. The items of financial statements prepared by the foreign subsidiaries are translated into the Group's presentation currency, using relevant exchange rates.

8. Changes in accounting policies (significant accounting principles (policy))

The accounting policies applied in preparing these consolidated financial statements are consistent with the policies applied in preparing the Group's financial statements for the year ended December 31st 2012, save for the effect of application of the following amended standards and new interpretations effective for annual periods beginning on or after January 1st 2013.

- Amendments to IAS 19 *Employee Benefits* − effective for annual periods beginning on or after January 1st 2013

Amendments to IAS 19 with respect to defined benefit plans include: elimination of the corridor approach, introduction of the requirement of immediate recognition of changes in plan assets/obligations and of past-service cost, recognition of actuarial gains and losses in other comprehensive income, and extension of the scope of disclosures. The amendments also change the classification of employee benefits as short-term or long-term benefits.

From the Group's perspective, the most important amendment to IAS 19 is the requirement to recognise actuarial gains and losses retrospectively in other comprehensive income.

The Group applied amendments to IAS 19 beginning from January 1st 2013. In these consolidated financial statements, the Group presents comparative data for the period ended December 31st 2012, derived from the issued and authorised financial statements for that period. The effect of applying the amendments to IAS 19 on the comparative data is presented below.

In connection with the amendments to IAS 19, the actuarial losses of PLN 2,386 thousand recognised in the comparative data for the year ended December 31st 2012 were reclassified from cost of sales to other comprehensive income. As a result of the adjustment, the Group's net profit for the year ended December 31st 2012 would have increased by PLN 1,933 thousand, while net other comprehensive income would have decreased by the same amount. The change has no effect on the statement of financial position as at December 31st 2012.

- Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* – effective for annual periods beginning on or after July 1st 2013

The application of the amendments had no effect on the Group's financial standing, performance or the scope of disclosures in the financial statements.

- IAS 1 Clarification of requirements for comparative information (amendment)

The application of the amendments had no effect on the Group's financial standing, performance or the scope of disclosures in the financial statements.

- Amendments to IAS 12 *Income Tax – Recovery of Underlying Assets* – effective for annual periods beginning on or after January 1st 2012 – in the EU effective not later than for annual periods beginning on or after January 1st 2013

The application of the amendments had no effect on the Group's financial standing, performance or the scope of disclosures in the financial statements.

- Amendments to IFRS 1 *First-Time Adoption of IFRSs: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – effective for annual periods beginning on or after July 1st 2011 – in the EU, effective not later than for annual periods beginning on or after January 1st 2013

The amendments to IFRS 1 did not apply to the Group.

- IFRS 13 *Fair Value Measurement* – effective for annual periods beginning on or after January 1st 2013

IFRS 13 introduces a single set of rules to be followed in the measurement of fair value of financial and non-financial assets and liabilities, where such measurement is required or permitted under the IFRS. IFRS 13 does not specify when the Group is required to make fair value measurements. IFRS 13 applies both to initial recognition and to each subsequent measurement. It requires new disclosures concerning valuation techniques, information/inputs used in the fair value measurement and the effect of some of the inputs on the fair value measurement.

Considering the insignificant value of assets/liabilities measured at fair value in these financial statements, the application of IAS 13 did not have a significant impact on the financial position, performance or the scope of disclosures in these financial statements.

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – effective for annual periods beginning on or after January 1st 2013

This interpretation does not apply to the Company.

- Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* – effective for annual periods beginning on or after January 1st 2013

The amendments introduce additional qualitative and quantitative disclosures concerning transfers/reclassifications of financial assets if:

  - the financial assets are derecognised in their entirety, but the entity maintains continuing involvement in these assets (for example through options or guarantees related to the transferred assets);
  - the financial assets are not derecognised in their entirety.

The application of these amendments had no effect on the financial standing or performance of the Group.

- Amendments to IFRS 1 *First-Time Adoption of IFRSs – Government Loans* – effective for annual periods beginning on or after January 1st 2013

The amendments to IFRS 1 did not apply to the Group.

- Changes resulting from Improvements to IFRS (issued in May 2012) effective for annual periods beginning on or after January 1st 2013

IAS 1 – the amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information,

IAS 16 – the amendment clarifies that major spare parts and servicing equipment that qualify as property, plant and equipment are not carried as inventory,

IAS 32 – the amendment removes the existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders,

IAS 34 – the amendment clarifies IAS 34 requirements concerning disclosures of the aggregate value of assets and liabilities of each reporting segment in order to enhance consistency with the requirements of IFRS 8 Operating Segments. The amendment requires that the aggregate value of assets and liabilities of a given reporting segment only be disclosed if these values are reported on a regular basis to the enterprise's main operating decision-maker and a significant change occurred in the aggregate value of the assets and liabilities disclosed in the previous annual report for that segment.

The application of the amendments, except for the amendments to IAS 19 as discussed above, had no impact on the Group's financial position, performance or the scope of disclosures presented in the consolidated financial statements.

9. New standards and interpretations issued but not yet effective

The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, but are not yet effective:

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement*, as amended – the IASB deferred the effective date for an indefinite term.
- IFRS 10 *Consolidated Financial Statements* – effective for annual periods beginning on or after January 1st 2013 – in the EU effective not later than for annual periods beginning on or after January 1st 2014. The Group elected to apply IFRS 10 for annual periods beginning on January 1st 2014.
- IFRS 11 *Joint Ventures* – effective for annual periods beginning on or after January 1st 2013 – in the EU, effective not later than for annual periods beginning on or after January 1st 2014. The Group elected to apply IFRS 11 for annual periods beginning on January 1st 2014.
- IFRS 12 *Disclosure of Interests in Other Entities* – effective for annual periods beginning on or after January 1st 2013 – in the EU effective not later than for annual periods beginning on or after January 1st 2014. The Group elected to apply IFRS 12 for annual periods beginning on January 1st 2014.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transitional Provisions* – effective for annual periods beginning on or after January 1st 2013 – in the EU effective not later than for annual periods beginning on or after January 1st 2014.
- IAS 27 *Separate Financial Statements* – effective for periods beginning on or after January 1st 2013 – in the EU effective not later than for annual periods beginning on or after January 1st 2014; the Group elected to apply the amendments to IAS 27 for annual periods beginning on January 1st 2014.
- IAS 28 *Investments in Associates and Joint Ventures* – effective for annual periods beginning on or after January 1st 2013 – in the EU effective not later than for annual periods beginning on or after January 1st 2014. The Group elected to apply amendments to IAS 28 for annual periods beginning on January 1st 2014.
- Amendments to IAS 32 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* – effective for annual periods beginning on or after January 1st 2014.
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (published on October 31st 2012) – effective for annual periods beginning on or after January 1st 2014.
- IFRIC 21 *Levies* – effective for annual periods beginning on or after January 1st 2014 – not adopted by the EU by the date of authorisation of these financial statements.
- Amendments to IAS 36 *Disclosures of Recoverable Amount of Non-Financial Assets* (published on May 29th 2013) – effective for annual periods beginning on or after January 1st 2014.
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* (published on June 27th 2013) – effective for annual periods beginning on or after January 1st 2014.
- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions (published on November 21st 2013)* – effective for annual periods beginning on or after July 1st 2014 – not adopted by the EU by the date of authorisation of these financial statements.
- *Improvements to IFRSs 2010-2012* – some of the amendments are effective for annual periods beginning on or after July 1st 2014, and some prospectively for transactions occurring on July 1st 2014 – not adopted by the EU by the date of authorisation of these financial statements.
- *Improvements to IFRSs 2011-2013* – effective for annual periods beginning on or after July 2014 – not adopted by the EU by the date of authorisation of these financial statements.
- IFRS 14 *Regulatory Deferral Accounts* – effective for annual periods beginning on or after January 1st 2016 – not adopted by the EU by the date of authorisation of these financial statements.

The Group has not elected to early adopt any of the standards, interpretations or amendments that have been published but are not yet effective.

As at the date of these consolidated financial statements, the introduction of the standards, amendments and interpretations as well as their effect on financial information resulting from first-time application of these standards, amendments or interpretations has been analysed by the Parent's Management Board; the Management Board believes that it will have no significant impact on the Group's accounting policies.

10. Change in estimates

In the year ended December 31st 2013 and as at December 31st 2012, the Group reviewed and updated estimates in significant areas, as discussed in Note6.2.

11. Significant accounting policies

11.1. Fair value measurement

The Group measures financial instruments, such as instruments available for sale and derivative instruments, at fair value at each reporting date.

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in a transaction carried out on typical terms of sale of the asset between market participants at the measurement date in the current market conditions. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs either:

- in the principal market for the asset or liability; or
- in the absence of a principal market – on most advantageous market for the asset or liability.

Both the principal and the most advantageous markets must be available to the Group.

The fair value of the asset or liability is measured on the assumption that market participants when determining the price of an asset or liability act in their best economic interest.

In the valuation of a non-financial asset at fair value the ability of a market participant to generate economic benefits by making maximum and optimal use of the asset or by selling it to another market participant who would make maximum and optimal use of the asset is taken into account.

The Group applies valuation methods that are appropriate given the circumstances and for which sufficient information is available to determine the fair value, whereby as many relevant observable inputs as possible are used and as little as possible non-observable inputs are used.

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly,
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines at the end of each reporting period whether, due to a reassessment, a change has occurred in the level classification of the hierarchy (based on the input of the lowest level that is significant for the whole valuation).

The application of IFRS 13 had no effect on the Group's consolidated financial standing, performance or the scope of disclosures in the financial statements.

Summary of significant accounting policies concerning fair value measurement

The Parent's Management Board determines the rules and procedures for systematic fair value measurement of such assets as investment property or unlisted financial assets, as well as non-recurring measurements such as assets held for sale in discontinued operations.

For the purposes of the disclosure of the results of measurement to fair value the Group has established classes of assets and liabilities based on the nature, characteristics and risks of the various components of assets and liabilities and the level in the fair value hierarchy as described above.

11.2. Basis of consolidation

RAFAKO S.A. is the Parent of the RAFAKO Group and it prepares consolidated financial statements.

The consolidated financial statements incorporate the financial statements of the Parent and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the Parent, using uniform accounting policies, and with accounting policies consistently applied to economic events and transactions of a similar nature. Adjustments are made in order to eliminate any discrepancies in the application of accounting principles.

All significant balances and transactions between Group companies, including unrealised gains from intra-Group transactions, have been fully eliminated. Unrealised losses are eliminated unless they are indicative of impairment.

Subsidiaries are consolidated from the date when the Group obtains control of them and cease to be consolidated when the control is lost. The parent controls a subsidiary if it holds, directly or indirectly through its subsidiaries, more than half of voting rights in a given company, unless it is possible to demonstrate that the ownership of more than half of voting rights does not constitute control. The parent controls an entity also if it is able to control its financial and operational policies.

Changes in the parent's ownership interest which do not result in the loss of control are recognised as equity transactions. In order to reflect such changes in ownership, the Group makes adjustments to the carrying amounts of controlling and non-controlling interests. Any differences between the amount of an adjustment to non-controlling interests and the fair value of the consideration paid or received are charged to equity and attributed to owners of the parent.

11.3. Participation in joint venture

In the reporting periods covered by these consolidated financial statements, Group companies did not take part in any joint ventures with other business entities.

11.4. Business combinations under common control

Assuming that a transaction has an economic substance, business combinations under common control are accounted for with the acquisition method in accordance with IFRS 3.

11.5. Foreign currency translation

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

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

As at the reporting date, monetary assets and liabilities denominated in currencies other than the Polish zloty are translated into the Polish zloty at the average NBP rate prevailing for the given currency at the year-end. Exchange differences resulting from currency translations are recognised as finance income (costs); realised and unrealized exchange differences on trade receivables − as revenue; realised and unrealised exchange differences on trade payables − as production cost, or are capitalised in the cost of the assets where so required by the applied accounting policies. Non-monetary foreign currency assets and liabilities recognised at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated into the Polish zloty at the rate of exchange prevailing as at the date of remeasurement to fair value.

The following exchange rates were used for the valuation purposes:

	Dec 31 2013	*Dec 31 2012*
USD	3.0120	3.0996
EUR	4.1472	4.0882
GBP	4.9828	5.0119
CHF	3.3816	3.3868
SEK	0.4694	0.4757
TRY	1.4122	1.7357

The functional currencies of the foreign subsidiaries are the Serbian dinar (RSD) and the Hungarian forint (HUF). At the end of a reporting period, assets and liabilities of the foreign subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the end of the reporting period, and their statements of comprehensive income are translated at the weighted average exchange rate for a given financial period. Foreign currency differences on such translation are recognised in other comprehensive income and accumulated in a separate item of equity. Upon disposal of a foreign operation, accumulated deferred foreign exchange differences attributable to that operation and disclosed under equity are recognised in profit or loss.

The weighted average exchange rates for the respective financial periods were as follows:

	Dec 31 2013	*Dec 31 2012*
RSD	0.0372	0.0368
HUF	0.0141	0.0144

11.6. Property, plant and equipment

Property, plant and equipment are non-current 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 longer than one year,
- in respect of which it is probable that the 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 production cost) less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price and any expenses directly attributable to buying and bringing the asset to working condition for its intended use. Cost also comprises the cost of 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 Group measured a part of the property, plant and equipment at fair value and recognised the fair value as deemed cost as at January 1st 2004, which is the date of transition to IFRSs.

Depreciation is charged on the cost of the fixed asset less 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 (perpetual usufruct rights)	–	–
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 50.00%	from 2 to 10 years
Vehicles	from 6.67 % to 50.00 %	from 2 to 15 years
Computers	from 14.29 % do 50.00 %	from 2 to 7 years

The right of perpetual usufruct of land is classified by the Group 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 facilities, a decision was made to classify the rights as an item of non-depreciable property, plant and equipment, as in the case of land.

If at the time of preparing the consolidated 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 which 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 recognised in the income statement in the expense category consistent with the function of the impaired asset.

An item of property, plant and equipment is derecognised 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 net disposal proceeds and the carrying amount of the asset) is recognised 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 recognised 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 Group 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, makes appropriate accounting adjustments affecting the current or future periods. The cost of overhauling a fixed asset that meets the capitalisation criteria is recognised as an item of property, plant and equipment.

11.7. 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 amortisation and impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged against profits in the period in which they are incurred.

As at January 1st 2004 the Group measured a part of its intangible assets at fair value and recognised the fair value as deemed cost for IFRS 1 purposes.

The useful lives of intangible assets are assessed by the Group to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of 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 amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised 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 capitalised development expenses, are not capitalised 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 level of cash-generating units. For all other intangible assets, an assessment is made each year for whether there are any indications that the assets 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 amortised using the straight-line method.

Amortisation periods for intangible assets range 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 net disposal proceeds and the carrying amount of the asset and is recognised in the income statement upon derecognition.

Research and development costs

Research costs are charged to profit and loss as incurred. Expenditure incurred on development work performed as part of a given project is carried forward to the next period when it can be assumed that it will be recovered in the future. Following initial recognition of expenditure on development work, the historical cost model is used, according to which individual assets are carried at cost less accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised 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 has been identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

A summary of the policies applied to the Group's intangible assets is present below:

	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 amortisation	Amortised over the term of the contract (5-10 years) using the straight-line method.	Amortised 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

11.8. Goodwill

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

- the aggregate of:
  (i) consideration transferred,
  (ii) the amount of any non-controlling interest in the acquiree, and
  (iii) in a step acquisition, 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 carried 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 amortised.

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 recognised. 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.

11.9. Investment property

Investment property is initially measured at cost, including transaction costs. The carrying amount of investment property includes the cost of replacement of component parts of the investment property at the moment it is incurred if the recognition criteria are met, and does not include day-to-day maintenance costs of the property.

After initial recognition, investment property is recognised at fair value. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss for the period in which they arise.

An investment property is eliminated from the statement of financial position on disposal or when the investment property is permanently withdrawn from use and no future economic benefits from its disposal are expected. Any gains or losses arising from the elimination of investment property from the statement of financial position are recognised in profit or loss in the period of the elimination.

Assets are reclassified as investment property only when there is a change in use, evidenced by the end of owner-occupation or execution of an operating lease agreement. If owner-occupied property (where the owner is the Company) becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

For a transfer from investment property to owner-occupied property or inventories, the property's deemed cost for subsequent accounting for under a different category is its fair value at the date of change in use.

11.10. Leases

Finance leases, which transfer to the Group all the risks and benefits incidental to ownership of the leased item, are capitalised 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 profit or loss unless they meet the capitalisation criteria.
Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.
Leases whereby the lessor retains substantially all the risks and rewards incident to ownership of the leased asset, are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss over the lease term on a straight-line basis.

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

11.11. 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 Group makes an estimate of the recoverable amount of that asset or the asset's cash-generating unit.

The recoverable amount of an asset or 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 recognised in the expense categories consistent with the function of the impaired asset.

The Group assesses at each reporting date whether there is an indication that previously recognised impairment losses on a given asset no longer exist or should be reduced. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. Such increased amount may not exceed the carrying amount of the asset that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss on an asset is recognised immediately as income in profit or loss. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge for a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of that asset.

11.12. Borrowing costs

Borrowing costs which may be directly attributed to an acquisition, construction or production of a qualifying asset, are capitalised as part of the cost of such an asset. Other borrowing costs are recognised as finance costs of the period.

11.13. Recoverable amount of long-term assets

At each reporting date the Group 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 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. Goodwill and intangible assets with indefinite useful lives and yet to be placed in service are tested for impairment.

11.14. 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 Group 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 amortised 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 reporting 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:
    - acquired principally for the purpose of selling it in the near term,
    - 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
    - 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 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 reporting date, less cost to sell. Changes in the values of these financial instruments are recognised 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 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 December 31st 2013, the Group recognised shares in listed companies and derivative instruments in the category of financial assets classified as at fair value through profit or 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 reporting date. Loans and receivables with maturities exceeding 12 months from the reporting 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 recognised 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 recognised at the transaction date. Initially, a financial asset is recognised 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 the purchase.

Financial assets are derecognised if the Group loses control of 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.

11.15. Impairment of financial assets

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

11.15.1. Assets recognised at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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 recognition of impairment loss. The amount of the loss is recognised in profit or loss for the period.

The Group 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 the analysis shows that there is no objective evidence of impairment for an individually assessed financial asset, regardless of whether it is significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses their impairment. Assets that are individually reviewed for impairment and for which an impairment loss has been recognised or it has been concluded that the existing impairment loss will not change, are not taken into account in collective review of assets for impairment.

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

11.15.2. Financial assets carried at cost

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

11.15.3. 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 recognised in profit or loss, is removed from equity and recognised in profit or loss. Reversal of an impairment loss on equity instruments classified as available for sale may not be recognised in profit or loss. If in a subsequent period, the fair value of a debt instrument available for sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in profit or loss, the amount of the reversal is recognised in profit or loss.

11.16. 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 Group, highly probable within one year, then such an asset is classified by the Group 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.

11.17. Derivative financial instruments and hedges

The Group 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 recognised 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 realisation and measurement of derivative financial instruments which are used to hedge purchases and sales and are not speculative adjusts revenues or cost of sales, as appropriate.

11.18. Inventories

Inventories are measured at the lower of cost and net realisable 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 reporting 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 recognised as production cost.

Consumption of other materials is recognised as production cost at weighted average cost.

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

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

11.19. Trade and other receivables

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

Impairment losses on receivables are recognised 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 receivable is measured by discounting expected future cash flows to their 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 recognised as finance income.

11.20. Cash and cash equivalents

Cash and current deposits in the statement of financial position comprise cash at bank and on hand as well as current 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.

11.21. Share capital

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 recognised as unpaid share capital with a negative value. Treasury shares are recognised as a separate item of equity with a negative value.

11.22. Provisions

The Group recognises a provision if the Company has a present obligation (legal or constructive) resulting from past events whose settlement is likely to result in an outflow of economic benefits and whose amount can be reliably estimated. Where expenditure required to settle a provision is expected to be reimbursed by another party (e.g. under an insurance agreement), the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that the reimbursement will be received if the entity settles the obligation. The expenditure relating to a given provision is presented in profit or loss net of any reimbursement.

Provisions are recognised as 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 recognised as finance cost.

11.23. Interest-bearing borrowings and other debt instruments

All borrowings and other debt instruments are initially recognised at cost being their fair value net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing borrowings and other debt instruments are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account the transaction costs and the discount or premium on settlement.

Gains and losses are recognised in the statement of comprehensive income when the liability is derecognised or impaired as well as through the amortisation process.

11.24. Trade and other payables

Current trade payables are carried at amounts 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 them 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 recognising 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 reporting date, less cost to sell. Changes in the fair value of these instruments are recognised 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 amortised cost using the effective interest rate method.

A financial liability is derecognised 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 on substantially different terms, where the same parties are involved, such a replacement is treated by the Group as the derecognition of the original financial liability and the recognition of a new financial liability. Similarly, when the terms of an existing financial liability are substantially modified, the Group treats such modification as the derecognition of the original financial liability and the recognition of a new financial liability. The difference in the respective carrying amounts is recognised in profit or loss.

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

11.25. Retirement gratuity and jubilee benefits

In accordance with internal remuneration systems, Group employees are entitled to jubilee benefits upon completion of a number of years in service and to retirement gratuity upon retirement due to old age or disability.

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

The Group recognises 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 gratuities. Employees who became permanently disabled are also entitled to retirement gratuities. The amount of such benefits depends on the number of years in service and the average monthly remuneration.

The Group recognises a provision for retirement gratuities due to old age and disability, contributions to the Social Fund and jubilee benefits in order to allocate the costs of those allowances to the periods to which they relate. According to IAS 19, jubilee benefits are classified as other long-term employee benefits, whereas retirement gratuity benefits and contributions to the Social Fund – as defined post-employment benefit plans. The present value of these obligations at the end of each reporting period is calculated by an independent actuary. The balance of these obligations equals discounted payments which will be made in the future, accounts for staff turnover and relates to the period up to the reporting date. Information on demographics and employment turnover is sourced from historical data. Any actuarial gains and losses are recognised in profit or loss except for actuarial gains/losses that are recognised in other comprehensive income of the Group.
Actuarial valuation of long- and short-term benefits is made not less frequently than at the end of each financial year.

11.26. Taxes

11.26.1. 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 Group in accordance with the provisions of the Corporate Income Tax Act, as well as movements in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

11.26.1.1. Current income tax

Current income tax liabilities and receivables for the current and prior periods are measured at the amounts expected to be paid to tax authorities (recoverable from tax authorities) using the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

11.26.1.2. Deferred income tax

For financial reporting purposes, the Group recognises deferred tax assets and deferred tax liabilities on all temporary differences existing at the reporting date between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax liability is recognised 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 recognised 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 utilised:

- 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 recognised 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 utilised.

The carrying amount of deferred tax assets is reviewed at each reporting 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 utilised. Unrecognised deferred tax assets are reviewed at each reporting date and are recognised 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 utilisation, determined in accordance with the prudence principle. Deferred tax assets are only recognised if their realisation is probable.

A deferred tax liability is recognised 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 tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Deferred income tax assets and deferred income tax liabilities are offset by the Group 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.

11.26.2. Value added tax

Income, expenses, assets and liabilities are recognised 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 recognised 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 inclusive of value added tax.

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.

11.27. Revenue

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Group and its amount can be measured reliably. Revenue is recognised at the fair value of the consideration received or receivable, net of value added tax (VAT) and rebates. The following specific recognition criteria must also be met before revenue is recognised.

11.27.1. Revenue from sale of goods (merchandise and products)

Revenue is recognised 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, merchandise and materials sold by the Group as well as other services relating to the principal activities of the Group, determined at net prices, net of rebates and discounts granted by the Group and net of excise.

11.27.2. Revenue from rendering of services

Revenue from uncompleted long-term services in the period from the date of entering into the contract to the reporting date, less any revenue recognised in profit or loss in previous reporting periods, is recognised 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, the revenue derived from the contract is recognised only to the extent of costs incurred that the entity expects to recover.

11.27.3. Interest

Interest revenue is recognised as interest accrues (using the effective interest rate which 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.

11.27.4. Dividends

Dividends are recognised when the shareholder's right to receive payment is established.

11.27.5. Rental income

Rental income from operating leases of investment property is recognised on the straight-line basis over the term of the lease.

11.27.6. Construction contracts

Construction contracts are commercial contracts related to the Company's principal business 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. In most cases, 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 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 recognised in the consolidated comprehensive income statement in the period in which the changes are made and in subsequent periods.

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

11.27.7. Government grants

Government grants are recognised at 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 recognised 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.

11.28. 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 Company shares outstanding in the given accounting period. The Group does not present diluted earnings/loss per share as there are no potential ordinary shares with dilutive effect.

12. Operating segments

Management of the Group's business is based on separate segments, corresponding to the types of products and services offered. Each segment is the Group's component which earns revenue and incurs costs, in accordance with IFRS 8 *Operating Segments*.

The Group identifies the following operating segments in which individual companies are engaged:

Operating segments	Segment companies
Power and environmental protection facilities	RAFAKO S.A.
	E001RK Sp. z o.o.
	E003B7 Sp. z o.o.
Furnaces and mills	FPM S.A.
	Palserwis Sp. z o.o.
Other segments	PGL-DOM Sp. z o.o.
	RAFAKO ENGINEERING Sp. z o.o.
	ENERGOTECHNIKA Engineering Sp. z o.o.
	RAFAKO ENGINEERING SOLUTION doo.
	RAFAKO Hungary Kft.

The power and environmental protection facilities segment offers power generating units, stoker-fired boilers, pulverised fuel boilers, stationary and circulating fluidised bed boilers; heat recovery steam generators; systems and facilities ancillary to power boilers; wet, semi-dry and dry flue gas desulfurization systems; flue gas denitrification technologies; dust extraction equipment, including electrostatic precipitators and bag filters, as well as industrial and municipal waste incineration systems. The company is a supplier to both commercial and industrial power plants.

The furnaces and mills segment offers lignite and hard coal mills, automatic stokers and extension grates, slag traps used in heat and power generating machinery and equipment, as well as spare parts. The segment's core customers include power plants and CHP plants. The power and environmental protection facilities segment is an important intra-group customer for the products of the furnaces and mills segment.

Other segments are made up of those segments which do not meet the quantitative thresholds set out in IFRS 8, including property management and design services provided by other entities of the Group.

The Management Board monitors the segments' operating performance to make decisions on allocation of resources and evaluate the results of the allocation as well as the results of operations. Results of operations are evaluated based on operating profit or loss.

12 months ended December 31st 2013 or as at December 31st 2013	*Continuing operations*				
	Power and environmental protection facilities	*Furnaces and mills*	*Other segments*	*Consolidation adjustments*	*Total*
Revenue					
Sales to external customers	739,333	85,711	10,971	–	836,015
Inter-segment sales	256	2,201	9,854	(12,311)	–
Total revenue	739,589	87,912	20,825	(12,311)	836,015
Cost of sales	(700,564)	(73,196)	(16,864)	12,294	(778,330)
Total					
Gross profit (loss)	39,025	14,716	3,961	(17)	57,685
Other income (expenses)	(70,298)	(10,692)	(2,413)	22	(83,381)
Operating profit (loss)	(31,273)	4,024	1,548	5	(25,696)
Finance income (costs)	(16,554)	658	108	17	(15,771)
Effect of changes in estimates on valuation of receivables from related entities in arrangement proceedings	(94,205)	–	–	–	(94,205)
Profit (loss) before tax	(142,032)	4,682	1,656	22	(135,672)
Income tax expense	2,249	(947)	(274)	(4)	1,024
Net profit (loss) from continuing operations	(139,783)	3,735	1,382	18	(134,648)
Depreciation and amortisation	10,243	1,688	789	(75)	12,645
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at December 31st 2013					
Assets	1,008,361	80,694	44,887	(68,540)	1,065,402
Liabilities	751,407	16,788	10,190	(7,072)	771,313
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	4,049	3,257	906	(118)	8,094

12 months ended December 31st 2012 or as at December 31st 2012	*Continuing operations*				
	Power and environmental protection facilities	*Furnaces and mills*	*Other segments*	*Consolidation adjustments*	*Total*
Revenue					
Sales to external customers	1,218,438	55,476	17,477	–	1,291,391
Inter-segment sales	12,077	712	4,220	(17,009)	–
Total revenue	1,230,515	56,188	21,697	(17,009)	1,291,391
Cost of sales	(1,129,821)	(44,026)	(20,161)	17,201	(1,176,807)
Total					
Gross profit (loss)	100,694	12,162	1,536	192	114,584
Other income (expenses)	(88,467)	(10,011)	(1,059)	(1)	(99,538)
Operating profit (loss)	12,227	2,151	477	191	15,046
Finance income (costs)	(18,499)	491	146	(59)	(17,921)
Result on loss of control of a subsidiary	1,955	–	–	–	1,955
Profit (loss) before tax	(4,317)	2,642	623	131	(920)
Income tax expense	(25,650)	(550)	(161)	(18)	(26,379)
Net profit (loss) from continuing operations	(29,967)	2,092	462	113	(27,299)
Depreciation and amortisation	15,447	1,846	471	(75)	17,689
Share of profit of associates	–	–	–	–	–
Assets and liabilities as at December 31st 2012					
Assets	1,247,699	79,548	45,458	(66,294)	1,306,411
Liabilities	850,208	19,326	11,204	(3,880)	876,858
Other information					
Investments in associates	–	–	–	–	–
Capital expenditure	23,551	3,833	19,842	–	47,226

13. Seasonality and cyclical nature of the Group's operations

The operations of Group companies are not affected by seasonality or periodic fluctuations that could materially impact the Group's financial performance.

14. Construction contracts

Construction contract revenue is recognised 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 revenue and costs of running contracts in the 12 months ended December 31st 2013 and December 31st 2012, as well as gross amount due to customers for contract work and gross amount due from customers for contract work at the dates stated above.

	Dec 31 2013	*Dec 31 2012*	*Dec 31 2012 including: ENERGOMONTAŻ POŁUDNIE S.A.*
Contract costs incurred to date (cumulative)	2,147,828	4,401,891	645,665
Recognised profits less recognised losses to date (cumulative)	131,747	401,047	(15,320)
Contract revenue recognised by reference to the contract stage of completion (cumulative)	2,279,575	4,802,938	630,345
Progress billings (cumulative)	2,199,760	4,056,990	–
Gross amount due to customers for contract work (liability), including:	(110,646)	(140,040)	–
- advances received (liabilities arising from advances received)	(108,149)	(193,908)	–
- adjustment to advances received arising from amounts due from customers	88,244	97,441	–
- gross amount due to customers for contract work	(90,741)	(43,573)	–
Gross amount due from customers for contract work (asset)	168,211	158,150	–
Provision for penalties due to late contract performance or failure to meet guaranteed technical specifications	(50,192)	(64,584)	–
Provision for losses on construction contracts	(35,707)	(31,831)	–

Group companies analyse each contract for potential losses, which are immediately recognised as an expense in accordance with IAS 11.36. In accordance with IAS 11.11-15, in the valuation of construction contracts the Group accounts for estimated penalties arising from delays in the completion of contracts or failure to meet guaranteed technical specifications. Penalty estimates are made based on source documentation concerning delays in contract performance or issues relating to guaranteed technical specifications, based on contractual assumptions and management's assessment of the risk of such penalties being imposed. The level of estimated risk largely depends on external factors that are partly beyond the Group's control, and may change in subsequent periods. Completion of certain contracts where provisions have been recognised for late performance or failure to meet guaranteed technical specifications is exposed to the risk of arbitration, which in the opinion of the Group's companies gives rise to risk of indeterminable consequences.

In the second half of December 2011, the Parent'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 which performed 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. For details of the current status of the case and relevant disclosures see Notes 29 and 42.

14.1. Provision for losses on construction contracts

Group companies recognise provisions for anticipated losses on contracts in accordance with the methodology described in Note 11.27.6 If analysis shows that the estimated total contract costs will exceed reliable contract revenue (i.e. the overall result on the contract will be a loss), the entire loss on such contract is recognised in the reporting period.

	Dec 31 2013	*Dec 31 2012*
Opening balance	31,831	39,622
Recognition of provision for liability	25,196	30,702
Reversal/utilisation of provision for liability	(21,320)	(24,420)
Loss of control of a subsidiary	–	(14,073)
Closing balance	**35,707**	**31,749**
Current as at	35,707	31,831
Non-current as at	–	–
	35,707	**31,831**

14.2. Provision for costs due to late performance of contract

Group companies recognise provisions for contractual penalty if there is significant probability that such penalty will be charged for failure to meet technical specifications provided for in the contract and covered by contractual penalty, or if the performance of a contract has resulted in infringement of third parties' interests. The amount of the provision results from the amount of the penalty provided for in the given contract for failure to meet technical specification or from measurable value of the liability towards third parties.

	Dec 31 2013	*Dec 31 2012*
Opening balance	64,584	50,072
Recognition of provision for liability	28,895	50,949
Reversal/utilisation of provision for liability	(43,287)	(36,437)
Closing balance	**50,192**	**64,584**
Current as at	50,192	64,584
Non-current as at	–	–
	50,192	**64,584**

15. Income and expenses

15.1. Revenue from sale of goods and services

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Net revenue from sale of goods	750,857	1,090,492
including: from related entities	12,383	40
Net revenue from sale of services	62,139	204,646
including: from related entities	–	–
Net revenue from sale of other goods	1,676	1,552
including: from related entities	–	–
Gain /(loss) on realisation of derivatives	460	(1,948)
Gain /(loss) on valuation of derivatives	(38)	5,853
Contractual penalties	(7,477)	(21,134)
Realised exchange differences on trade receivables	(3,338)	(1,204)
Exchange differences on valuation of trade receivables	2,338	(7,748)
Net revenue from sale of goods and services, total	**806,617**	**1,270,509**
including: from related entities	12,383	40

In the 12 months ended December 31st 2013, the Company's revenue from sale of goods and services amounted to PLN 806,617 thousand, i.e. PLN 463,892 thousand less than in the 12 months ended December 31st 2012. The revenue decline in 2013 was mainly attributable to:

- lower (year on year) cost exposure to running contracts, primarily due to the different progress of contracts in the RAFAKO order book as at December 31st 2012 and December 31st 2013;
- significantly lower weighted average margin on contracts in 2013 compared with the margin in 2012;
- postponement of the effective date of the Opole contract involving construction of two power generating units and the launch of the Jaworzno project for the construction of one power generating unit. As a consequence of the delays, RAFAKO could not use the planned in-house and third-party production capacities, which in turn resulted in the Company not being able to recognise revenue calculated in proportion to the amount of costs incurred under the given contract.

Thus the Group reported decline in both domestic and export sales. The expected increase in the value of the RAFAKO order book in 2014, including on the back of launch of the Opole project and the expected start of the Jaworzno project, will translate into higher revenue in 2014.

15.2. Revenue from sale of materials

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Revenue from sale of materials	29,398	20,882
including: from related entities	–	22
Net revenue from sale of goods and materials, total	**29,398**	**20,882**
including: from related entities	–	22

The Group's core customer group comprises foreign and domestic suppliers of power engineering facilities as well as domestic and foreign commercial and industrial power plants.

Revenue from sales to related entities is presented in detail in Note 46.46

Sales of particular product groups by market are presented in section 4.1 of the Directors' Report of the RAFAKO Group's operations for 2013.

15.3. Geographical structure of revenues

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Revenue from sales to domestic customers	605,503	751,772
including: from related entities	12,383	62
Revenue from sales to foreign customers	230,512	539,619
including: from related entities	–	–
Net revenue, total	**836,015**	**1,291,391**
including: from related entities	12,383	62

15.4. Cost of sales

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Depreciation and amortisation	12,645	17,689
Raw materials and consumables used	282,595	481,706
Services	344,874	515,545
Taxes and duties	8,553	8,578
Remuneration	133,171	212,987
Social security and other benefits	30,485	50,649
Business travel expenses	6,663	8,066
Advertising expenses	2,395	4,601
Unrealised exchange differences	858	(2,588)
Realised exchange differences	96	(1,920)
Gain /(loss) on valuation of derivatives	–	157
Gain /(loss) on realisation of derivatives	–	–
Other expenses	3,549	15,006
Total expenses by nature	**825,884**	**1,310,476**
Change in inventories, provisions, prepayments and accruals (including adjustment resulting from IAS 11)	9,535	(56,334)
Work performed by entity and capitalised	(1,670)	(3,376)
Distribution costs (negative value)	(40,991)	(27,451)
Administrative expenses (negative value)	(43,536)	(53,928)
Cost of products sold	**749,222**	**1,169,387**
Cost of merchandise and materials sold	29,108	7,420
Cost of sales	**778,330**	**1,176,807**

Cost of sales in 2013 amounted to PLN 778,330 thousand, with the Group's gross profit at PLN 57,685 thousand. The change in relation to 2012 was mainly due to:

- lower revenue from sales in 2013;
- lower gross margin on contracts performed in the first months of 2013, including contracts delivered with a loss, which accounted for a relatively high share in the aggregate value of sales;
- completion in 2012 of contracts with a relatively high operating margin and a relatively high share in the aggregate value of sales for 2012.

Distribution costs disclosed by the Group mainly include expenses incurred by the cost centres allocated to distribution cost in the cost accounting model (a significant part of which consists of payroll costs and advertising expenses). Such costs also include bidding costs and impairment losses on trade receivables. Distribution costs of PLN 40,991 thousand recognised in comprehensive income for 2013 followed from:

- distribution costs excluding impairment losses of PLN 32,314 thousand (December 31st 2012: PLN 39,964 thousand);
- impairment loss on trade receivables (recognition) of PLN 8,677 thousand (December 31st 2012: PLN 12,513 thousand (reversal)).

Utilisation/decrease of impairment losses on trade receivables is mainly due to the final settlement of contracts with HPE in Germany under an arrangement with this company. Following the arrangement, an allowance of PLN 11,067 thousand was utilised and impairment losses on trade receivables for a total amount of PLN 20,012 thousand were reversed. Also, in 2012 the Parent reversed a PLN 1,038 thousand impairment loss on trade receivables following the receipt of past due receivables from HPE.

15.5. Depreciation of property, plant and equipment and amortisation of intangible assets, impairment losses recognised in the consolidated statement of comprehensive income

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Items recognised as cost of sales (cost of merchandise and products sold):	10,834	15,193
Depreciation of property, plant and equipment	9,194	12,511
Amortisation of intangible assets	1,640	1,686
Impairment of property, plant and equipment		996
Items recognised as distribution costs:	426	533
Depreciation of property, plant and equipment	350	334
Amortisation of intangible assets	76	199
Items recognised as administrative expenses:	1,385	1,963
Depreciation of property, plant and equipment	1,222	1,707
Amortisation of intangible assets	163	256
Total depreciation and amortisation	**12,645**	**17,689**

15.6. Employee benefit expenses

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Remuneration, including:	133,181	212,987
current wages and salaries expense	131,071	208,311
other benefits, including post-employment benefits	2,110	4,676
Social security	30,475	50,649
	163,656	**263,636**

15.7. Other income

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Income from contractual penalties	610	4,974
Gain on sale of property, plant and equipment	981	1,160
Grants	526	444
Compensation received	1,,313	2,717
Gain on sale of CO_2 emission allowances	–	329
Reversal of impairment loss on property, plant and equipment	55	–
Income from free-of-charge acquisition of property, plant and equipment	98	–
Reimbursed cost of training of juvenile workers	471	817
Lease	–	3,635
Income from cancelled liabilities	138	–
Reversal of provision for amounts due to the state budget	–	3,237
Stock-taking surplus	–	267
Other	540	1,267
	4,732	**18,847**

15.8. Other expenses

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Loss on disposal of non-financial non-current assets	–	26,254
Running costs of investments	–	759
Donations and grants	383	350
Compensation	–	127
Remuneration for invention proposals	–	896
Change in fair value of property	–	1,832
Repairs of property, plant and equipment	177	–
Scraping of property, plant and equipment	383	–
Scraping of materials	212	548
Impairment of property, plant and equipment	–	54
Legal costs	370	949
Bailiff costs	579	–
Power Engineer's Day organisation cost	380	418
Past-due, cancelled and uncollectible receivables written off	103	77
Recognition of provision for future costs	500	–
Other	499	4,742
	3,586	**37,006**

15.9. Finance income

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Interest on financial instruments	976	2,571
Interest on security deposits provided	6,517	6,826
Other interest	121	191
Gains on sale of financial instruments	–	125
Measurement of financial instruments	43	650
Realisation of financial instruments	–	218
Reversal of provision for finance cost	–	952
Foreign exchange gains	287	–
Reversal of impairment loss on interest	–	76
Dividends	15	23
Discount (long-term settlements)	8,389	4,947
Other income	31	183
	16,379	**16,762**

15.10. Finance costs

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Interest on financial instruments	13,352	17,204
Other interest	914	46
Commission on bank borrowings received	1,513	687
Acquisition costs	–	6
Cost from valuation of financial instruments	71	144
Net foreign exchange losses	–	2,453
Recognition of impairment loss on disputed financial receivables	–	27
Recognition of impairment loss on financial assets	10,500	13,426
Recognition of impairment loss on non-financial assets	5,676	–
Other finance costs	124	690
	32,150	**34,683**

For details of finance income and finance costs related to financial instruments, see Note 57.2.

15.11. Items of other comprehensive income

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Exchange differences on translating foreign operations	(328)	(148)
Exchange differences on translating foreign operations attributable to non-controlling interests	–	(13)
Actuarial gains/losses	(601)	–
Income tax on other comprehensive income	113	–
	(816)	**(161)**

16. Income tax

16.1. Income tax expense

Main components of income tax expense in the statement of comprehensive income:

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Consolidated income statement		
Current income tax	(10,294)	(1,284)
Current income tax expense	(10,294)	(1,284)
Adjustments to current income tax from previous years	–	–
Deferred tax	11,318	(25,095)
Related to recognition and reversal of temporary differences	11,318	(25,095)
Adjustments to deferred tax from previous years	–	–
Income tax expense in the consolidated income statement	**1,024**	**(26,379)**
Deferred tax on other comprehensive income	113	–
Related to recognition and reversal of temporary differences	113	–
Income tax expense recognised in other comprehensive income	**113**	–

16.2. Reconciliation of effective income tax rate

The table below presents reconciliation of corporate income tax on pre-tax profit/loss computed at the statutory tax rate with corporate income tax computed at the effective tax rate for the years ended December 31st 2013 and December 31st 2012:

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Profit before tax from continuing operations	(135,672)	(920)
Profit before tax from discontinued operations	–	–
Profit (loss) before tax	(135,672)	(920)
	(135,672)	**(920)**
Tax at Poland's statutory tax rate of 19%	(25,777)	(175)
Non-tax-deductible costs (permanent differences)	29,682	26,856
recognition of provision for contractual penalties	5,934	1,265
write-off of receivables, classified as non-tax-deductible	953	183
charitable donations	67	62
representation costs	120	153
recognition of provisions/accruals for non-deductible costs	12	77
recognition of receivables following loss of control of subsidiary	–	9,433
valuation of receivables from related entities under arrangement proceedings	17,900	–
recognition of impairment loss on receivables under loans	–	1,885
recognition of provision for disputed receivables	3,422	–
other	1,274	13,560
Unrecognised tax losses	–	1,864
Non-taxable income (permanent differences)	(4,799)	(2,404)
from contractual penalties	(4,050)	(1,806)
non-deductible VAT on receivables	(185)	(3)
other	(564)	(595)
Other	(129)	238
Tax at the effective tax rate of 0.75% (2012: 22.43%)	**(1,024)**	**26,379**
Income tax (expense) in the consolidated statement of comprehensive income	(1,024)	26,379
Income tax attributable to discontinued operations	–	–
	(1,024)	**26,379**

16.3. Deferred income tax calculated as at December 31st 2013

Deferred income tax calculated as at December 31st 2013 and 2012 relates to the following:

	Statement of financial position		*Statement of comprehensive income for the period ended*	
	Dec 31 2013	*Dec 31 2012*	*Dec 31 2013*	*Dec 31 2012*
- investment tax credits	(4)	(5)	1	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(16,585)	(15,756)	(829)	6,671
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1,841	–	(1,441)	146
- difference between tax base and carrying amount of loans and receivables	3,157	5,446	244	(5,109)
- different timing of recognition of revenue from sale of goods and services for tax purposes	(30,085)	(39,976)	9,891	(30,030)
- difference between tax base and carrying amount of inventories	1,264	1,323	(59)	(448)
provisions	21,946	27,257	(5,311)	5,203
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	–	(10)	10	(1,834)
- difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	49	54	(5)	(288)
different timing of recognition of cost of sales for tax purposes	48,195	47,480	715	9,531
- tax asset related to tax loss	1,541	2,935	(1,394)	(6,288)
- adjustment to costs of unpaid invoices	9,464	–	9,464	–
- other	1,086	1,690	145	1,230
Deferred tax expense			**11,431**	**(21,215)**
Net deferred tax asset/liability, including:	**41,869**	**30,438**		
Deferred tax asset	44,936	33,078		
Deferred tax liability	(3,067)	(2,640)		

For the year ended December 31st 2012, the Parent recorded a tax loss of PLN 15,446 thousand, of which PLN 7,721 thousand was utilised in 2013.

The policy of recognising deferred tax is presented in Note 11.26.1.2

17. Discontinued operations

The Group did not discontinue any operations in the 12 months ended December 31st 2013.

18. Proposed loss coverage for 2013

The Parent Management Board recommends that the net loss of PLN 139,781 thousand for 2013 be covered from the Parent's reserve funds.

19. Social assets and liabilities of the Company Social Benefits Fund

The Act on Company Social Benefits Fund of March 4th 1994, as amended, stipulates that each employer with more than 20 full-time employees is obliged to create a Company Social Benefits Fund. Group companies create such funds and make periodic contributions thereto (the basic contribution and post-employment contributions). The Fund is designed to finance the Group companies' social activities, loans advanced to their employees and other social costs.

	Dec 31 2013	*Dec 31 2012*
Assets of the Group Companies' Social Benefits Funds	3,367	2,684
Cash of the Group Companies' Social Benefits Funds	2,946	2,248
Loans advanced to employees from the Company Social Benefits Funds	421	436
Liabilities of the Company Social Benefits Funds	(3,162)	(2,579)
Net balance	**205**	**105**

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Contributions to the Company Social Benefits Fund during the financial period	2,804	2,755
	2,804	**2,755**

20. Earnings /(loss) per share

Earnings/(loss) per share is calculated as the quotient of net consolidated profit/(loss) for the given accounting period attributable to ordinary shareholders of the Parent and the weighted average number of ordinary shares of the Parent outstanding in the period.

Presented below is data on the net profit/(loss) and shares applied to calculate earnings per share:

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Net profit/(loss) from continuing operations	(134,648)	(27,299)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(134,648)	(27,299)
Net profit/(loss) attributable to ordinary shareholders, applied to calculate earnings per share	(135,349)	9,835
Weighted average number of outstanding ordinary shares, applied 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 applied to calculate diluted earnings per share	69,600,000	69,600,000
Earnings /(loss) per share		
– basic earnings from profit attributable to ordinary shareholders for the period	(1.94)	0.14

In the period between the end of the reporting period and the date of these consolidated financial statements, there were no transactions that would affect the number of ordinary shares or potential ordinary shares of the Parent.

The Group does not present diluted earnings/(loss) per share for the 12 months ended December 31st 2013 as it does not have any dilutive financial instruments.

21. Significant items disclosed in the statement of cash flows

The PLN 124,163 thousand decrease in receivables disclosed in the consolidated statement of cash flows for the 12 months ended December 31st 2013 resulted mainly from:

- PLN 141,857 thousand decrease in trade receivables,
- PLN 18,862 decrease in receivables from the state budget (including VAT),
- PLN (1,604) thousand increase in advances made,
- PLN (48,853) thousand increase in security deposits receivable,
- PLN (80) thousand increase in Company Social Benefits Fund receivables,
- PLN 16,696 thousand decrease in prepayments and accrued income under bank and insurance guarantees,
- PLN (667) thousand increase in receivables from sale of debt,
- PLN (2,048) thousand increase in other receivables.

For a detailed description of changes in security deposits in 2013, see Note 32.

The PLN 25,441 thousand decrease in liabilities disclosed in the consolidated statement of cash flows was mainly caused by:

- PLN (37,343) thousand decrease in trade payables,
- PLN (464) thousand decrease in the provision for retirement benefits (net of actuarial gains/(losses)),
- PLN (1,294) thousand decrease in the provision for warranty repairs,
- PLN (7,635) thousand decrease in the provision for bonuses,
- PLN 15,754 thousand increase in the provision for uninvoiced services and materials,
- PLN (272) thousand decrease in the provision for leaves,
- PLN 5,813 thousand increase in other liabilities.

The PLN -49,971 thousand change in prepayments and accruals for construction contracts as shown in the consolidated statement of cash flows was mainly caused by:

- PLN (10,061) thousand increase in gross amount due from customers for contract work,
- PLN (29,394) thousand decrease in gross amount due to customers for contract work,
  including:
  PLN (76,561) thousand decrease in advances,
- PLN (10,516) thousand decrease in provisions for contract work.

The PLN 76,561 thousand change in advances recorded in 2013 resulted primarily from:

- Accounting for the PLN 35,678 thousand advance received in connection with the execution of the contract for the 'Design, manufacture, delivery, assembly, start-up and commissioning of the complete precipitator for Unit E' for HITACHI POWER EUROPE GmbH (Unit B in the Eemshaven Power Plant);
- Accounting for the PLN 21,558 thousand advance received in connection with the execution of the contract for the 'Design, manufacture, delivery, assembly, start-up and commissioning of the complete precipitator for Unit A-1' for HITACHI POWER EUROPE GmbH (Unit B in the Eemshaven Power Plant);
- Accounting for the PLN 11,244 thousand advance received in connection with the execution of the contract for the 'Design, manufacture, delivery, assembly, start-up and commissioning of the complete precipitator for Unit E' for HITACHI POWER EUROPE GmbH (in the Westfallen Power Plant).

In the consolidated statement of cash flows, the Group disclosed a PLN 15,236 thousand gain/loss on investing activities, resulting mainly from the recognition of an impairment loss on an advance payment made for the acquisition of rights to a loan of PLN 10,500 thousand and for an advance payment made for the acquisition of shares in Bioelektrownia Szarlej Sp. z o.o. of PLN 5,676 thousand; for details, see Notes 0 and 34.

The amount of PLN 10,967 thousand related to the acquisition of property, plant and equipment and intangible assets comprises capital expenditure on property, plant and equipment of PLN 10,085 thousand and capital expenditure on intangible assets of PLN 882 thousand. The expenditure on property, plant and equipment was primarily related to the modernisation of the Group's buildings and structures as well as purchase of plant and equipment.

The PLN 10,064 thousand increase in borrowings disclosed under financing activities in the consolidated statement of cash flows was caused by:

- PLN 1,200 thousand increase in borrowings,
- PLN 8,864 thousand used under a credit facility extended by PKO BP S.A.

The PLN 44,879 thousand decrease in borrowings disclosed under financing activities in the consolidated statement of cash flows was caused by:

- PLN 1,200 thousand decrease in borrowings,
- PLN 43,679 thousand decrease in the credit facility extended by PKO BP S.A.

The Group's cash from financing activities was also affected by interest of PLN 13,374 thousand paid on the credit facility extended by PKO BP S.A. (December 31st 2012: PLN 10,851 thousand).

22. Property, plant and equipment

Dec 31 2013	*Land*	*Buildings*	*Machinery and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2013	**28,289**	**103,471**	**57,438**	**3,697**	**268**	**8,696**	**201,859**
Transfers from property, plant and equipment under construction	–	7,604	5,500	1,014	–	(14,118)	–
Acquisitions	97	8	711	90	100	6,746	7,752
Liquidation/sale	(9)	(437)	(325)	(57)	–	–	(828)
Exchange differences on translating foreign operations	–		(4)	1	–	–	(3)
Depreciation for the period	–	(3,082)	(7,018)	(623)	(43)	–	(10,766)
Impairment losses (recognised)/reversed	–	–	3	52	–	–	55
Other, including reclassification of property, plant and equipment to/from assets held for sale	(6)	(126)	(8)	(2)	–	–	(142)
Net carrying amount as at Dec 31 2013	**28,371**	**107,438**	**56,297**	**4,172**	**325**	**1,324**	**197,927**
As at Jan 1 2013							
Gross carrying amount	28,289	124,874	112,834	7,171	3,007	8,750	284,925
Accumulated depreciation and impairment	–	(21,403)	(55,396)	(3,474)	(2,739)	(54)	(83,066)
Net carrying amount	**28,289**	**103,471**	**57,438**	**3,697**	**268**	**8,696**	**201,859**
As at Dec 31 2013							
Gross carrying amount	28,371	130,307	116,356	8,288	2,923	1,378	287,623
Accumulated depreciation and impairment	–	(22,869)	(60,059)	(4,116)	(2,598)	(54)	(89,696)
Net carrying amount	**28,371**	**107,438**	**56,297**	**4,172**	**325**	**1,324**	**197,927**

Dec 31 2012	*Land*	*Buildings*	*Machinery and equipment*	*Vehicles*	*Other*	*Property, plant and equipment under construction*	*Total*
Net carrying amount as at Jan 1 2012	**22,328**	**130,253**	**61,318**	**13,469**	**2,905**	**7,389**	**237,662**
Transfers from property, plant and equipment under construction	–	12,600	12,845	321	–	(25,766)	–
Acquisitions	13,773	4,289	1,969	732	313	27,382	48,458
Acquisition of subsidiary	–	170	387	–	–	–	557
Loss of control of a subsidiary	(7,405)	(38,924)	(10,077)	(8,894)	(2,577)	(255)	(68,132)
Liquidation/sale	(346)	(331)	(651)	(82)	(14)	–	(1,424)
Exchange differences on translating foreign operations	–	–	(27)	10	–	–	(17)
Depreciation for the period	–	(4,034)	(8,269)	(1,890)	(359)	–	(14,552)
Impairment loss (recognised)/reversed	–	–	–	–	–	(54)	(54)
Other, including reclassification of property, plant and equipment to/from assets held for sale	(61)	(552)	(57)	31	–	–	(639)
Net carrying amount as at Dec 31 2012	**28,289**	**103,471**	**57,438**	**3,697**	**268**	**8,696**	**201,859**
As at Jan 1 2012							
Gross carrying amount	22,344	158,373	129,301	29,792	18,054	7,389	365,253
Accumulated depreciation and impairment	(16)	(28,120)	(67,983)	(16,323)	(15,149)	–	(127,591)
Net carrying amount	**22,328**	**130,253**	**61,318**	**13,469**	**2,905**	**7,389**	**237,662**
As at Dec 31 2012							
Gross carrying amount	28,289	124,874	112,834	7,171	3,007	8,750	284,925
Accumulated depreciation and impairment	–	(21,403)	(55,396)	(3,474)	(2,739)	(54)	(83,066)
Net carrying amount	**28,289**	**103,471**	**57,438**	**3,697**	**268**	**8,696**	**201,859**

Security created over property, plant and equipment

As at December 31st 2013, a mortgage for the total amount of ca. PLN 300,000,000.00 was created over properties owned or held in perpetual usufruct by the Parent, to secure the repayment of liabilities under the overdraft facility from PKO BP S.A.

As at December 31st 2012, no tangible asset owned by the Group and classified as property, plant and equipment was pledged as security for liabilities.

23. Tangible items held under leases

As at December 31st 2013, the Parent and the subsidiaries held and used under finance lease assets with a gross value of PLN 3,867 thousand as at their acquisition date.

The economic useful lives of those assets are consistent with the lease terms, ranging from 35 to 61 months. Leased assets are depreciated by Group companies using the straight-line depreciation method.

24. Non-current assets held for sale

As at December 31st 2013, Group companies classified tangible assets worth PLN 1,022 thousand (December 31st 2012: PLN 916 thousand) as assets held for sale.

	Dec 31 2013	*Dec 31 2012*
Non-current assets held for sale, including:		
land	66	63
buildings	886	791
plant and equipment	68	62
vehicles	2	–
	1,022	**916**

25. Investment property

As at December 31st 2013 and December 31st 2012, the Group held no investment property.

26. Intangible assets

Dec 31 2013	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2013	**4,209**	**8,507**	**657**	**–**	**13,373**
Transfers from intangible assets under development	–	172	37	(209)	–
Acquisitions	–	–	132	209	341
Liquidation/sale	–	–	(4)	–	(4)
Amortisation for the year	–	(1,700)	(179)	–	(1,879)
As at Dec 31 2013	**4,209**	**6,979**	**643**	**–**	**11,831**
As at Jan 1 2013					
Gross carrying amount	4,209	19,903	1,485	1,699	27,296
Accumulated amortisation and impairment	–	(11,396)	(828)	(1,699)	(13,923)
Net carrying amount	**4,209**	**8,507**	**657**	**–**	**13,373**
As at Dec 31 2013					
Gross carrying amount	4,209	20,075	1,642	173	26,099
Accumulated amortisation and impairment	–	(13,096)	(999)	(173)	(14,268)
Net carrying amount	**4,209**	**6,979**	**643**	**–**	**11,831**

Dec 31 2012	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at Jan 1 2012	115,272	9,131	3,044	–	127,447
Transfers from intangible assets under development	–	1,698	–	(1,698)	–
Increases	–	88	1,766	1,698	3,552
Decreases	–	(426)	–	–	(426)
Acquisition of subsidiary	–	–	494	–	494
Loss of control of a subsidiary	(111,063)	(145)	(3,338)	–	(114,546)
Impairment	–	–	(996)	–	(996)
Amortisation for the year	–	(1,839)	(306)	–	(2,145)
Exchange differences on translating foreign operations	–	–	(7)	–	(7)
As at Dec 31 2012	**4,209**	**8,507**	**657**	–	**13,373**
As at Jan 1 2012					
Gross carrying amount	115,272	19,646	4,856	2,255	142,029
Accumulated amortisation and impairment	–	(10,515)	(1,812)	(2,255)	(14,582)
Net carrying amount	**115,272**	**9,131**	**3,044**	–	**127,447**
As at Dec 31 2012					
Gross carrying amount	4,209	19,903	1,485	1,699	27,296
Accumulated amortisation and impairment	–	(11,396)	(828)	(1,699)	(13,923)
Net carrying amount	**4,209**	**8,507**	**657**	–	**13,373**

Intangible assets included patents, licences and software. The largest items were as follows:

- a licence for BENSON supercritical boilers, with a carrying amount of PLN 1,675 thousand as at December 31st 2013 (December 31st 2012: PLN 2,011 thousand); the licence amortisation period remaining from December 31st 2013 is five years;
- a licence for catalytic flue gas denitrification, with a carrying amount of PLN 1,066 thousand as at December 31st 2013 (December 31st 2012: PLN 1,242 thousand); the licence amortisation period remaining from December 31st 2013 is seven years;
- Primavera 6 computer software, with a carrying amount of PLN 1,114 thousand as at December 31st 2013 (December 31st 2012: PLN 1,247 thousand); the licence amortisation period remaining from December 31st 2013 is eight years.

Security over intangible items

As at December 31st 2013 and December 31st 2012, none of the Group's intangible assets were pledged as security for liabilities.

Intangible assets held for sale

As at December 31st 2013 and December 31st 2012, the Group carried no intangible assets held for sale.

Goodwill

As at December 31st 2013, the Group disclosed goodwill of PLN 4,209 thousand, which had arisen in connection with:

- accounting for the acquisition by the Parent in 2007 of Wyrskie Zakłady Urządzeń Przemysłowych NOMA INDUSTRY Sp. z o.o. w upadłości (in bankruptcy) of Wyry − PLN 376 thousand;
- obtaining control of the FPM Group in 2008 − PLN 3,833 thousand.

As at December 31st 2013, the Parent and the subsidiary, which is concurrently a parent of its own group, made an assessment of impairment indicators and found that no such indicators existed.

Amortisation of patents and licences

During the 12 months ended December 31st 2013 and the 12 months ended December 31st 2012, patents and licences were amortised on a straight line basis over their economic useful lives of 2 to 10 years.

Development work

In the 12 months ended December 31st 2013 and the 12 months ended December 31st 2012, the Group made no expenditure on development work.

27. Participation in joint venture

In the 12 months ended December 31st 2013 and the 12 months ended December 31st 2012, the Group was not engaged in any joint ventures with other business entities.

28. Shares in other entities

	Dec 31 2013	*Dec 31 2012*
Shares in other listed companies	319	347
Shares in other non-listed companies	19	19
	338	**366**

As at December 31st 2013 and December 31st 2012, no shares in other companies were provided by the Group as security for its liabilities.

29. Non-current trade receivables, other receivables and prepayments

	Dec 31 2013	*Dec 31 2012*
Trade receivables, including:	3,715	855
Trade receivables from related entities	–	–
Trade receivables from other entities	3,715	855
Other receivables and prepayments, including:	909	–
Prepayments under bank and insurance guarantees	909	–
Total receivables (net)	**4,624**	**855**
Impairment loss on receivables	–	–
Gross receivables	**4,624**	**855**

In 2013, in the consolidated statement of financial position the Group separately recognised 'Other long-term receivables and prepayments' of PLN 909 thousand, comprising long-term prepayments under bank and insurance guarantees.

30. Other non-current financial assets

	Dec 31 2013	*Dec 31 2012*
Loans advanced	–	–
Non-current deposits, including:	905	1,444
- deposits securing bank guarantees provided to the Group	905	1,444
Other non-current financial assets, including:	31,407	118,283
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) related to the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	25,786	98,110
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) in connection with a loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)	5,612	20,164
Other non-current financial assets	9	9
	32,312	**119,727**

In the 12 months ended December 31st 2013, the Company remeasured the receivable arising from the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A. and the receivable arising from a loan granted to HYDROBUDOWA S.A. due to changes in estimates and assumptions, as discussed in Note 43.

The change in the receivables relative to the amount disclosed as at December 31st 2012 follows from the measurement of the receivables at amortised cost, taking into account the assumptions and estimates specified in Note 6.

31. Inventories

	Dec 31 2013	*Dec 31 2012*
Materials (at cost)	25,038	27,601
At cost	31,602	34,540
At net realisable value	25,038	27,601
Work in progress	–	–
At cost	–	–
Merchandise	1,453	1,195
At cost	1,453	1,195
At net realisable value	1,453	1,195
Finished products	393	319
At cost	400	344
At net realisable value	393	319
Total inventories, at the lower of cost and net realisable value	**26,884**	**29,115**
- including: inventories pledged as security for liabilities	5,000	5,000

Inventory write-downs

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
At beginning of period	(6,964)	(6,330)
Impairment loss recognised	(812)	(5,628)
Impairment loss reversed	1,205	248
Loss of control of a subsidiary	–	4,746
Balance at end of period	**(6,571)**	**(6,964)**

32. Current trade receivables, other receivables and prepayments

	Dec 31 2013	*Dec 31 2012*
Trade receivables, including:	144,199	288,916
Trade receivables from related entities	21	–
Trade receivables from other entities	144,178	288,916
Income tax receivable	13,587	21,510
Other receivables and prepayments, including:	362,041	347,207
Receivables under advances made	30,223	28,619
Receivables from the state budget	6,241	25,103
Settlement of property insurance costs	942	1,122
Settlements with the Company Social Benefits Fund	213	133
Disputed receivables	–	76,386
Prepaid expenses	1,039	619
Security deposits	241,613	192,760
Receivables sold	667	–
Contractual penalties receivable	2,738	4,263
Prepayments under bank and insurance guarantees	1,229	17,925
Other receivables	76,386	–
Other	750	277
Other receivables from related entities	–	–
Total receivables (net)	**519,827**	**657,633**
Impairment loss on receivables	58,253	45,133
Gross receivables	**578,080**	**702,766**

Receivables from the state budget include chiefly domestic and foreign VAT receivable.

Trade receivables bear no interest and are usually payable within 30 days. However, in the case of some trading partners, the final due dates for payment are set by way of individual arrangements and fall between one and three months of the invoice date.

The Group follows a policy pursuant to which it sells its products exclusively to customers who have successfully passed a credit verification procedure. As a result, Management believes there is no additional credit risk that would exceed the uncollectible debt allowance made for trade receivables.

Current trade receivables of PLN 144,199 thousand presented in the consolidated statement of financial position as at December 31st 2013 relate to trading contracts with domestic and foreign contractors. The largest items in this group of receivables include receivables from:

- EDF Polska S.A. – PLN 38,024 thousand,
- Polski Koncern Naftowy ORLEN S.A. – PLN 32,238 thousand,
- ALSTOM Power Sp. z o.o. – PLN 8,675 thousand,
- Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. – PLN 7,536 thousand,
- ENEA Wytwarzanie S.A. – PLN 7,487 thousand,
- Richard Kablitz & Mitthof GmbH – PLN 7,451 thousand,
- Aalborg Energie Technik a/s – PLN 7,096 thousand.

In 2013, the Group's current trade receivables fell considerably, by PLN 144,717 thousand. This decline was mostly attributable to the arrangement executed with ALSTOM Power Sp. z o.o., as described in more detail in Note 42, and payment made by ALSTOM Power Sp. z o.o. on the basis of the arrangement.

In 2013, the Group saw a PLN 16,696 thousand decrease in its prepaid expenses under financial guarantees and insurance. The decrease was primarily related to the settlement of financial and insurance guarantees relating to the performance of the contract with PGE Elektrownia Opole S.A.

In 2013, the Group recorded a PLN 48,853 thousand increase in security deposit receivables following its payment of security deposits under contracts performed by the Group companies.

The amount of security deposit receivables as at December 31st 2013 changed mostly in connection with payments and repayments of security deposits under the following contracts:

- the contract with PGE Elektrownia Opole S.A. for turn-key construction of a facility consisting of power unit No. 5 and power unit No. 6 at PGE Elektrownia Opole S.A. together with equipment and devices as well as the related buildings and structures – the change in the value of cash deposits provided as performance bond under this contract in 2013 amounted to PLN (-)5,277 thousand; the security deposit relating to performance of this contract was fully refunded by PGE Elektrownia Opole S.A. after the reporting date on January 30th 2014, as discussed in detail in Note 59;
- the contract with TAURON Polska Energia S.A. for the design, delivery, assembly and start-up of the OFz-201 biomass boiler at TAURON Polska Energia S.A. Jaworzno Power Plant III - Power Plant II – cash deposits paid as performance bonds under this contract in 2013 amounted to PLN 20,290 thousand;
- the contract with PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów Power Plant for modernization of the flue gas desulfurization system at units No. 5 and No. 6 at PGE GiEK Bełchatów Power Plant Branch – cash deposits paid as performance bonds under this contract in 2013 amounted to PLN 14,271 thousand;
    - the contract with Elektrownia Połaniec S.A. Grupa GDF SUEZ Energia Polska for the construction of a catalytic flue gas denitrification system for units K2 to K7 – cash deposits paid as performance bonds under this contract in 2013 amounted to PLN 9,446 thousand.

Security deposits receivable also include PLN 1,733 thousand of security deposits paid in respect of letters of credit. Letters of credit are opened for the benefit of suppliers (for the full value of a contract/order or for its selected part) to secure future payments to the supplier. The validity term of a letter of credit depends on the final completion date of the contract/order.

A significant item of other receivables was advances, which amounted to PLN 30,223 thousand as at December 31st 2013 and included:

- advances to Thomas Broadbent & Sons Ltd. – PLN 10,744 thousand,
- advances to Wallstein Ingenieur Gesellschaft GmbH – PLN 7,070 thousand,
- advances to Termokimik Corporation SPA – PLN 2,152 thousand.

Claims under dispute, recognised at PLN 76,386 thousand in the statement of financial position as at December 31st 2012, related to disputes with the Alstom Group. Following the execution of the arrangement, described in more detail in Note 42 of these consolidated financial statements as at December 31st 2013, these receivables are presented as 'Other receivables' and were paid and accounted for in the first quarter of 2014.

Trade receivables with a carrying amount of PLN 53,207 thousand were pledged as security in respect of guarantees and borrowings received by the Group as at December 31st 2013 (December 31st 2012: PLN 42,866 thousand).

32.1. Impairment losses on trade and other receivables

	Dec 31 2013	*Dec 31 2012*
At beginning of period, including:	(45,133)	(64,949)
- on receivables from related entities	–	–
Recognition of impairment loss on trade receivables	(12,977)	(14,128)
Recognition of impairment loss on other receivables	(10,179)	(9,013)
Reversal of impairment loss on trade receivables, including:	4,300	26,641
- on receivables from related entities	–	–
Use of impairment loss on other receivables	5,623	2,451
Use of impairment loss on trade receivables	113	11,189
Decrease in impairment losses following loss of control of subsidiary	–	2,676
Balance at end of period	**(58,253)**	**(45,133)**
- on receivables from related entities	–	–

Use/decrease of impairment losses on trade receivables in 2012 was mainly attributable to the final settlement of contracts with HPE in Germany (performed by a subsidiary) under an arrangement made with this company. Following the arrangement, impairment losses of PLN 11,067 thousand were used and impairment losses on trade receivables for a total amount of PLN 20,012 thousand were reversed. Also, in 2012 the Parent reversed a PLN 1,038 thousand impairment loss on trade receivables following the receipt of past due receivables from HPE.

In 2013, the Parent recognised a PLN 10,139 thousand impairment loss on accrued contractual penalties and, following receipt of payments, reversed PLN 3,779 thousand of the impairment loss. In addition, it reversed PLN 1,836 thousand of impairment losses on disputed receivables.

In 2012, the Group recognised a PLN 9,004 thousand impairment loss on accrued contractual penalties and, following receipt of payments, reversed PLN 2,434 thousand of the impairment loss.

Presented below is a breakdown of current trade and other financial receivables which were past due as at December 31st 2013 and December 31st 2012, but were not considered to be irrecoverable and therefore no impairment was recognised in respect of them.

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
Dec 31 2013	469,318	442,610	5,398	1,596	1,152	18,562	–

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
Dec 31 2012	563,180	425,234	6,163	11,590	3,008	91,954*	25,231*

*Mainly receivables from the Alstom Group, paid in 2013 and 2014.

In 2013, the Group recorded a considerable drop, of PLN 144,717 thousand, in its current trade receivables, mostly due to the arrangement it had made with Alstom Group companies, as described in more detail in Note 42.

33. Current financial assets

33.1. Derivative instruments

	Dec 31 2013	*Dec 31 2012*
Forward contracts	15	53
Currency options	–	–
	15	**53**

As at December 31st 2013, the Group carried open FX forward contracts with a positive fair value, which were euro sales contracts for EUR 1,300 thousand. The fair value of the forwards, as estimated by banks, amounts to PLN 15 thousand (December 31st 2012: PLN 53 thousand).

The FX forward contracts were executed in connection with contracts denominated in the euro, based on terms commonly applied in such financial transactions.

Group companies do not apply hedge accounting, but the transactions are not speculative and their purpose is to hedge foreign currency-denominated purchase/sale contracts. As a result, the Group recognises the effects of fair-value measurement/ realisation of such instruments similarly as exchange differences, i.e. in other income or expenses.

33.2. Current deposits

	Dec 31 2013	*Dec 31 2012*
Current deposits, including:	892	6,367
- deposits securing payments under a letter of credit	–	–
- deposits securing claims of guarantee beneficiary*	851	6,367
	892	**6,367**

*Security maintained until the payment date or the expiry date of the bank guarantee.

Current deposits comprise the Group's cash deposited with banks for various periods, ranging from three months to one year. The Group classifies its deposits as non-current or current assets, depending on their maturities.

33.3. Other current financial assets

	Dec 31 2013	*Dec 31 2012*
Other current financial assets, including:	1,863	10,500
Advance payment to acquire the right to a loan	10,500	10,500
Impairment loss on advance payment to acquire the right to a loan	(10,500)	–
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) related to the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	1,549	–
Receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) in connection with a loan advanced to HYDROBUDOWA S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)	314	–
	1,863	**10,500**

In the 12 months ended December 31st 2013, based on the adopted assumptions the Group recognised under other financial assets a short-term receivable from the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A. and a receivable from a loan granted to HYDROBUDOWA S.A.

On April 18th 2012, the Parent and Olenia Ltd entered into a preliminary agreement for the purchase of 50% of shares in Bioelektrownia Szarlej sp. z o.o. and assignment of the rights to receivables in the form a loan granted to that company. The total amount of the advance paid by RAFAKO S.A. under the agreement was PLN 16,176 thousand (of which PLN 5,676 thousand was paid in respect of shares presented as other non-financial assets and PLN 10,500 thousand was paid in respect of the loan presented as other financial assets). Bioelektrownia Szarlej Sp. z o.o. is a special purpose vehicle established for the purpose of construction of a biogas power plant, to be financed from internally-generated funds, a loan from investors, and a subsidy awarded to the project. Based on written information obtained from an agent representing Olenia Ltd, the status of the investment project is as follows:

- In view of certain issues of administrative nature, Bioelektrownia Szarlej Sp. z o.o. terminated the agreement with the construction contractor.
- This caused a delay in the performance of the work and, as a consequence, termination of the project co-financing agreement.
- In view of those circumstances, Bioelektrownia Szarlej Sp. z o.o. engaged an independent consultant – a leader in the market of preparation and implementation of renewable energy investment projects. The consultant prepared an implementation and financing model for the project, taking into account its present circumstances. The model envisaged resumption of the project in autumn 2013 and its completion in 2015.

Due to the status of the project as described above, the Parent's Management Board concluded that the risk of non-recoverability of the above-mentioned assets rose significantly and decided to recognise an impairment loss for the full value of the project.

33.4. Cash and cash equivalents

	Dec 31 2013	*Dec 31 2012*
Cash in hand and at banks	15,823	38,157
Current deposits for up to three months, including:	38,897	30,586
- deposits securing contingent liabilities	–	582
	54,720	**68,743**
including: restricted cash	1,052	872

Cash at banks earns interest at variable rates linked to the interest rates for overnight deposits. Current deposits, classified as cash, are placed for various periods, usually of one day to one month, depending on Group companies' immediate cash requirement, and earn interest at rates agreed with the bank.

Group companies carry restricted cash, including cash from subsidies (held in separate bank accounts), which may be used to make payments under ongoing projects.

34. Other current non-financial assets

As at December 31st 2012, in the consolidated statement of financial position the Group separately disclosed 'Other current non-financial assets', which consisted of a PLN 5,676 thousand advance paid in connection with the acquisition of shares, as discussed in detail in Note 0.

As at December 31st 2013, the Group recognised a PLN 5,676 thousand impairment loss on other current non-financial assets.

35. Equity

35.1. Share capital

In the 12 months ended December 31st 2013, the Parent's share capital amounted to PLN 139,200,000 and was divided into 69,600,000 ordinary shares with a par value of PLN 2.00 per share, of the following series:

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

35.2. Par value per share

All the shares have a par value of PLN 2.00 per share and have been taken up for cash contributions.

35.3. Shareholders' rights

Shares of all series carry equal rights as to dividend payment and return on equity.

35.4. Share premium

The share premium comprises the excess of issue price over the par value of the shares, amounting to PLN 77,947 thousand. On May 15th 2000, the Parent's General Meeting resolved to allocate PLN 41,169 thousand to cover accumulated deficit from previous years. In the 12 months ended December 31st 2013, there were no events which would result in any changes in the share premium, which amounted to PLN 36,778 thousand at December 31st 2013 (December 31st 2012: PLN 36,778 thousand).

35.5. Reserve funds

Reserve funds have been created from statutorily required transfers from profits generated by Group companies in previous financial years, as well as from profit appropriations in excess of the statutorily required transfers. As at December 31st 2013, the reserve funds amounted to PLN 252,821 thousand (December 31st 2012: PLN 243,011 thousand).

35.6. Translation reserve

The balance of translation reserve is adjusted for exchange differences arising from translation of the financial statements of a foreign subsidiary and a foreign branch of the Parent. As at December 31st 2013, translation reserve amounted to PLN 134 thousand (December 31st 2012: PLN 462 thousand).

35.7. Retained earnings / accumulated deficit and dividends paid

As at December 31st 2013, following the recognition of a PLN 135,837 net loss for the 12 months ended December 31st 2013 and transfer of PLN 9,810 of profit brought forward to reserve funds, the Group's retained earnings amounted to PLN (-)145,980 thousand.

The Parent and other Group companies did not declare or pay any dividend. In accordance with the applicable laws, dividends may only be paid out of the profit of individual Group companies, and not on the basis of consolidated net earnings of the Group.

35.8. Capital management

The purpose of capital management by the Group is to ensure a high level of security for its operations while minimising the costs of raising financing. To ensure stable development, the Group needs to maintain an appropriate relationship between its own and external capital and effectively manage free cash. The Group analyses its capital structure using the capitalisation ratio (which measures the share of the Group's equity in its total equity and liabilities).

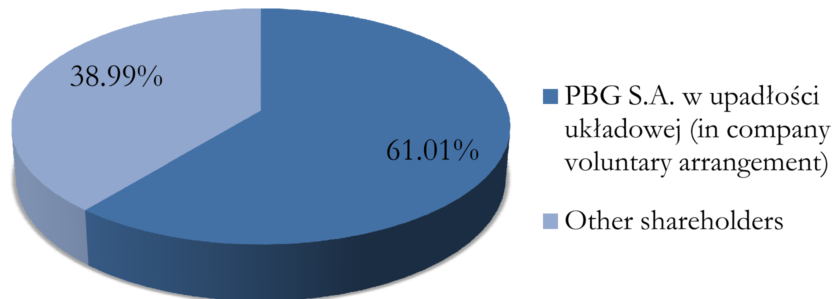
	Dec 31 2013	*Dec 31 2012*
Share of debt in equity		
Equity attributable to owners of the Parent	282,953	419,118
External capital (bank loan)	256,816	291,987
Total equity and liabilities	1,066,428	1,306,411
Capitalisation ratio	**0.27**	**0.32**

35.9. Shareholders holding 5% or more of the total vote at the General Meeting of RAFAKO S.A. (the Parent) at the end of the reporting period

Shareholder	*Number of shares*	*Number of votes attached to the shares held*	*Ownership interest*	*% of the total vote at GM*
PBG S.A. w upadłości układowej (in company voluntary arrangement)[1], including	42,466,000	42,466,000	61.01%	61.01%
held directly	7,665,999	7,665,999	11.01%	11.01%
held indirectly through Multaros Trading Company Limited [2] (a subsidiary of PBG S.A.)	34,800,001	34,800,001	50% + 1 share	50% + 1 share

1 – based on the notification of August 8th 2012
2 – based on the notification of November 15th 2011

Shareholder structure as at December 31st 2013



In accordance with the notification received from BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (the Fund), following the sale of RAFAKO S.A. shares on October 17th 2013 the Fund held shares representing less than 5% of total voting rights at the General Meeting of RAFAKO S.A.

35.10. Non-controlling interests

	Dec 31 2013	*Dec 31 2012*
Opening balance	10,435	56,184
Translation reserve	–	(13)
Share in profit of subsidiaries	701	(37,134)
Loss of control of a subsidiary	–	(8,602)
Closing balance	**11,136**	**10,435**

36. Interest-bearing borrowings

As at December 31st 2013, Group companies carried liabilities under borrowings of PLN 256,816 thousand. As at December 31st 2013, the bank debt ratio, calculated as the sum of borrowings to total equity, stood at 87%.

Current borrowings	*Security*	*Other*	*Currency*	*Effective interest rate*	*Maturity date*	*Dec 31 2013*	*Dec 31 2012*
PKO BP S.A.	blank promissory note with a promissory note declaration, assignment of receivables under contracts,* clause providing for debt set-off against RAFAKO S.A.'s cash held in bank accounts, mortgage**, statement of submission to enforcement	Overdraft revolving credit facility for up to PLN 280m***	PLN	1M WIBOR + margin	Mar 31 2014****	256,816	291,987
						256,816	**291,987**

* The facility is secured with receivables under contracts performed by the Company, including assignment of receivables under contracts for modernisation and repair of components at the Bełchatów Power Plant and the Kielce CHP Plant (performed for PGE Górnictwo i Energetyka Konwencjonalna S.A.), as well as receivables under the contract performed for the Połaniec Power Plant.

** As at the date of these financial statements, the Company established mortgages on its properties (other than flats and residential buildings) for a total amount of approximately PLN 300m, serving as additional security for the credit facility from PKO BP S.A.

*** As at the date of these financial statements, in accordance with the annex of March 4th 2014 to the overdraft revolving facility agreement, the facility limit is PLN 180,000,000.

**** On December 20th 2013, the Company signed an annex to the facility agreement with PKO BP S.A. reducing the facility limit to PLN 280m and postponing its final repayment date until March 31st 2014.

The Parent plans to extend the credit facility agreement for subsequent periods. The Group's credit standing should be analysed taking into account the information included in Note 5, relating to continuation of the Group's operations.

37. Employee benefit obligations

37.1. Post-employment and other employee benefits

Based on a valuation forecast made at the end of the accounting period by a professional actuary, the Group recognises a provision for the present value of its obligation related to payment of retirement gratuity benefits, jubilee benefits and the Company Social Benefits Fund. The provision amount and a reconciliation showing movements in the provision during the financial year are presented in the table below:

	Dec 31 2013	*Dec 31 2012*
As at Jan 1	24,133	29,031
Interest expense	972	1,174
Current service costs	528	967
Actuarial (gains)/losses	601	2,478
Cost of benefits paid	(2,565)	(2,595)
Loss of control of a subsidiary	–	(6,922)
Closing balance	**23,669**	**24,133**
Non-current provisions	22,119	22,223
Current provisions	1,550	1,910

The main assumptions adopted by the actuary as at December 31st 2013 and for the 12 months then ended to determine the amount of the obligation were as follows:

	Dec 31 2013	*Dec 31 2012*
Discount rate (%)	4.0	4.0
Anticipated inflation rate (%)*	–	–
Employee turnover rate	5	5
Anticipated salary growth rate (%)	1.83	4

** No data in the actuary's report.*

Sensitivity analysis

Change of the discount rate by half percentage point:

	Increase (PLN '000)	*Decrease (PLN '000)*
Dec 31 2013		
Effect on the defined benefit obligation	(1,090)	1,189
Dec 31 2012		
Effect on the defined benefit obligation	(1,029)	1,279

38. Trade and other payables

38.1. Non-current trade and other payables

	Dec 31 2013	*Dec 31 2012*
Trade payables, including:		
Trade payables to related entities	73	61
Trade payables to other entities	13,558	17,382
	13,631	**17,443**
Financial liabilities, including:		
Finance lease liabilities	1,683	1,012
	1,683	**1,012**
Other liabilities, including:		
Unpaid bonus accrual	355	1,101
Capital commitments	2,132	2,861
Provisions for warranty repairs	2,689	10,793
	5,176	**14,755**

38.2. Current provisions, trade and other payables

	Dec 31 2013	*Dec 31 2012*
Trade payables, including:		
Trade payables to related entities	265	3,128
Trade payables to other entities	206,727	237,395
	206,992	**240,523**
Capital commitments, including:		
Trade payables to related entities	–	–
Trade payables to other entities	1,396	5,511
	1,396	**5,511**

Other liabilities		
VAT	872	1,885
Personal income tax	2,371	1,835
Social security liabilities	9,934	7,598
Amounts payable to the Tax Office	–	–
Other taxes, customs duties and insurance payable	17	6
Settlements with the Company Social Benefits Fund	8	14
Salaries and wages payable	9,758	9,200
Accrued holiday entitlements	2,397	2,669
Unpaid bonus accrual	1,351	8,240
Provisions for warranty repairs	8,813	2,003
Provision for uninvoiced services and materials	20,854	5,100
Audit provision	126	126
Liabilities under financial guarantees and sureties issued	882	854
Prepaid deliveries	1,463	–
Other amounts payable to employees	729	–
Other	1,469	1,751
	61,044	**41,281**

Other financial liabilities		
Valuation of derivatives	–	–
Finance lease liabilities	660	559
Other financial liabilities	31	–
	691	**559**

38.3. Liabilities under financial derivatives

As at December 31st 2013, Group companies carried no open currency forward contracts with a negative fair value.

38.4. Capital commitments

As at December 31st 2013, Group companies had commitments related to purchase of property, plant and equipment of PLN 3,528 thousand. Group companies had no signed agreements envisaging any capital expenditure to be made in 2014 and not disclosed in the accounting books at the end of the reporting period.

38.5. Accrued holiday entitlements

The amount of accrued holiday entitlements is calculated on a monthly basis based on the actual number of days of unused holidays as at the end of each month. One twelfth of the holiday leave due for the whole year, increased by any unused days of holiday leave due for prior periods, is allocated to each individual month of the financial year. The number of days thus calculated is then multiplied by the average daily rate applicable to a given employee, determined on the basis of their salary for the month for which the accrual is made, plus amounts due to the Social Insurance Institution.

	Dec 31 2013	*Dec 31 2012*
Opening balance	2,669	4,311
Acquisition of subsidiary	–	–
Accrual	208	3,294
Loss of control of a subsidiary	–	(2,857)
Cost of benefits paid	(480)	(1,966)
Reversal of accrual	–	(113)
Closing balance	**2,397**	**2,669**
Current as at	2,397	2,669
Non-current as at	–	–
	2,397	**2,669**

38.6. Unpaid bonus accrual

The Parent pays to its employees an annual bonus, the amount of which depends on the achievement of the Company's operating profit target. In accordance with the provisions of the Collective Bargaining Agreement (CBA), within 30 days of the date of authorisation of the annual financial statements of Group companies, the Management Board, upon consultation with the Trade Unions, makes a decision as to the payment of a discretionary bonus to the companies' employees. During the financial year, Group companies recognise an accrual for the annual bonus in the amount provided for in the CBA, unless their Management Boards decide not to recognise the accrual. The Parent additionally recognises an accrual for bonuses to project managers, which are paid after completion of contracts.

	Dec 31 2013	*Dec 31 2012*
Opening balance	9,341	13,989
Accrual	4,849	7,501
Cost of benefits paid	(4,785)	(7,795)
Reversal of accrual	(7,699)	(4,354)
Closing balance	**1,706**	**9,341**
Current as at	1,351	8,240
Non-current as at	355	1,101
	1,706	**9,341**

38.7. Provision for warranty repairs

Provisions for warranty repairs are recognised as a result of estimating the expected and measurable costs of oversight, repairs and warranty works related to contractual liabilities of Group companies, arising from the completion of a construction contract.

	Dec 31 2013	*Dec 31 2012*
Opening balance	12,796	15,514
Acquisition of subsidiary	–	–
Accrual	7,906	12,724
Loss of control of a subsidiary	–	(4,392)
Costs of warranty repairs incurred	(9,200)	–
Reversal of accrual	–	(11,050)
Closing balance	**11,502**	**12,796**
Current as at	8,813	2,003
Non-current as at	2,689	10,793
	11,502	**12,796**

38.8. Liabilities under bank guarantees and sureties issued

The Parent recognised a provision for the expected costs arising from a surety granted in respect of bank guarantees issued by ING Bank Śląski S.A. at the request of Fabryka Elektrofiltrów ELWO S.A. w upadłości (in bankruptcy). The Bank's claim against RAFAKO S.A. arises under the Loan Agreement of June 25th 2008, announced by the Group in its previous reports. The Parent reversed a part of the provision in 2011 and, at the same time, recognised an impairment loss for the receivable under dispute.

	Dec 31 2013	*Dec 31 2012*
Opening balance	854	1,418
Acquisition of subsidiary	–	–
Recognition of provision for liability	137	17
Loss of control of a subsidiary	–	(449)
Costs incurred	(109)	(76)
Reversal of provision for liability	–	(56)
Closing balance	**882**	**854**
Current as at	882	854
Non-current as at	–	–
	882	**854**

38.9. Income tax payable

	Dec 31 2013	*Dec 31 2012*
Corporate income tax	45	53
	45	**53**

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within public administration bodies and between those bodies and businesses, leading to uncertainty and conflicts. Consequently, tax risk in Poland is substantially higher than in countries with more mature tax systems.

Tax settlements may be subject to inspection for a period of five years from the end of the calendar year in which the tax payment was made. Such inspections may result in additional tax liabilities for the Group.

In the period of 12 months ended December 31st 2013, a tax audit was held at the Parent with respect to VAT for February 2013. The tax audit did not reveal any irregularities resulting in tax penalties.

In the 12 months ended December 31st 2013, no tax audits were held at the Group's subsidiaries.

39. Grants

As at December 31st 2013, grants received amounted to PLN 558 thousand. Grants received pertain to:

- prevention activities of Powszechny Zakład Ubezpieczeń S.A., under which it co-financed the design, delivery and installation of natural gas detection and signalling systems for two gas furnaces at RAFAKO S.A.; the grant was made in cash,
- research project 'Development of technologies for high performance zero emission coal-fired units integrated with CO_2 capture from flue gas,' carried out under the 'Advanced power generation technologies' strategic scientific research and development programme of the National Centre for Research and Development of Warsaw; the grant was made in cash,
- research and development project 'Innovative after-treatment system for marine diesel engine emission control,' carried out by an international consortium coordinated by Brunel University; the grant was made in cash,
- research and development project 'Materials for high performance zero emission power generation units fired with fossil fuel,' carried out in cooperation with the Department of Physical Metallurgy and Powder Metallurgy of the AGH University of Science and Technology of Kraków; the grant was made in cash,
- research and development project 'Development of design guidelines for the SCR technology with a view to reducing 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),' carried out in cooperation with the Institute of Power Engineering and Turbomachinery of the Silesian University of Technology of Gliwice; the grant was made in cash,
- research project 'Assessment of behaviour and forecasting long-term operation of new generation steel used in supercritical boilers,' carried out as part of the scientific research and development work programme of the National Centre for Research and Development of Warsaw; the grant was made in cash,
- modernisation of an item of property, plant and equipment with a view to improving the competitive position of a subsidiary by implementing a new surface cleaning technology,
- modernisation of an item of property, plant and equipment with a view to increasing the efficiency of cutting of large profiles, improving OHS conditions, reducing manufacturing costs, and improving product quality.

Settlements relating to grants:

Purpose of the grant	*As at Jan 1 2013*	*Increase in the period*	*Grants posted to other income in the period*	*Grants returned in the period*	*Other grant decreases in the period*	*As at Dec 31 2013*
Modernisation of property, plant and equipment	25	–	(2)	–	–	23
Partial performance of a research project	481	593	(533)	(6)	–	535
	506	**593**	**(535)**	**(6)**	**–**	**558**

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

In the 12 months ended December 31st 2013 and the 12 months ended December 31st 2012, the consolidated entities did not issue, redeem, or repay any debt or equity securities.

41. Liabilities under finance leases and lease agreements with a purchase option

As at December 31st 2013, future minimum lease payments under finance leases and lease agreements with a purchase option and the net present value of minimum lease payments were as follows:

	Dec 31 2013		*Dec 31 2012*	
	Minimum lease payments	*Present value*	*Minimum lease payments*	*Present value*
up to 1 year	660	660	559	559
from 1 to 5 years	1,878	1,683	1,419	1,013
over 5 years	–	–	–	–
Total minimum lease payments	**2,538**	**2,343**	**1,978**	**1,572**
Less finance costs	(195)	–	(407)	–
Present value of minimum lease payments, including:	**2,343**	**2,343**	**1,571**	**1,572**
current	660	660	559	559
non-current	1,683	1,683	1,012	1,013

42. Litigations and disputes

Below are described the key litigations and disputes in which Group companies are involved, including those related to the Alstom Group.

On November 3rd 2009, RAFAKO S.A. brought an action for payment with the Regional Court of Warsaw, 20th Commercial Division, against ING Bank Śląski S.A. In the action, RAFAKO S.A. demanded a refund of PLN 9m unlawfully enforced from its accounts by ING Bank Śląski S.A. On November 29th 2010, the court of first instance issued a ruling in which it awarded PLN 8,996,566.00, plus statutory interest and litigation costs, to be paid by ING Bank Śląski S.A. to RAFAKO S.A. The attorney of ING Bank Śląski S.A. filed an appeal against the ruling of the court of first instance. On October 12th 2011, the Court of Appeals in Warsaw, having completed hearings, did not find the claims raised in the appeal by ING Bank Śląski S.A. justified, but resolved *ex officio* that the court of first instance failed to consider the substance of the dispute, reversed the ruling and remanded the case for re-examination by the court of first instance. The case is presently pending before the Regional Court of Warsaw, 20th Commercial Division. The date of the next hearing was set for April 1st 2014.

In July 2010, ING Bank Śląski S.A. brought to the Regional Court of Warsaw, 20th Commercial Division, an action for payment in the writ-of-payment proceedings against RAFAKO S.A. and RAFAKO Engineering Sp. z o.o., requesting a refund of the amount paid on February 1st 2010 to the beneficiary of the guarantee allegedly issued by ING Bank Śląski S.A. to the order of Fabryka Elektrofiltrów ELWO S.A. w upadłości (in bankruptcy). ING Bank Śląski S.A. alleges that the claim against RAFAKO S.A. is purportedly based on the provisions of the Credit Agreement of June 25th 2008. On June 9th 2011, the Regional Court of Warsaw, 20th Commercial Division, issued a default judgement at a hearing, awarding PLN 1,462,176.00, plus statutory interest from February 1st 2010 and PLN 80,326.00 as reimbursement of the costs of the proceedings, to be paid to ING Bank Śląski S.A. by RAFAKO S.A. On June 17th 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. of the filing of an objection, the Court Enforcement Officer seized RAFAKO S.A.'s bank accounts at the request of ING Bank Śląski S.A. By virtue of a decision of June 22nd 2011, the Regional Court of Warsaw, 20th Commercial Division, at the request of the attorney of the Defendants, suspended the order of immediate enforceability of the default judgement, claiming that there were serious doubts as to the justifiability of the default judgement. As a result of the actions taken by the Defendants' attorney, from the amounts enforced by the Court Enforcement Officer from RAFAKO S.A., the amount of PLN 128,392.90 was transferred to ING Bank Śląski S.A. and PLN 1,687,856.93 was transferred to the court deposit. On March 21st 2012, a ruling was issued in the case. In the ruling, the court reversed the default judgement in its entirety, awarded PLN 1,333,783.10 plus statutory interest and statutory interest on PLN 128,392.90 to be paid jointly and severally by RAFAKO S.A. and RAFAKO Engineering Sp. z o.o. to ING Bank Śląski S.A., dismissing the other points of the action. RAFAKO S.A.'s attorney lodged an appeal, which was dismissed in its entirety at a hearing held on February 21st 2013. The Court awarded reimbursement of the legal representation costs jointly and severally from the Defendants. The ruling was implemented.

In reference to the disputes with the Alstom Group companies, described in previous financial reports, concerning arbitration proceedings and litigations between the companies relating to the contracts carried out in Karlsruhe, Hamm/Westfalen, and at PGE Elektrownia Bełchatów S.A., RAFAKO S.A. reports that on October 15th 2013 a settlement was executed which regulates in a comprehensive manner the terms of financial settlements and provides for a mutual waiver of claims by RAFAKO S.A. and the Alstom Group, and defines the scope of collaboration between the Parent and the Alstom Group on RAFAKO S.A.'s projects. In the performance of the final agreements and settlement with Alstom Group companies:

(i) the Alstom Group companies paid EUR 23m to RAFAKO S.A. within 10 days from the Settlement effective date; the Company received the payment on October 31st 2013;
(ii) the Alstom Group companies paid EUR 20.5m to RAFAKO S.A. within 30 days from the later of: (i) the Settlement effective date and (ii) the date on which PGE Górnictwo i Energetyka Konwencjonalna S.A. ("PGE") issued the Notice to Proceed under the contract for the construction of power generating units No. 5 and 6 at Elektrownia Opole of February 15th 2012 (the "Opole Contract"); the Company received the payment on February 28th 2014;
(iii) RAFAKO S.A. and the Alstom Group waived their existing mutual claims relating to the Karlsruhe, Westfalen and Bełchatów projects and withdrew the actions and calls for arbitration submitted in connection with those disputes; and
(iv) RAFAKO S.A. agreed to cooperate with the Alstom Group on the Opole Contract, including to subcontract to the Alstom Group a part of RAFAKO's scope of work under the Opole Contract. The detailed rules of cooperation and the scope of work subcontracted to the Alstom Group was defined under a multilateral agreement executed by the Alstom Group, RAFAKO, PGE and the other members of the consortium to which the Opole Contract was awarded (the "Multilateral Agreement"), as well as under an agreement signed by the Alstom Group and the Opole Contract consortium (the "Agreement").

As at the date of these consolidated financial statements, all conditions precedent to the Settlement had been fulfilled and both payments due to the Parent (totalling EUR 43.5m) had been made.

On November 6th and 7th 2013, the parties withdrew their respective claims and counterclaims relating to the dispute before the Court of Arbitration of the International Chamber of Commerce in Paris concerning the contract at PGE Elektrownia Bełchatów S.A., the dispute before the Court of Arbitration of the International Chamber of Commerce in Zurich concerning

the Karlsruhe contract, and the dispute before the Commercial Chamber of the Court of Stuttgart concerning the Hamm/Westfalia contract, as a result of which all court proceedings were terminated. The withdrawal of all claims, execution of the settlement, and the transfer of payments agreed upon in the settlement marked an end to all outstanding settlements, disputes, and issues related to penalties and claims between RAFAKO S.A. and the Alstom Group companies in connection with the Hamm/Westfalia, Karlsruhe and Elektrownia Bełchatów projects, as described in detail in relevant notes to the previous financial statements.

Following an inspection carried out by the Rybnik Branch of the Social Insurance Institution, on November 17th 2011 RAFAKO S.A. was served a decision concerning social security contributions, contributions to the Labour Fund and contributions to the Guaranteed Employee Benefits Fund. The Social Insurance Institution challenged the allocation by RAFAKO S.A. of funds from the Company Social Benefits Fund towards special gift cards for employees. The decision assesses the company's liability towards the Social Insurance Institution at PLN 2,369,923.72 (net of interest). RAFAKO S.A. appealed against the decision to the Regional Court of Gliwice, 9th Labour and Social Security Division. The Court recognised RAFAKO's arguments as valid and issued rulings favourable to RAFAKO, which were appealed against by the Social Insurance Institution. As at the date of these financial statements, the date of the appeals hearing has not yet been determined. RAFAKO S.A. believes that the court of second instance will uphold the ruling favourable to RAFAKO. Due to the fact that the court's judgment was favourable for the Company, in 2012 RAFAKO S.A. reversed the provision of PLN 2,370 thousand that had been recognised in this respect, as well as the provision for the related interest of PLN 952 thousand.

In another material litigation, the Company is seeking compensation of USD 11,500 thousand (PLN 38,151 thousand) from Donetskoblenergo of Ukraine. RAFAKO demands the compensation following the customer's final decision to abandon a steam-generator construction project. In 2009, courts of the first and second instance ruled in favour of RAFAKO. However, the High Commercial Court, having examined a cassation appeal, reversed the rulings and remanded the case for re-examination. On August 6th 2010, RAFAKO received a decision issued by the Judicial Chamber for business cases of the Supreme Court of Ukraine granting a cassation appeal lodged by the Company on March 2nd 2010 and upholding the ruling of the Donetsk Commercial Court of Appeals of December 23rd 2008, whereby RAFAKO was awarded UAH 56.7m (approximately USD 11,500 thousand as at the date of filing the claim) in compensation, default interest, court expenses and legal representation costs. As the recovery of the awarded receivable is uncertain, the Company did not recognise that amount as revenue. RAFAKO's attorney reported that in July 2012 the Commercial Court for the Donetsk region resumed the examination of the case having received Donetskoblenergo's petition to declare the agreement of May 16th 1994 invalid. According to the attorney, there are no new arguments or evidence to grant the petition. The next hearing is scheduled for April 10th 2014.

43. Receivables from related entities in company voluntary arrangement

At the reporting date, the Group recognised in the statement of financial position net receivables of PLN 33m from related entities in company voluntary arrangement.

On December 20th 2011, RAFAKO S.A. and PBG S.A. ("indirect parent") of Wysogotowo an agreement ("Agreement"), under which RAFAKO S.A. acquired an interest in ENERGOMONTAŻ-POŁUDNIE Spółka Akcyjna ("EP") with registered office at ul. Mickiewicza 15, Katowice. Under the Agreement, RAFAKO S.A. acquired 46,021,520 ordinary bearer shares in EP with a par value of PLN 1 per share and a total par value of PLN 46,021,520, representing 64.84% of the share capital and 64.84% of total voting rights at the General Meeting of the company, carrying the right to 46,021,520 votes attached to the shares. PBG S.A. sold the shares for PLN 160,154,889.60 (PLN 3.48 per share). The purchase price was paid on December 30th 2011. Following an analysis and taking into account the likelihood of RAFAKO S.A.'s additional payments and claims, 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 Group.

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

On June 4th 2012, PBG S.A. filed a petition for insolvency. On June 13th 2012, the court granted the petition and PBG S.A. was declared to be insolvent in company voluntary arrangement.

On July 16th 2012, the Management Board of RAFAKO S.A. received a letter from the Court Supervisor of PBG S.A. w upadłości układowej (in company voluntary arrangement) addressed to the company ("PBG"), informing PBG that the sale of 46,021,520 shares in ENERGOMONTAŻ-POŁUDNIE S.A. by PBG to the Company on December 20th 2011 "as a legal transaction executed by the Bankrupt (PBG) for a consideration, within six months before the date of submitting the bankruptcy petition (i.e. June 4th 2012), with a related party in respect of which the Bankrupt (PBG) was a parent, is ineffective against its bankruptcy estate", in accordance with Art. 128.2 of the Bankruptcy and Restructuring Law ("Letter"). The Court

Supervisor requested the PBG Management Board to immediately take steps under Art. 134 of the Bankruptcy and Restructuring Law to effect a return transfer of 46,021,520 shares in ENERGOMONTAŻ-POŁUDNIE S.A. to PBG's account.

On August 7th 2012, the RAFAKO Management Board entered into an agreement with PBG S.A. w upadłości układowej (in company voluntary arrangement) of Wysogotowo for the transfer of shares in ENERGOMONTAŻ-POŁUDNIE Spółka Akcyjna of Katowice. The agreement provided for the transfer of 46,021,520 ordinary bearer shares in the company, with a par value of PLN 1 per share, representing 64.84% of the share capital and 64.84% of total voting rights at the General Meeting of ENERGOMONTAŻ-POŁUDNIE S.A., carrying the right to 46,021,520 votes. The share transfer was registered in the brokerage account on August 7th 2012.

In accordance with the legal analyses available to the Parent's Management Board, as a result of PBG S.A.'s insolvency declared on June 13th 2012, the sale of shares in ENERGOMONTAŻ-POŁUDNIE S.A. by PBG S.A. to RAFAKO S.A. under the agreement signed on December 20th 2011 has become legally ineffective against the bankruptcy estate as of the date of the court's decision to declare PBG S.A. insolvent, i.e. as of June 13th 2012 (the date of loss of control). This means that the Company is required to return the shares in ENERGOMONTAŻ-POŁUDNIE S.A. to PBG S.A. to include them in PBG S.A.'s bankruptcy estate, i.e. to procure that they are recorded in PBG S.A.'s securities account. This requirement arose by operation of law upon the declaration of PBG S.A.'s insolvency. Considering the above, having analysed the legal opinions on the ineffectiveness of the acquisition of ENERGOMONTAŻ-POŁUDNIE S.A. shares from PBG S.A. w upadłości układowej (in company voluntary arrangement), the Company's Management Board resolved to submit to the procedure involving the return of the shares.

Given the ineffectiveness of PBG S.A.'s disposal of the shares in ENERGOMONTAŻ-POŁUDNIE S.A. to RAFAKO S.A., the Parent is entitled to claim a refund of the price paid for the shares. 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 recognised 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 preliminary arrangement proposals providing for a 31% reduction of the debt (for which no deferred tax asset was recognised) and the expected timing of the inflow of the first instalment of cash to RAFAKO S.A., assessed by its Management Board as at the end of 2014.

In Q3 2013, the Parent performed another valuation of the asset based on updated arrangement proposals put forward by PBG S.A. w upadłości układowej (in company voluntary arrangement), providing for the repayment of PLN 500 thousand and an 80% reduction of the debt in excess of PLN 500 thousand. The debt will be repaid in annual instalments over five years after the expiry of three months from the date of approval of the arrangement. The RAFAKO Management Board expects that the first instalment will be paid by December 31st 2014. The value of the receivable determined based on the assumptions discussed above as at December 31st 2013, recognised under 'Other non-current financial assets' amounts to PLN 25.8m and under 'Other current financial assets' amounts to PLN 1.5m. The full amount of the claim, i.e. PLN 160,154,889.60, has been included in the proof of the Company's claim to the bankruptcy estate of PBG S.A. and is on the list of claims acknowledged by the Court Supervisor (publication in *Monitor Sądowy i Gospodarczy* official gazette of June 4th 2013).

In addition, on January 10th 2012, RAFAKO S.A. entered into a loan agreement with Hydrobudowa Polska S.A. of Wysogotowo, under which RAFAKO S.A. granted a cash loan of PLN 32m to the company maturing in 12 months (i.e. on January 9th 2013) to finance the company's day-to-day operations. To secure the repayment of the loan, Hydrobudowa Polska S.A. issued a blank promissory note with a 'protest waived' clause to RAFAKO S.A., guaranteed by PBG S.A. and Multaros Trading Company Ltd., together with relevant promissory note declarations. RAFAKO S.A. is entitled to fill in the note with the amount of any overdue balance of the loan with interest, up to PLN 35,000,000 (thirty-five million złoty). The loan bears interest at an annual rate of 1M WIBOR plus margin. By the date of these financial statements, RAFAKO S.A. had not received any amounts from Hydrobudowa Polska S.A., either as repayment of the loan principal or interest.

On June 4th 2012, PBG S.A. and Hydrobudowa Polska S.A. filed petitions with the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, for declaring PBG S.A. and Hydrobudowa Polska S.A. insolvent in voluntary arrangement. On June 13th 2012, the District Court for Poznań-Stare Miasto of Poznań, 11th Commercial Insolvency and Arrangement Division, declared PBG S.A. insolvent in voluntary arrangement. On June 11th 2012, the court declared Hydrobudowa Polska S.A. insolvent in voluntary arrangement. Pursuant to Art. 124.2 of the Bankruptcy and Restructuring Law, following the declaration of bankruptcy of Hydrobudowa Polska S.A., RAFAKO S.A. is entitled to seek the return of the actually advanced loan, in accordance with the Bankruptcy and Restructuring Law. On October 26th 2012, the Company's Management Board filed a proof of the Company's claim in respect of the loan in the bankruptcy proceedings against Hydrobudowa Polska S.A. The loan is included in the list of claims acknowledged by the Official Receiver.

Taking into consideration the process of bankruptcy liquidation of Hydrobudowa Polska S.A., in order to seek the return of the loan amount, on September 21st 2012 the Management Board of the Parent filed the claim with the register of claims maintained as part of the PBG S.A. bankruptcy arrangement proceedings. In Q3 2013, taking into consideration current arrangement proposals, the fair value of the receivable was estimated taking into account the expected cash inflows to RAFAKO S.A., assuming the repayment of PLN 500 thousand per one creditor and the 80% reduction of the receivable in excess of PLN 500 thousand (for which no deferred tax asset was recognised) as well as the expected timing of the first inflow of cash to RAFAKO S.A., assessed by the Company's Management Board as at December 31st 2014 (arrangement proposals provide for the repayment of the debt on an annual basis over the period of five years). As at December 31st 2013, the value of the receivable determined based on the assumptions discussed above, recognised under 'Other non-current financial assets' amounts to PLN 5.6m and under 'Other current financial assets' amounts to PLN 0.3m. The full amount of the claim, i.e. PLN 32,915,787.40, has been included in the proof of the Company's claim to the bankruptcy estate of PBG S.A. and is on the list of claims acknowledged by the Court Supervisor (publication in *Monitor Sądowy i Gospodarczy* official gazette of June 4th 2013).

The total amount of receivables from the related entity (PBG S.A.) subject to bankruptcy proceedings with an arrangement option, which results from the above-mentioned titles and has been recognised in the statement of financial position, is PLN 33m. The effect of the change in estimates on the valuation of receivables from related parties under arrangement proceedings in 2013 was PLN -94,205 thousand. The recoverable amount of the claims depends on the terms of the arrangement with PBG S.A.'s creditors, which had not been signed by the date of authorisation of these financial statements, as well as on the possibility of fulfilment of that arrangement by PBG S.A. in the future.

44. Changes in off-balance sheet items

	Dec 31 2013	*Dec 31 2012*
Off-balance sheet items under bank guarantees received mainly as security for performance of contracts, including:	272,728	171,669
- from related entities	–	–
Receivables under sureties received, including:	7,600	7,600
- from related entities	–	–
Promissory notes received as security, including:	45,806	49,700
- from related entities	–	12,338
Letters of credit	2,127	3,257
	328,261	**232,226**

	Dec 31 2013	*Dec 31 2012*
Off-balance sheet items under bank guarantees issued mainly as security for performance of contracts, including:	280,701	490,421
- to related entities	–	–
Liabilities under sureties, including:	–	–
- to related entities	–	–
Promissory notes issued as security, including:	23,725	5,181
- to related entities	–	–
Letters of credit	1,733	1,881
	306,159	**497,483**

In the 12 months of 2013, the RAFAKO Group recorded a PLN 191,324 thousand drop in contingent liabilities, including a PLN 209,720 thousand decrease in liabilities under guarantees, PLN 148 thousand decrease in liabilities under letters of credit, and a PLN 18,544 thousand increase in promissory notes issued as security. Guarantees (mainly bid bonds and performance bonds) issued in 2013 to the Group's trading partners upon the Group's instruction by banks and insurance companies totalled PLN 65,631 thousand. In this category of liabilities, the largest item is a PLN 10m bid bond issued in Q1 2013 in connection with the Group's participation in a tender for the construction of power generating units. The largest of guarantees which expired in 2013 was a PLN 79,310 thousand advance payment guarantee related to a contract for the construction of power generating units.

Over the 12 months of 2013, the Group recorded an increase in contingent receivables, including mainly performance bonds, of PLN 96,035 thousand, and a decrease in receivables under promissory notes of PLN 3,894 thousand. In 2013, receivables under the received bank and insurance guarantees grew by PLN 101,059 thousand. The largest item among guarantees received in 2013 is a payment guarantee of PLN 85,018 thousand. In the reporting period, the Group also recorded a PLN 1,130 thousand fall in receivables under letters of credit opened for the Group. The largest item among guarantees which expired in 2013 was a PLN 3,541 thousand performance bond.

45. Guarantees

As at December 31st 2013, the Group carried contingent liabilities under bank and insurance guarantees with a total value of PLN 280,701 thousand, including:

No.	*Bank/insurer issuing a guarantee*	*Guarantee amount*	*Type of guarantee*	*Security*
1.	BOŚ S.A.	16,120	performance bond, advance payment guarantee, warranty bond	power of attorney over bank accounts, blank promissory note with a promissory note declaration, assignment of receivables under a contract
2.	BRE Bank S.A.	16,703	warranty bond, performance bond, advance payment guarantee	blank promissory note with a promissory note declaration, assignment of receivables under a contract
3.	BZ WBK S.A.	77,325	performance bond, warranty bond, advance payment guarantee, retention	blank promissory note with a promissory note declaration, representation on submission to enforcement, assignment of receivables under a contract
4.	DEUTSCHE Bank Polska S.A.	9,788	warranty bond, performance bond, advance payment guarantee, bid bond	representation on submission to enforcement, assignment of receivables under a contract, security deposit
5.	T.U. Euler HERMES S.A.	23,633	warranty bond, performance bond, advance payment guarantee	blank promissory note with a promissory note declaration
6.	STU ERGO HESTIA S.A.	17,402	warranty bond, performance bond	blank promissory notes with promissory note declarations
7.	PKO BP S.A.	67,086	warranty bond, performance bond, advance payment guarantee, bid bond	representation on submission to enforcement, deduction from bank accounts, assignment of receivables under a contract, security deposit
8.	PZU S.A.	28,241	warranty bond, performance bond	blank promissory notes with promissory note declarations, representation on submission to enforcement under Art. 777 of the Polish Code of Civil Procedure
9.	Raiffeisen Bank Polska S.A.	1,185	warranty bond	representation on submission to enforcement, power of attorney over bank account
10.	UNIQA TU S.A.	3,274	warranty bond, performance bond, advance payment guarantee, bid bond	blank promissory notes with promissory note declarations
11.	TuiR WARTA S.A.	19,944	warranty bond, performance bond	blank promissory notes with promissory note declarations, representation on submission to enforcement under Art. 777 of the Polish Code of Civil Procedure
		280,701		

46. Related parties

In the 12 months of 2013 and 2012, the Group did not enter into any material transactions with related parties on other than arm's length terms.

Total amounts of transactions with related parties in the 12 months ended December 31st 2013 and December 31st 2012 were as follows:

Related party	*12 months ended Dec 31*	*Sale to related parties*	*Purchase from related parties*	*Receivables from related parties*	*Liabilities to related parties*
Parent:					
PBG S.A. w upadłości układowej (in company voluntary arrangement)*	*2013*	–	516	33,261*	129
	2012	–	243	118,274*	22
PBG Group companies**:					
GasOil Engineering a.s.	*2013*	–	338	–	313
	2012	–	1,466	–	366
Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	*2013*	–	–	–	–
	2012	–	–	10,782	–
PBG Avatia Sp. z o.o.	*2013*	–	3	–	–
	2012	–	–	–	–
PBG Energia Sp. z o.o.***	*2013*	12,378	–	–	–
	2012	–	–	–	–
ENERGOMONTAŻ-POŁUDNIE Sp. z o.o.**	*2013*	522	13,633	–	–
	2012	–	12,221	–	228
ENERGOMONTAŻ-POŁUDNIE S.A.**	*2013*	5	274	–	–
	2012	3	1,874	583	1,236

** The receivables from PBG S.A. w upadłości układowej (in company voluntary arrangement) described in Note 43.*
*** Related entity until June 30th 2013.*
**** Related entity until December 4th 2013.*

47. Group's Parent

RAFAKO S.A. is the Parent of the RAFAKO Group.

As at the date of these consolidated financial statements, the parent of the RAFAKO Group is PBG S.A. w upadłości układowej (in company voluntary arrangement).

As at December 31st 2013, PBG S.A. of Wysogotowo held 61.01% of the Company's ordinary shares (11.01% of shares held directly, and 50% + 1 share held indirectly).

48. Joint ventures in which Group companies are partners

Group companies are not engaged in any joint ventures.

49. Related-party transactions

In the 12 months of 2013, the Parent and its subsidiaries did not enter into any material transactions with related parties on other than arm's length terms. All transactions with related parties are executed on terms applied by the Group in its business relations with non-related parties. Consideration is generally determined by way of a tender and standard payment terms are agreed. The related party must ensure that a contract is performed in accordance with the documentation, give a warranty for a specified period and provide security in the form of a performance bond issued by a bank. Related parties are also subject to

standard contractual penalties, non-disclosure agreements, provisions protecting industrial property rights, and provisions regarding contract insurance, force majeure and dispute resolution.

50. 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 or supervisory boards of Group companies.

In the reporting and comparable periods, Group companies did not enter into any transactions with members of their management or supervisory boards.

51. Shares held by members of management and supervisory bodies

The table below presents the number of shares in the Parent or Parent's related parties held by the management and supervisory staff as at December 31st 2013:

	Company name	*Total number of shares*	*Par value of shares (PLN)*
Member of the management staff			
Paweł Mortas	RAFAKO S.A.	10,693	21,386
Edward Kasprzak	RAFAKO S.A.	2,000	4,000
	PBG S.A. w upadłości układowej (in company voluntary arrangement)	100	100
Jarosław Dusiło	Hydrobudowa Polska S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	150	150
Member of the supervisory staff			
Małgorzata Wiśniewska	PBG S.A. w upadłości układowej (in company voluntary arrangement)	3,279	3,279
Jerzy Wiśniewski	PBG S.A. w upadłości układowej (in company voluntary arrangement)	3,881,224	3,881,224

52. Shares held by senior management staff under employee stock option plan

Group companies do not have any employee stock option plans.

53. Remuneration of the Group's senior management staff

	12 months ended Dec 31 2013	*12 months ended Dec 31 2012*
Short-term employee benefits (salaries and overheads)	13,437	5,154
Length-of-service awards	81	–
Post-employment benefits	–	493
Termination benefits	120	–
Other employee benefits	–	–
Total cost of remuneration paid to key management staff*	**13,638**	**5,647**

**Including members of management and supervisory boards of the Parent and subsidiaries.*

The remuneration paid to members of the Parent's Management and Supervisory Boards for the year ended December 31st 2013 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**2,314**	**510**	**112**
Paweł Mortas	600	150	27
Krzysztof Burek	480	–	–
Jarosław Dusiło	480	120	16
Edward Kasprzak	377	120	11
Maciej Modrowski	377	120	58
Supervisory Board	**1,038**	–	**577**
Piotr Wawrzynowicz	144	–	101
Jerzy Wiśniewski	228	–	476
Małgorzata Wiśniewska	108	–	–
Agenor Gawrzyał	240	–	–
Przemysław Cieszyński	51	–	–
Ryszard Wojnowski	51	–	–
Edyta Senger-Kałat	108	–	–
Przemysław Schmidt	54	–	–
Dariusz Sarnowski	54	–	–
Total	**3,352**	**510**	**689**

The remuneration paid to members of the Parent's Management and Supervisory Boards for the year ended December 31st 2012 was as follows:

PLN '000

	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**

The remuneration paid to members of the Management and Supervisory Boards of DOM Sp. z o.o. (a subsidiary) for the year ended December 31st 2013 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**86**	**28**	**–**
Mirosław Dziedzic	86	28	–
Supervisory Board	**120**	**–**	**–**
Mariusz Łożyński	46	–	–
Jolanta Markowicz	37	–	–
Adam Górnicki	37	–	–
Total	**206**	**28**	**–**

The remuneration paid to members of the Management and Supervisory Boards of DOM Sp. z o.o. (a subsidiary) for the year ended December 31st 2012 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**83**	**24**	**–**
Mirosław Dziedzic	83	24	–
Supervisory Board	**172**	**–**	**–**
Iwona Tabakiernik-Wysłocka	32	–	–
Jolanta Markowicz	46	–	–
Adam Górnicki	46	–	–
Piotr Wawrzynowicz	25	–	–
Bożena Kawałko	19	–	–
Mariusz Łożyński	4	–	–
Total	**255**	24	–

The remuneration paid to members of the Management and Supervisory Boards of RAFAKO Engineering Sp. z o.o. (a subsidiary) for the year ended December 31st 2013 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**69**	–	**–**
Alan Beroud	23	–	
Norbert Lejeune	23	–	–
Justyna Mirek	23	–	–
Supervisory Board	**104**	**–**	**–**
Grzegorz Podsiadło	32	–	–
Maciej Modrowski	36	–	–
Roman Karbasz	36		
Total	**173**	–	–

The remuneration paid to members of the Management and Supervisory Boards of RAFAKO Engineering Sp. z o.o. (a subsidiary) for the year ended December 31st 2012 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**121**	**18**	**–**
Norbert Lejeune	49	18	–
Justyna Mirek	72	–	–
Supervisory Board	**120**	**–**	**–**
Andrzej Banasiewicz	16	–	–
Jolanta Góreczna	16	–	–
Roman Karbasz	36	–	–
Dariusz Karwacki	15	–	–
Agata Stachoń	13	–	–
Piotr Wawrzynowicz	18	–	–
Grzegorz Podsiadło	3	–	–
Maciej Modrowski	3	–	–
Total	**241**	**18**	–

The remuneration paid to members of the Management and Supervisory Boards of ENERGOTECHNIKA ENGINEERING Sp. z o.o. (a subsidiary) for the year ended December 31st 2013 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**328**	**–**	**–**
Justyna Mirek	184	–	–
Jan Miodek	144	–	–
Total	**328**	–	–

The remuneration paid to members of the Management and Supervisory Boards of ENERGOTECHNIKA ENGINEERING Sp. z o.o. (a subsidiary) for the year ended December 31st 2012 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**72**	**–**	**–**
Justyna Mirek	24	–	–
Jan Miodek	48	–	–
Total	**72**	–	–

The remuneration paid to members of the Management and Supervisory Boards of FPM S.A. (a subsidiary) for the year ended December 31st 2013 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**533**	**1,870**	**174**
Piotr Dzierżęga	276	1,062	8
Marian Januszkiewicz	180	808	150
Maciej Solarczyk	77	–	16
Supervisory Board	**264**	**–**	**–**
Michał Kajzerek	41	–	–
Krzysztof Matysek	61	–	–
Piotr Wawrzynowicz	64	–	–
Dariusz Karwacki	2	–	–
Tomasz Tomczak	45	–	–
Edward Kasprzak	45	–	–
Krzysztof Jeremicz	6	–	–
Total	**797**	**1,870**	**174**

The remuneration paid to members of the Management and Supervisory Boards of FPM S.A. (a subsidiary) for the year ended December 31st 2012 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**456**	**215**	**40**
Piotr Dzierżęga	276	115	8
Marian Januszkiewicz	180	100	32
Supervisory Board	**231**	**–**	**–**
Iwona Tabakiernik-Wysłocka	25	–	–
Michał Kajzerek	59	–	–
Krzysztof Matysek	64	–	–
Piotr Wawrzynowicz	46	–	–
Dariusz Karwacki	37	–	–
Total	**687**	**215**	**40**

The remuneration paid to members of the Management and Supervisory Boards of PALSERWIS Sp. z o.o. (an indirect subsidiary) for the year ended December 31st 2013 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**96**	**–**	**–**
Andrzej Bies	96	–	–
Supervisory Board	**83**	**–**	**–**
Piotr Dzierżęga	25	–	–
Marian Januszkiewicz	28	–	–
Józef Wojtuszek	30	–	–
Total	**179**	–	–

The remuneration paid to members of the Management and Supervisory Boards of PALSERWIS Sp. z o.o. (an indirect subsidiary) for the year ended December 31st 2012 was as follows:

PLN '000

	Base pay	*Awards*	*Other*
Management Board	**25**	**–**	**–**
Andrzej Bies	25	–	–
Supervisory Board	**83**	**–**	**–**
Piotr Dzierżęga	25	–	–
Marian Januszkiewicz	28	–	–
Józef Wojtuszek	30	–	–
Total	**108**	–	–

54. Management Board's position on the feasibility of meeting previously published forecasts

The Group did not publish forecasts for 2013.

55. Information on agreement with qualified auditor or auditing firm qualified to audit financial statements

On April 11th 2012, acting on the basis of the authorisation provided for in the Parent's Articles of Association, the Parent's Supervisory Board resolved to appoint Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly Ernst & Young Audit Sp. z o.o.), with its registered office at Rondo ONZ 1, Warsaw, Poland, entered in the list of entities qualified to audit financial statements maintained by the National Board of Statutory Auditors under No. 130, to audit the Company's financial statements for 2012, 2013 and 2014. The auditor was appointed in accordance with the applicable regulations and professional standards. In the past, Ernst & Young performed reviews and audits of separate financial statements and consolidated financial statements of the RAFAKO Group for 2002-2005 and 2011.

On June 15th 2012, the Company entered into an agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. (formerly Ernst & Young Audit Sp. z o.o.) of Warsaw for the review and audit of the separate and consolidated financial statements for 2012, 2013 and 2014. The total remuneration payable to the auditor for the review and audit of the financial statements was agreed at PLN 537 thousand.

On October 29th 2013, the Supervisory Board of FPM S.A., a subsidiary, acting on the basis of the authorisation provided for in the company's Articles of Association, resolved to appoint REWIDO spółka z ograniczoną odpowiedzialnością Sp. k., entered in the list of entities qualified to audit financial statements maintained by the National Board of Statutory Auditors under No. 2302, to audit the company's financial statements. The auditor was appointed in accordance with the applicable regulations and professional standards. On November 4th 2013, the company entered into an agreement with REWIDO spółka z ograniczoną odpowiedzialnością Sp. k. for the review and audit of the separate and consolidated financial statements for 2013. The total remuneration payable to the auditor for the review and audit of the financial statements was agreed at PLN 21 thousand.

On December 17th 2013, the Extraordinary General Meeting of Supervisory Board of ENERGOTECHNIKA Engineering Sp. z o.o., a subsidiary, acting on the basis of the authorisation provided for in the company's Articles of Association, resolved to appoint DORADCA Zespół Doradców Finansowo - Księgowych Sp. z o.o. of Lublin, entered in the list of entities qualified to audit financial statements maintained by the National Board of Statutory Auditors under No. 232, to audit the company's financial statements. The auditor was appointed in accordance with the applicable regulations and professional standards. In the past, DORADCA provided the company with services consisting in the review and audit of separate financial statements for 2012. On December 19th 2013, the company entered into an agreement with DORADCA Zespół Doradców Finansowo - Księgowych Sp. z o.o. for the review and audit of the company's separate financial statements for 2013. The total amount of remuneration payable to the auditor for the audit of the financial statements was agreed at PLN 4.5 thousand.

On January 8th 2014, the Supervisory Board of RAFAKO Engineering Sp. z o.o., a subsidiary, acting on the basis of the authorisation provided for in the company's Articles of Association, resolved to appoint DORADCA Zespół Doradców Finansowo - Księgowych Sp. z o.o. of Lublin, entered in the list of entities qualified to audit financial statements maintained by the National Board of Statutory Auditors under No. 232, to audit the company's financial statements. The auditor was appointed in accordance with the applicable regulations and professional standards. In the past, DORADCA provided the company with services consisting in the review and audit of separate financial statements for 2009-2012. On January 20th 2014, the company entered into an agreement with DORADCA Zespół Doradców Finansowo - Księgowych Sp. z o.o. for the review and audit of the company's separate financial statements for 2013. The total amount of remuneration payable to the auditor for performing the audit of financial statements was agreed at PLN 4 thousand.

On December 20th 2013, the Supervisory Board of PGL-DOM Sp. z o.o., a subsidiary, acting on the basis of the authorisation provided for in the company's Articles of Association, resolved to appoint DORADCA Zespół Doradców Finansowo - Księgowych Sp. z o.o. of Lublin, entered in the list of entities qualified to audit financial statements maintained by the National Board of Statutory Auditors under No. 232, to audit the company's financial statements. The auditor was appointed in accordance with the applicable regulations and professional standards. In the past, DORADCA provided the company with services consisting in the review and audit of separate financial statements for 2006−2012. On January 8th 2014, the company entered into an agreement with DORADCA Zespół Doradców Finansowo - Księgowych Sp. z o.o. to audit the company's separate financial statements for 2013. The total amount of remuneration payable to the auditor for performing the audit of financial statements was agreed at PLN 7 thousand.

The table below presents the remuneration paid or payable to the qualified auditors of financial statements for the year ended December 31st 2013 and December 31st 2012, broken by type of service:

Type of service	*Year ended Dec 31 2013**	*Year ended Dec 31 2012**
Mandatory audit of the separate and consolidated financial statements of the Parent	179	177
Other attestation services	–	–
Tax advisory services	–	–
Other services	19	353
Total	**198**	**530**

** Refers to Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. (formerly Ernst & Young Audit Sp. z o.o.).*

56. Objectives and policies of financial risk management

The objective of the RAFAKO Group's financial risk management policy is to limit the volatility of the Group's cash flows and results of its core business operations to acceptable levels. The key financial instruments used by the Group include cash, current deposits, advanced loans, currency forwards, overdraft facilities and leases. The main purpose of these instruments is to support and secure financially the day-to-day operations of Group companies by stabilising and neutralising liquidity, exchange rate and interest rate risks, and to ensure safe and effective investment of free cash. Other financial instruments, such as trade receivables and payables, arise in the course of Group companies' day-to-day operations and form their inherent part.

Group companies are not engaged in trading in financial instruments. The role of all financial instruments discussed in this section is to support the core business processes. Group companies do not permit the use of financial instruments for speculative or other purposes not directly related to their core operations.

The key financial risk to which the Group is exposed is liquidity risk, discussed at length in Note 5.

In 2013, the Parent was party to a PLN 280m overdraft facility agreement with PKO BP S.A., exposing it to interest rate risk that will have an effect on the amount of finance costs paid by the Company in the following periods.

Currency risk is another type of risk to which Group companies were exposed in the reporting period and continue to be exposed. An overview of this risk is provided in Note 56.2

Group companies' participation in investment funds is a part of their efforts to disperse the risk associated with concentration of financial assets. Such instruments (fund units) do not account for a significant share of the Group's deposit portfolio. In addition, the Group only accepts investing in instruments offering a stable safety level (money market instruments, debt instruments), and does not invest in any aggressive funds. As at the date of these financial statements, the Group held no investment fund units.

The accounting policies pursued by Group companies with respect to derivative instruments are discussed in Note 0.

56.1. Interest rate risk

As at December 31st 2013, the Group had an active credit facility agreement, therefore its operations were exposed to credit risk and the risk associated with potential changes in interest rates. Changes in market interest rates may trigger changes to the interest charged on the credit facility, as well as the interest earned by the Group companies on their deposits.

Sensitivities to such changes are analysed in the table below.

Sensitivity to interest rate risk

The table below presents sensitivity of pre-tax profit to reasonable movements in interest rates, assuming that other factors remain constant (deposits, advanced loans, bank credit facility, amounts payable under leases). The effect on the Group's equity is not presented.

	Increase/ decrease (percentage points)	*Effect on pre-tax profit/loss*
Period ended Dec 31 2013		
PLN	+1%	(1,472)
EUR	+1%	377
RSD	+1%	1
PLN	- 1%	1,472
EUR	- 1%	(377)
RSD	- 1%	(1)
Period ended Dec 31 2012		
PLN	+ 1%	(1,073)
EUR	+ 1%	1,094
BAM	+ 1%	31
PLN	- 1%	1,073
EUR	- 1%	(1,094)
BAM	- 1%	(31)

56.2. Currency risk

The most significant type of financial risk to which the Group is exposed is currency risk, which arises in connection with exchange rate movements, causing uncertainty as to future cash flows denominated in foreign currencies. The Group's exposure to currency risk stems from the fact that a significant portion of its cash flows is denominated in foreign currencies. Changes in PLN exchange rates, especially if frequent and significant, may materially affect both profitability of contracts denominated in foreign currencies and the amount of currency translation differences on assets and liabilities denominated in foreign currencies and translated into PLN.

In the reporting period, more than 35% of the Group's invoiced revenue was denominated in foreign currencies, primarily in EUR.

The currency risk management strategy followed by Group companies provides for the use of natural hedging to the largest possible extent. Group companies strive to achieve the highest possible level of structural matching of income and expenses denominated in the same currency and related to the running contracts. From 30% to 70% of the estimated net exposure to currency risk which is not covered by natural hedging is hedged at the time of transaction execution, exclusively with accepted types of derivative instruments.

As at December 31st 2013, Group companies had one open hedging position (forward purchase of currency by a bank) with a notional amount of EUR 1,300 thousand.

In view of the best bid choices made by Employers in material tenders and the expectation that the Group will evolve from net exporter to net importer in terms of its currency exposure, the Group did not enter into any new foreign currency sale contracts under its currency risk hedging policy. Once the final tender awards are known, Group companies will revise their currency positions and decide on entering into any hedging transactions.

The table below presents the sensitivity of the pre-tax profit/loss (due to changes in the value of monetary assets and liabilities) to reasonable movements in the EUR, CHF, RSD, BAM and DKK exchange rates, with all the other factors unchanged.

	Exchange rate increase/ decrease	*Effect on pre-tax profit/loss*	*Effect on net profit/loss*
Dec 31 2013 – EUR	+10%	(899)	(728)
	-10%	899	728
Dec 31 2013 – CHF	+10%	(7)	(6)
	-10%	7	6
Dec 31 2013 – RSD	+10%	(34)	(28)
	-10%	34	28
Dec 31 2013 – DKK	+10%	(3)	(2)
	-10%	3	2
Dec 31 2012 – EUR	+10%	19,956	16,164
	-10%	(19,956)	(16,164)
Dec 31 2012 – CHF	+10%	17	14
	-10%	(17)	(14)
Dec 31 2012 – DKK	+10%	107	87
	-10%	(107)	(87)
Dec 31 2012 – BAM	+10%	314	254
	-10%	(314)	(254)

56.3. Commodity price risk

The Group is exposed to price risk, particularly the risk of increase in the prices of materials of strategic importance to its operations. The level of this risk is greatly determined by the conditions prevailing in the global commodities markets (including steel, precious metals, fuel and energy markets), which are affected by both exchange rate movements and producers' consolidation efforts intended to achieve joint control of prices. The commodity price risk management strategy envisages entering into contracts with sub-suppliers of materials and services in the master contract currency, arranging for procurement of materials by the customer, and entering into procurement contracts providing for fixed prices. Group companies do not enter into long-term contracts with sub-suppliers. The scope of supplies is determined and suppliers selected on an individual basis depending on requirement.

56.4. Credit risk

The RAFAKO Group's credit risk exposure is closely related to the core business conducted by Group companies. The exposure results from outstanding trade contracts and is related to the risk of occurrence of such credit events as the contractor's insolvency, partial payment of receivables, and material delays in payment of receivables. Providing trade credit to trade partners is an essential part of the Group's business. However, Group companies undertake a number of measures to mitigate the risk of entering into trade relations with potentially unreliable customers. Each customer who wishes to trade on credit terms is subject to credit verification procedures.

Customers who − based on the results of credit verification procedures performed by Group companies − are deemed financially unreliable, are required to provide appropriate financial security to mitigate the risk of their insolvency borne by the Group.

56.5. Liquidity risk

The Group is exposed to liquidity risk arising from the mismatch of cash flow maturities under ongoing contracts. The Group seeks to ensure positive cash flows, which − assuming timely payment of receivables − significantly reduces liquidity risk. The nominal amount of credit facilities available to the Company is sufficient to effectively prevent any negative consequences of potential delays in payment of receivables. Since 2013, the Parent has used external sources of financing. The credit limits available at banks, used to a significant extent, were sufficient to finance the Group's operating activities.

The question of the Group's financial liquidity (continuation of operations) with respect to 2013 is discussed at length in Note 5 to the consolidated financial statements.

The table below presents the Group's financial liabilities by maturity as at December 31st 2013, based on undiscounted contractual payments.

Dec 31 2013	*payable on demand*	*up to 3 months*	*from 3 to 12 months*	*from 1 year to 5 years*	*over 5 years*	*Total*
Interest-bearing borrowings	–	256,816*	–	–	–	256,816
Lease liabilities	–	54	119	2,365	–	2,538
Derivative instruments	–	–	15	–	–	15
Trade and other payables	67,825	124,789	15,288	15,310	939	224,151
Discount on liabilities	–	–	–	1,312	328	1,640
	67,825	**381,659**	**15,422**	**18,987**	**1,267**	**485,160**

* According to the annex of December 20th 2013 to the credit facility agreement.

Dec 31 2012	*payable on demand*	*up to 3 months*	*from 3 to 12 months*	*from 1 year to 5 years*	*over 5 years*	*Total*
Interest-bearing borrowings	–	–	291,987	–	–	291,987
Lease liabilities	–		147	1,831	–	1,978
Derivative instruments	–	53	–	–	–	53
Trade and other payables	84,134	123,538	41,096	16,999	571	266,338
Discount on liabilities				2,285	237	2,522
	84,134	**123,591**	**333,230**	**21,115**	**808**	**562,878**

57. Financial instruments

57.1. Carrying amounts of various classes and categories of financial instruments

The following tables show the carrying amounts of various classes and categories of financial instruments as at December 31st 2013 and December 31st 2012.

The Group presents the particular classes and categories of its financial instruments at carrying amounts (their fair values approximate their carrying amounts).

Classes and categories of financial assets	*Carrying amount Dec 31 2013*	*Carrying amount Dec 31 2012*
Assets at fair value through profit or loss	**15**	**53**
Investment fund units	–	–
Derivative instruments	15	53
Available-for-sale financial assets	**319**	**347**
Long-term shareholdings	319	347
Loans and receivables	**503,718**	**699,774**
Trade receivables	147,914	289,771
Other receivables	320,737	273,409
Loans advanced	–	–
Non-current deposits	905	1,444
Current deposits	892	6,367
Other non-current financial assets	31,407	118,283
Other current financial assets	1,863	10,500
Cash and cash equivalents	**54,720**	**68,743**
	558,772	**768,917**

Classes and categories of financial liabilities	*Carrying amount Dec 31 2013*	*Carrying amount Dec 31 2012*
Financial liabilities at fair value through profit or loss	–	–
Derivative instruments	–	–
Financial liabilities at amortised cost	**480,967**	**558,325**
Borrowings	256,816	291,987
Trade payables (including capital commitments)	224,151	266,338
Other financial liabilities		–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**2,343**	**1,571**
Liabilities under leases and lease agreements with a purchase option	2,343	1,571
	483,310	**559,896**

As at December 31st 2013 and December 31st 2012, the Group held the following financial instruments measured at fair value:

Dec 31 2013	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	**15**	–
Investment fund units	–	–	–
Derivative instruments	–	15	–
Available-for-sale financial assets	**319**	–	–
Long-term shareholdings	319	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivative instruments	–	–	–

Dec 31 2012	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	**53**	–
Investment fund units	–		–
Derivative instruments	–	53	–
Available-for-sale financial assets	**347**	–	–
Long-term shareholdings	347	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivative instruments	–	–	–

57.2. Items of income, expenses, gains and losses recognised in the consolidated income statement, by category of financial instruments

12 months ended Dec 31 2013 *Financial assets*	*Category in accordance with IAS 39*	*Interest income/(expense)*	*Foreign exchange gains/(losses)*	*Reversal/(recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Available-for-sale financial assets (non-current), including:	Available for sale	–	–	–	(28)	–	15	(13)
- shares	Available for sale	–	–	–	(28)	–	15	(13)
Other financial assets (non-current), including:	Receivables and loans	9,520	(25)	–	(88,899)	–	–	(79,394)
- receivables from related entities in company voluntary arrangement	Receivables and loans	9,192	–	–	(88,928)	–	–	(79,736)
- non-current loans	Receivables and loans	–	–	–	29	–	–	29
- non-current deposits	Receivables and loans	328	(25)	–	–	–	–	303
Other financial assets (current), including:		3	–	(10,500)	(5,277)	–	–	(15,774)
- current deposits	Receivables and loans	3	–	–	–	–	–	3
- certificates of deposit	At fair value through profit or loss	–	–	–	–	–	–	–
- receivables from related entities in company voluntary arrangement	At fair value through profit or loss	–	–		(5,277)	–	–	(5,277)
- advance payment to acquire the right to a loan	At fair value through profit or loss	–	–	(10,500)	–	–	–	(10,500)
Trade and other receivables	Receivables and loans	6,639	(826)	(13,233)	(374)	–	–	1,398
Financial derivatives, including:	At fair value through profit or loss	–	–	–	178	460	–	638
- currency forwards	At fair value through profit or loss	–	–	–	178	460	–	638
Cash and cash equivalents	Receivables and loans	644	137	–	–	–	–	781
Total		**16,806**	**(714)**	**(23,733)**	**(94,400)**	**460**	**15**	**(101,566)**

12 months ended Dec 31 2013	*Category in accordance with IAS 39*	*Interest income/(expense)*	*Foreign exchange gains/(losses)*	*Reversal/(recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(13,237)	–	–	(29)	–	(1,513)	(14,779)
- non-current, bearing interest at variable rates	Other financial liabilities at amortised cost	(129)	–	–	(29)	–	–	(158)
- overdraft facilities, bearing interest at variable rates	Other financial liabilities at amortised cost	(13,108)	–	–	–	–	(1,513)	(14,621)
- other current credit facilities bearing interest at variable rates	Other financial liabilities at amortised cost	–	–	–	–	–	–	–
Other financial liabilities, including:	Other financial liabilities at amortised cost	(148)	–	–	–	–	–	(148)
- liabilities under finance leases and lease agreements with a purchase option	Other financial liabilities at amortised cost	(148)	–	–	–	–	–	(148)
Trade and other payables	Other financial liabilities at amortised cost	(881)	(952)	–	(429)	–	–	(2,262)
Hedging instruments – bank insurance		–	–	–	–	–	–	
Financial derivatives, including:	At fair value through profit or loss	–	–	–	(216)	–	–	(216)
- currency forwards	At fair value through profit or loss	–	–	–	(216)	–	–	(216)
Total		**(14,266)**	**(952)**	–	**(674)**	–	**(1,513)**	**(17,405)**

12 months ended Dec 31 2012 *Financial assets*	*Category in accordance with IAS 39*	*Interest income/(expense)*	*Foreign exchange gains/(losses)*	*Reversal/(recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Available-for-sale financial assets (non-current), including:	Available for sale	–	–	(144)	–	–	23	(121)
- shares	Available for sale	–	–	(144)	–	–	23	(121)
Other financial assets (non-current), including:	Receivables and loans	412	(827)	–	(1)	–	–	(416)
- non-current deposits	Receivables and loans	383	(817)	–	–	–	–	(434)
- non-current loans		29	(10)	–	(1)	–	–	18
Other financial assets (current), including:		197	–	–	506	125	–	828
- current deposits	Receivables and loans	197	–	–	–	–	–	197
- certificates of deposit	At fair value through profit or loss	–	–	–	–	–	–	–
- participation units in TFI Allianz	At fair value through profit or loss	–	–	–	506	125	–	631
- participation units in TFI KBC	At fair value through profit or loss	–	–	–	–	–	–	–
Trade and other receivables	Receivables and loans	13,658	(9,938)	5,951	70	–	–	9,741
Financial derivatives, including:	At fair value through profit or loss	–	–	–	6,049	(1,644)	–	4,405
- currency forwards	At fair value through profit or loss	–	–	–	6,049	(1,644)	–	4,405
Cash and cash equivalents	Receivables and loans	2,035	(297)	–	–	–	–	1,738
Total		**16,302**	**(11,062)**	**5,807**	**6,624**	**(1,519)**	**23**	**16,175**

12 months ended Dec 31 2012	*Category in accordance with IAS 39*	*Interest income/(expense)*	*Foreign exchange gains/(losses)*	*Reversal/(recognition) of impairment losses*	*Gains/(losses) on remeasurement*	*Gains/(losses) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing borrowings, including:	Other financial liabilities at amortised cost	(14,561)	–	–	–	–	(687)	(15,248)
- overdraft facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(14,498)	–	–	–	–	(687)	(15,185)
- other current credit facilities bearing interest at variable rates	Other financial liabilities at amortised cost	(63)	–	–	–	–	–	(63)
Other financial liabilities, including:	Other financial liabilities at amortised cost	(1,375)	–	–	–	–	–	(1,375)
- liabilities under finance leases and lease agreements with a purchase option	Other financial liabilities at amortised cost	(1,375)	–	–	–	–	–	(1,375)
Trade and other payables	Other financial liabilities at amortised cost	(1,288)	1,935	–	(1,859)	–	–	(1,212)
Hedging instruments – bank insurance		–	–	–	–	–	–	–
Financial derivatives, including:	At fair value through profit or loss	–	–	–	(353)	(86)	–	(439)
- currency forwards	At fair value through profit or loss	–	–	–	(353)	(86)	–	(439)
Total		**(17,224)**	**1,935**	–	**(2,212)**	**(86)**	**(687)**	**(18,274)**

57.3. Interest rate risk

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

Dec 31 2013

Fixed interest	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Non-current deposits	–	888	17	–	–	–	905
Current deposits	892	–	–	–	–	–	892

Variable interest	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	54,720	–	–	–	–	–	54,720
Liabilities under finance leases and lease agreements with a purchase option	173	222	1,948	–	–	–	2,343
Bank overdrafts	256,816	–	–	–	–	–	256,816

Dec 31 2012

Fixed interest	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Non-current deposits	–	1,444	–	–	–	–	1,444
Current deposits	6,367	–	–	–	–	–	6,367

Variable interest	*<1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash and cash equivalents	68,743	–	–	–	–	–	68,743
Liabilities under finance leases and lease agreements with a purchase option	147	174	19	–	1,231	–	1,571
Bank overdrafts	291,987	–	–	–	–	–	291,987

Interest on financial instruments earning interest at variable rates is updated in periods of less than one year. Interest on financial instruments earning interest at fixed rates remains unchanged until the maturity of the instruments. Other financial instruments held by the Group, not included in the above tables, earn no interest and are therefore not exposed to the interest rate risk.

58. Employment

In January-December 2013, the average headcount within the Group was 2,373.

For a detailed description of changes to the employment structure, see Section 12 in Directors' Report on the Operations of the RAFAKO Group in 2013.

59. Events after the reporting date

Except for the events described in these consolidated financial statements, there were no significant events that should have been recognised or disclosed in these consolidated financial statements.

On January 30th 2014, the Company received PLN 125.5m from PGE Górnictwo i Energetyka Konwencjonalna Elektrownia Opole S.A. as refund of security deposits.

On January 29th 2014, RAFAKO S.A. received from PGE Górnictwo i Energetyka Konwencjonalna Elektrownia Opole S.A. an advance of PLN 317.2m, which was transferred by RAFAKO S.A. to Alstom Group companies under the relevant subcontractor agreement.

On January 31st 2014, the consortium of RAFAKO S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. received from PGE Górnictwo i Energetyka Konwencjonalna S.A. a notice to proceed with construction concerning the Opole project.

On February 27th 2014, RAFAKO S.A. submitted to TAURON Wytwarzanie S.A. a notice of extension until April 30th 2014 of the validity period of the bid placed by the consortium in the tender for 'Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800-910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: steam generator, turbine generator set, main building, electrical and I&C systems,' and presented an annex to the bid bond extending its validity until April 30th 2014.

On February 3rd 2014, RAFAKO S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw executed an annex to the credit facility agreement. In accordance with the Annex, the amount of overdraft granted under the credit facility agreement to finance the Company's day-to-day operations currently amounts to PLN 240,000,000. The other terms and conditions of the credit facility agreement were not materially amended under the annex.

On March 4th 2014, RAFAKO S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw executed an annex to the credit facility agreement. In accordance with the Annex, the amount of overdraft granted under the credit facility agreement to finance the Company's day-to-day operations currently amounts to PLN 180,000,000. The other terms and conditions of the credit facility agreement were not amended under the Annex.

On February 13th 2014, subsidiary RAFAKO Construction Sp. z o.o. was incorporated by virtue of a Notary Deed. Its share capital amounts to PLN 5,000 and is divided into 100 shares with a par value of PLN 50 per share. Shares in the new subsidiary were taken up for cash contributions by RAFAKO Engineering Sp. z o.o. (99 shares) and E001RK Sp. z o.o. (1 share). The subsidiary's core business comprises construction site preparation, dismantling and demolition of buildings as well as digging, drilling and boring for geological and engineering purposes.

The Extraordinary General Meeting of RAFAKO S.A. of February 12th 2014 approved the establishment of a registered pledge over a set of movables and rights comprising the entire business of RAFAKO S.A. for the benefit of PKO BP S.A. as security for an an overdraft facility.

On February 25th 2014, RAFAKO S.A. issued a current report announcing an Extraordinary General Meeting convened for March 24th 2014 in order to pass a resolution amending the Company's Articles of Association to authorise its Management Board to increase the share capital within the authorised capital limit and to decide on disapplication of pre-emptive rights.

On February 28th 2014, the Company received EUR 20.5m from Alstom Group companies following the arrangement between the parties, discussed in detail in Note 42 to these consolidated financial statements.

These consolidated financial statements of the RAFAKO Group were authorised for issue on March 21st 2014 by virtue of Resolution No. 27 of the RAFAKO S.A. Management Board dated March 21st 2014.

Signatures:

March 21st 2014	Paweł Mortas	President of the Management Board	....
March 21st 2014	Krzysztof Burek	Vice-President of the Management Board	....
March 21st 2014	Jarosław Dusiło	Vice-President of the Management Board	....
March 21st 2014	Edward Kasprzak	Member of the Management Board	....
March 21st 2014	Maciej Modrowski	Member of the Management Board	....
March 21st 2014	Jolanta Markowicz	Chief Accountant	....