RAFAKO S.A.

THE PBG GROUP

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

with the auditor's opinion

COPY NO. 1

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(in PLN thousand)

Statement of comprehensive income

for the 12-month period ended 31 December 2013

	Note	12-month period ended 31 December 2013	12-month period ended 31 December 2012
Continuing operations			
Sales revenue		**739 588**	**1 078 589**
Sale of products and services	15.1	736 570	1 074 811
Sale of materials	15.2	3 018	3 778
Cost of sales	15.4	(700 564)	(925 938)
Gross profit/(loss)		**39 024**	**152 651**
Other operating income	15.7	3 642	11 738
Selling and distribution expenses	15.4	(38 202)	(21 062)
Administrative expenses	15.4	(32 404)	(33 809)
Other operating expenses	15.8	(3 331)	(3 208)
Operating profit/(loss)		**(31 271)**	**106 310**
Finance income	15.9	15 283	14 724
Finance costs	15.10	(31 838)	(29 910)
Result on the loss of control of a subsidiary	46	–	(67 756)
Effect of changes in estimates on measurement of receivables from related parties under arrangement proceedings	46	(94 205)	–
Profit before tax / (Pre-tax loss)		**(142 031)**	**23 368**
Income tax expense	16	2 250	(16 231)
Net profit/(loss) from continuing operations		**(139 781)**	**7 137**
Other comprehensive income for the period			
Items to be reclassified to profit / (loss) in subsequent reporting periods			
Exchange differences on translation of a foreign entity	15.11	(328)	(98)
Other comprehensive income to be reclassified to profit / (loss) in subsequent reporting periods		**(328)**	**(98)**
Items not subject to reclassification to profit / (loss) in subsequent reporting periods			
Other comprehensive income arising from actuarial gains/(losses)	15.11	(537)	–
Income tax on other comprehensive income	15.11	102	–
Other comprehensive income not subject to reclassification to profit / (loss) in subsequent reporting periods		**(435)**	–
Total comprehensive income for the period		**(140 544)**	**7 039**
Weighted average number of shares	19	69 600 000	69 600 000
Basic earnings per share in PLN	19	(2.01)	0.10

Racibórz, 21 March 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

(in PLN thousand)

Statement of financial position

As at 31 December 2013

	Note	31 December 2013	31 December 2012
ASSETS			
Non-current (long-term) assets			
Property, plant and equipment	22	143 270	148 007
Investment properties		–	–
Intangible assets	26	7 356	8 883
Long-term trade receivables, other receivables and prepayments	29	3 786	31
Trade receivables		2 877	31
Other receivables and prepayments		909	–
Long-term financial assets		91 952	178 816
Shares in subsidiaries	28	60 216	59 705
Shares in other entities	28	338	366
Long-term loans granted	30, 33.4	–	471
Other long-term financial assets	30	31 398	118 274
Deferred tax asset	16.3	44 376	32 587
		290 740	**368 324**
Current (short-term) assets			
Inventories	31	19 874	22 587
Short-term trade receivables, other receivables and prepayments		510 890	649 708
Trade receivables	32	138 671	283 129
Corporate income tax receivable		12 636	21 326
Other receivables and prepayments	32	359 583	345 253
Receivables from valuation of construction contracts and related prepayments	14	160 758	151 416
Short-term financial assets		26 045	49 954
Derivative instruments	33.1	–	53
Short-term deposits	33.3	–	–
Other short-term financial assets	33.5	1 863	14 500
Cash and cash equivalents	33.6	24 182	35 401
Other short-term non-financial assets	34	–	5 676
		717 567	**879 341**
Non-current assets held for sale	24	44	34
TOTAL ASSETS		**1 008 351**	**1 247 699**

Racibórz, 21 March 2014

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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

(in PLN thousand)

Statement of financial position - continued

As at 31 December 2013

	Note	*31 December 2013*	*31 December 2012*
EQUITY AND LIABILITIES			
Equity			
Issued capital	35.1	139 200	139 200
Share premium	35.4	36 778	36 778
Reserve capital	35.5	220 982	213 845
Exchange differences on translation of a foreign entity	35.6	204	532
Retained earnings / Accumulated losses	35.7	(140 216)	7 137
		256 948	**397 492**
Non-current liabilities			
Interest-bearing loans and borrowings	37	–	–
Finance lease liabilities	42	222	64
Deferred tax liability	16.3	–	–
Provision for employee benefits	38	21 266	21 472
Long-term trade and other payables		16 848	29 465
Trade payables	39.1	13 676	17 443
Capital commitments	39.1	128	128
Other liabilities	39.1	3 044	11 894
		38 336	**51 001**
Current liabilities			
Short-term trade and other payables		256 733	273 122
Trade payables	39.2	202 754	236 235
Capital commitments	39.2	302	3 729
Income tax payable	39.9	–	–
Other liabilities	39.2	53 677	33 158
Current portion of interest-bearing loans and borrowings	37	258 869	291 987
Other financial liabilities and finance lease liabilities	39.2, 42	143	111
Provision for employee benefits	38	1 542	1 895
Liabilities, provisions and deferred income relating to valuation of construction contracts		195 780	232 091
Liabilities arising from valuation of construction contracts	14	109 337	135 274
Provisions for valuation of construction contracts	14	85 896	96 333
Grants	40	547	484
		713 067	**799 206**
Total liabilities		**751 403**	**850 207**
TOTAL EQUITY AND LIABILITES		**1 008 351**	**1 247 699**

Racibórz, 21 March 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

(in PLN thousand)

Cash flow statement
for the 12-month period ended 31 December 2013

	Note	*12-month period ended 31 December 2013*	*12-month period ended 31 December 2012*
Cash flows from operating activities			
Profit before tax /(Pre-tax loss)		(142 031)	23 368
Adjustments for:		181 607	(370 326)
Depreciation and amortization	15.5	10 243	10 517
(Gain)/loss on foreign exchange differences		(35)	(1)
Interest and dividends, net		5 579	4 311
(Gain)/loss on investing activities	20	16 131	14 447
Increase/ (decrease) in financial liabilities/financial assets from valuation of derivatives		53	(5 696)
Loss of control of a subsidiary	46	–	67 756
Effect of changes in estimates on measurement of receivables from related parties under arrangement proceedings	46, 30, 33.5	94 205	–
(Increase)/ decrease in receivables	20	124 367	(325 516)
(Increase)/ decrease in inventories		2 713	4 295
Increase/ (decrease) in payables and provisions for employee benefits excluding loans and borrowings	20	(24 701)	64 549
Change in prepayments and accruals for construction contracts	20	(45 716)	(161 662)
Income tax paid		(716)	(42 892)
Other		(516)	(434)
Net cash generated from / (used in) operating activities		**39 576**	**(346 958)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		130	364
Purchase of property, plant and equipment and intangible assets	20	(7 024)	(25 534)
Sale of financial assets		–	22 773
Purchase of financial assets		–	(602)
Share capital increase in the subsidiary		–	(17 201)
Acquisition of a subsidiary		(11)	–
Dividends and interest received		23	507
Loans granted		–	(32 000)
Repayment of loans granted		–	135
Other		–	(20 176)
Net cash used in investing activities		**(6 882)**	**(71 734)**
Cash flows from financing activities			
Payment of finance lease liabilities		(259)	(94)
Proceeds from loans	20	16 064	291 063
Repayment of loans	20	(44 879)	–
Interest paid	20	(13 374)	(10 851)
Bank fees		(1 723)	–
Other		586	672
Net cash generated from / (used in) financing activities		**(43 585)**	**280 790**
Net increase/(decrease) in cash and cash equivalents		(10 891)	(137 902)
Net foreign exchange difference		(328)	(98)
Cash and cash equivalents at the beginning of the period	33.6	**35 401**	**173 401**
Cash and cash equivalents at the end of the period, of which:	33.6	**24 182**	**35 401**
- restricted cash	33.6	1 018	872

Racibórz, 21 March 2014

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(in PLN thousand)

Statement of changes in equity

for the 12-month period ended 31 December 2013

	Issued capital	*Share premium*	*Reserve capital*	*Exchange differences on translation of a foreign entity*	*Retained earnings/ Accumulated losses*	*Total*
As at 1 January 2013	**139 200**	**36 778**	**213 845**	**532**	**7 137**	**397 492**
Total comprehensive income for the period	–	–	–	(328)	(140 216)	(140 544)
Appropriation of prior year profits	–	–	7 137	–	(7 137)	–
Dividend	–	–	–	–	–	–
As at 31 December 2013	**139 200**	**36 778**	**220 982**	**204**	**(140 216)**	**256 948**
As at 1 January 2012	**139 200**	**36 778**	**158 654**	**630**	**55 191**	**390 453**
Total comprehensive income for the period	–	–	–	(98)	7 137	7 039
Appropriation of prior year profits	–	–	55 191	–	(55 191)	–
Dividend	–	–	–	–	–	–
As at 31 December 2012	**139 200**	**36 778**	**213 845**	**532**	**7 137**	**397 492**

Racibórz, 21 March 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

EXPLANATORY NOTES

1. General information

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

The duration of the Company is unlimited.

The Company's financial statements cover the year ended 31 December 2013 and include comparative data for the year ended 31 December 2012.

The Company'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
- Production of metal structures and parts thereof
- Other specialized construction work, not classified elsewhere
- Production of industrial cooling and ventilation equipment
- Production of other metal reservoirs, tanks and containers
- Mechanical treatment of metal parts
- Metalworking and coating
- Production of machinery for metalworking
- Repair and maintenance of machinery
- Activities in the field of architecture
- Activities in the field of engineering and the related technical advice
- Production of ovens, furnaces and oven burners
- Wholesale sales of other machinery and equipment
- Wholesale sales of metals and ore minerals
- Production of other general-purpose machinery, not classified elsewhere
- 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 sales of metal goods and hydraulic and heating plant and additional equipment
- Rental and management of freehold or leasehold property
- Other technical research and analyses
- Other non-school forms of education, not classified elsewhere
- Sewage disposal and treatment
- Hotels and similar accommodation facilities
- Tourist lodging and short-term accommodation facilities
- Restaurants and other permanent catering places
- 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 classified elsewhere
- 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
- Specialized 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 classified elsewhere
- Repair and maintenance of computers and peripheral equipment
- Operation of sports facilities
- Other sporting activities
- Other business and management consultancy activities

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

2. Identification of consolidated financial statements

The Company also prepares consolidated financial statements of the RAFAKO Capital Group for the year ended 31 December 2013, which were authorized for issue on 21 March 2014.

(in PLN thousand)

3. Composition of the Management Board and Supervisory Board

In the 12-month period ended 31 December 2013, the following changes took place in the composition of the Company's Management Board.

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

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

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

In the 12-month period ended 31 December 2013, the following changes took place in the composition of the Company's Supervisory Board.

On 21 June 2013, the Ordinary General Meeting of RAFAKO S.A. determined the number of Supervisory Board members to be 7, 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

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

Agenor Gawrzyał	- Chairman of the Supervisory Board
Jerzy Wiśniewski	- Vice Chairman of the Supervisory Board
Piotr Wawrzynowicz	- Secretary of the Supervisory Board
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 financial statements for the year ended 31 December 2012 were authorized by the Company's Management Board on 21 March 2014.

(in PLN thousand)

5. Company's investments

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

Name of entity and registered office	*Principal business activities*	*Percentage share of the Company in the capital*	
		31 December 2013	*31 December 2012*
FPM S.A. Mikołów	Production of ovens, furnaces and oven burners	82.19%	82.19%
PALSERWIS Sp. z o.o.* Mikołów	Production of ovens, furnaces and oven burners	82.19%	82.19%
PGL – DOM Sp. z o.o. Racibórz	Operation of real estate on one's own account	100%	100%
RAFAKO ENGINEERING Sp. z o.o. Racibórz	Activities relating to construction, urban and technological design	100%	100%
ENERGOTECHNIKA ENGINEERING Sp. z o.o.** Gliwice	Activities relating to construction, urban, technological design and engineering consultancy	100%	100%
RAFAKO ENGINEERING SOLUTION doo Belgrade	Activities relating to technological design, including consulting and supervisory services for construction, industry and environmental protection sectors	77%	77%
RAFAKO Hungary Kft. Budapest	Assembly of equipment in the power and chemical industry	100%	100%
E001RK Sp. z o.o. Racibórz	Implementation of building projects and projects related to construction of roads and highways, railways and subway, bridges and tunnels, engineering activities, technological and scientific advisory activities, production, repair and maintenance of machinery and equipment, generation, transmission of and trading in electricity.	100%	–
E003B7 Sp. z o.o. Racibórz	Implementation of building projects, construction, engineering and technological design and advisory activities	100%	–

* 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.

As at 31 December 2013, the Group's share in the total number of votes held in the subsidiaries was equal to the Group's stake in the capital of these entities except for the subsidiary ENERGOTECHNIKA ENGINEERING Sp. z o.o., in which RAFAKO Engineering Sp. z o.o. holds 34% of preference shares in the company's share capital (accounting for 50.5% of the total vote), while PGL - DOM Sp. z o.o. holds 66% of shares in the company's share capital, which accounts for 49.5% of the total vote.

As at 31 December 2012, the share in the total number of votes held by the Group in the subsidiaries was equal to its share in the capital of these entities.

6. Basis of preparation of the financial statements

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

These financial statements have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the balance sheet date i.e. 31 December 2013.

The key issue for the Company's ability to continue as a going concern is financial liquidity i.e. securing sufficient funding for contracts performed. Due to the above, the Company's Management Board prepared financial projections for 2014 and subsequent years based on a number of assumptions, the most important of which relate to assuring long-term funding of the Company's operations in the form of a bank loan (in accordance with the annex of 20 December 2013, the deadline for the repayment of the Company's loan was extended until 31 March 2014) and access to bank/insurance guarantees that will enable realization of new contracts and allow for the release of cash frozen as deposits to guarantee performance of the contracts that are already being performed.

The key risks of the developed financial projections are linked to the aforementioned assumptions. Possible realization of these risks/uncertainties along with overdue trade payables and the need to engage significant amounts of cash as security for contract guarantees (at the balance sheet date, the value of deposits placed as security for guarantees amounted to PLN 110 million excluding the deposit relating to the Opole project, which was returned by the client after the balance sheet date) gives rise to significant uncertainty around the Company's ability to continue as a going concern.

For these reasons, for over a year the Company's Management Board has been engaged in negotiations with the Company's bank to extend the credit limit for subsequent years at a similar level to that of the current debt and to obtain appropriate limits to guarantee performance of contracts without the required cash engagement. Over the last year the Company reduced its debt towards the bank from approx. PLN 300 million to approx. PLN 180 million at the date of these financial statements, significantly reduced the amount of overdue trade payables, secured a significant part of budgeted revenues and granted an appropriate security for the loan from the financing bank in accordance with the bank's expectations. All of these steps clearly indicate an improvement of the Company's financial position, which should have an impact on the assessment of the related risk by the institutions financing the Company's operations. In addition, the aforementioned bank is closely involved in the process of launching the project related to construction of a power unit in Jaworzno, and thus it is aware of the current, improved financial position of the Company and the key factors affecting its projected financial position. As a result, the Management Board believes that its negotiations with the bank will result in a change of the structure and maturity of the bank loan held by the Company so as to enable the Company to conduct operations in accordance with the assumptions adopted in financial projections. In addition, the Management Board believes that its negotiations concerning the Jaworzno project will end with a success, resulting in the release of cash allowing use of guarantees that will enable the release of the remaining cash frozen as deposits and secure performance of new contracts.

To conclude, the key factors affecting the success of the activities undertaken by the Management Board include an extension of the deadline for the repayment of the Company's loan and securing access to bank/insurance guarantees to enable acquisition of new and performance of the existing contracts.

Considering the risks as discussed above, including the Company's current financial position, which has improved compared with the previous reporting periods, as well as the status of negotiations with the Company's bank, the Management Board believes in the success of the activities undertaken, in particular its negotiations with the bank, and, consequently, it has prepared the accompanying financial statements on a going concern basis.

7. Significant judgments and estimates

7.1. Professional judgment

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

Classification of leases where the Company is the lessee

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

Identification of embedded derivatives

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

Syndicated agreements

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

7.2. Uncertainty of estimates

Estimates relating to the following items had a critical impact on the net result for the 12-month period ended 31 December 2013 and the values of assets and liabilities as at 31 December 2013:

- the level of budgeted construction contract revenue and costs providing the basis for valuation of contracts in progress in accordance with IAS 11,
- estimated amount of contractual penalties for late performance of contracts,
- estimated amount of provisions for employee benefits (the Company incurs costs of jubilee bonuses and post-employment benefits),
- impairment of assets, including financial assets (e.g. receivables under arbitration and arrangement proceedings),
- applied depreciation rates,
- realization 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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Impairment of assets

At the end of the reporting period, the Company conducts a test for impairment of goodwill and an analysis of the impairment of property, plant and equipment and intangible assets with defined useful lives for which indications of impairment have been identified. This requires an estimation of the value in use of the cash-generating unit to which these assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. The Company made an assessment of whether there are any indications of impairment of assets. The analysis showed that during the 12-month period ended 31 December 2013 there were no such indications.

The amounts of impairment write-downs at the end of the reporting period are presented in Notes 22, 32.1, 33.5 and 46 to these financial statements.

Depreciation and amortization rates

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

Deferred tax asset

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

Provision for expected losses on contracts

At the end of each reporting period the Company makes a remeasurement of total estimated revenues and costs from construction contracts accounted for using the percentage of completion method. Any expected loss on the contract is recognized by the Company as an expense in accordance with IFRS. The details of accounting for construction contract revenue and expenses for the year under review are presented in Notes 11.24.6 and 14 to these financial statements.

Provision for costs arising from late performance of contracts

The Company recognizes a provision for contractual penalties arising from late performance of contracts if the probability of being charged for the delay in the performance of the contract is significant and the delay is due to the fault of the Company acting as contractor. The amount of the provision arises from the contractual penalty to be charged for a given period of delay as provided for in the given contract. The details of provisions estimated in this manner are presented in Note 14 of Explanatory notes to the financial statements.

Allowances for financial assets

At the end of the reporting period, the Company makes an assessment of whether there is any objective evidence of impairment of an individual receivable or a group of financial assets. Where the recoverable amount of the asset is less than its carrying amount, the entity recognizes an allowance to bring down the carrying amount to the present value of the expected cash flows. In particular, the issue of fair value/ recoverable amount of receivables from related parties in the process of bankruptcy is discussed in detail in Note 46.

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

As a result of the loss of control of a subsidiary as discussed in detail in Note 46, the Company recognized, in the statement of financial position for the year 2012, a receivable which was initially recognized at fair value i.e. the present value of the expected inflows. This valuation was performed based on a set of assumptions, such as the estimated discounting period, estimated amount of the inflow, estimated discount rate. Given the uncertainty as to the Company's ability to claim a refund of the price paid for the shares of ENERGOMONTAŻ - POŁUDNIE S.A., the estimation of the parameters for measurement of the receivable in question, in particular at its initial recognition, was difficult and subject to uncertainty around the realization of these estimates.

Valuation of receivables from related parties under arrangement proceedings

In light of the bankruptcy process of the Company's affiliate by way of an arrangement with creditors, as discussed in detail in Note 46, as well as current arrangement proposals which have not yet been approved at the date of the issue of these financial statements, the Company's Management Board remeasured the related receivable as discussed in the subsection called "*Recognition of a financial asset (receivable) as a result of loss of control over a subsidiary*" 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 recognized) and the expected timing of the first inflow of cash from within the 5-year repayment period, assessed by the Management Board of RAFAKO S.A. as 31 December of 2014.

7.3. Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the IFRSs endorsed by the European Union ("EU IFRSs"). At the date of authorization of these financial statements for issue, in light of the ongoing process of IFRS endorsement in the European Union and the nature of the Company's activities, within the scope of the accounting policies applied by the Company there is a difference between the IFRSs that came into force and the IFRSs endorsed by the European Union. The Company has used the possibility of applying IFRS 10, IFRS 11, IFRS 12, amended IAS 27 and IAS 28 starting from annual periods beginning on 1 January 2014, as allowed for entities applying the IFRSs endorsed by the EU.

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

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

7.4. Functional currency and presentation currency

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

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

The accounting policies applied to these financial statements are consistent with those applied to the financial statements of the Company for the year ended 31 December 2012, except for the application of the following amendments to standards and new interpretations applicable to annual periods beginning on or after 1 January 2013:

- Amendments to IAS 19 *Employee Benefits* - applicable to annual periods beginning on or after 1 January 2013.

The amendments made to IAS 19 with regard to defined benefit plans concern, among others, the liquidation of the "corridor approach", the requirement to immediately recognize any changes in the plan assets/ liabilities as well as past service costs, the requirement to recognize actuarial gains and losses in other comprehensive income and the extension of the scope of disclosures. Amendments to IAS 19 also include amendments to the allocation of employee benefits to current and non-current.

The most important amendment to IAS 19 from the Group's perspective is the requirement to recognize actuarial gains and losses retrospectively in other comprehensive income.

The Company applied amendments to IAS 19 beginning from 1 January 2013. In these financial statements, the Company presented comparable data for the period ended 31 December 2012 as per the issued and authorized financial statements for that period. The effect of applying amendments to IAS 19 on comparable data is presented below.

The effect of the aforementioned amendment to IAS 19 on the comparable data for the 12-month period ended 31 December 2012 presented in these financial statements is reclassification of actuarial losses of PLN 2,386 thousand from the cost of sales (resulting in the decrease of the cost of sales) to other comprehensive income. As a result of such restatement, the Company's net profit for the 12-month period ended 31 December 2012 would increase by PLN 1,933 thousand; net other comprehensive income would decrease by the same amount. This issue has no impact on the statement of financial position as at 31 December 2012.

- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* - applicable to annual periods beginning on or after 1 July 2013.

The application of these amendments had no impact on the Company's financial position, the results of its operations or the scope of disclosures presented in its financial statements.

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

The application of these amendments had no impact on the Company's financial position, the results of its operations or the scope of disclosures presented in its financial statements.

- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 – in the EU, applicable to annual periods beginning on or after 1 January 2013 at the latest.

The application of these amendments had no impact on the Company's financial position, the results of its operations or the scope of disclosures presented in its financial statements.

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – in the EU, applicable to annual periods beginning on or after 1 January 2013 at the latest.

The amendments to IFRS 1 are not applicable to the Company.

- IFRS 13 Fair Value Measurement - applicable to annual periods beginning on or after 1 January 2013.

IFRS 13 introduces a single set of principles for determining the fair value of financial and non-financial assets and liabilities where such a measurement is required or allowed by IFRSs. IFRS 13 has no impact on when the Company is required to make fair value measurement. The provisions of IFRS 13 apply to both initial measurement as well as measurement after initial recognition. IFRS 13 requires new disclosures in the area measurement techniques (methods) and inputs in determining fair value as well as the impact of certain inputs on fair value measurement.

Considering the insignificant value of assets/liabilities measured at fair value in these financial statements, the application of IAS 13 had not significant impact on the financial position, results of operations or the scope of disclosures presented by the Company in these financial statements.

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - applicable to annual periods beginning on or after 1 January 2013.

This interpretation does not apply to the Company.

- Amendments to IFRS 7 *Financial Instruments*: *Disclosures: Offsetting Financial Assets and Financial Liabilities* - applicable to annual periods beginning on or after 1 January 2013.

These amendments introduce additional quantitative and qualitative disclosures for transfers of financial assets where:

  - financial assets are derecognized in their entirety but the enterprise maintains continuing involvement in such assets (e.g. through options or guarantees related to the assets transferred),
  - financial assets are not derecognized in their entirety.

The application of these amendments had no impact on the Company's financial position or the results of its operations.

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Government Loans* – applicable to annual periods beginning on or after 1 January 2013.

The amendments to IFRS 1 are not applicable to the Company.

- *Improvements to IFRSs* (issued in May 2012) – applicable to annual periods beginning on or after 1 January 2013.

IAS 1 - The amendment clarifies the difference between additional comparative data presented voluntarily and the minimum required comparative data,

IAS 16 – The amendment clarifies that major spare parts and service equipment which meet the definition of property, plant and equipment are not inventories,

IAS 32 - The amendment removes the existing requirements regarding recognition of taxes from IAS 32 and requires application of IAS 12 with respect to income taxes resulting from distributions to owners of financial instruments,

IAS 34 - The amendment clarifies IAS 34 requirements concerning disclosures on the aggregate value of assets and liabilities of each reporting segment in order to enhance consistency with the requirements of IFRS 8 *Operating Segments*. In accordance with the amendment, the aggregate value of assets and liabilities of a given reporting segment must 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 aforementioned amendments, except for the amendments to IAS 19 as discussed above, had no impact on the financial position, results of operations or the scope of disclosures presented by the Company in the financial statements.

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

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

- Phase 1 of IFRS 9 *Financial Instruments*: *Classification and Measurement* with subsequent amendments – the effective date was postponed by the IASB without any indication of the planned date of approval.
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company has decided to apply IFRSs to annual periods beginning on 1 January 2014.

- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company has decided to apply IFRSs to annual periods beginning on 1 January 2014.
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company has decided to apply IFRSs to annual periods beginning on 1 January 2014.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IAS 27 *Separate Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company has decided to apply the amendments to IAS to annual periods beginning on 1 January 2014.
- IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company has decided to apply the amendments to IAS to annual periods beginning on 1 January 2014.
- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014.
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (issued on 31 October 2012) – applicable to annual periods beginning on or after 1 January 2014.
- IFRIC 21 *Levies* – applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements.
- Amendments to IAS 36 *Recoverable Amounts Disclosures for Non-Financial Assets* (issued on 29 May 2013) – applicable to annual periods beginning on or after 1 January 2014.
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* (issued on 27 June 2013) – applicable to annual periods beginning on or after 1 January 2014.
- Amendments to IAS 19 *Defined benefit plans: Employee Contributions (issued on 21 November 2013)* – applicable to annual periods beginning on or after 1 July 2014 – not endorsed by the EU as at the date of authorization of these financial statements.
- *Annual Improvements to IFRSs 2010-2012 Cycle* – some of the amendments are applicable to annual periods beginning on or after 1 July 2014, and some are applicable prospectively to transactions made on or after 1 July 2014 – not endorsed by the EU as at the date of authorization of these financial statements.
- *Annual Improvements to IFRSs 2011-2013 Cycle* – applicable to annual periods beginning on or after 1 July 2014 – not endorsed by the EU as at the date of authorization of these financial statements.
- *IFRS 14 Regulatory Deferral Accounts* – applicable to annual periods beginning on or after 1 January 2016 – not endorsed by the EU as at the date of authorization of these financial statements.

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

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

10. Change in estimates

In the year ended 31 December 2013 and as at 31 December 2012, the Company reviewed and updated estimates in significant areas as discussed in Note 7.2.

11. Significant accounting policies

11.1. Fair value measurement

The Company measures financial instruments such as instruments available for sale and derivative instruments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The Company must have access to both the principal and the most advantageous market.

The fair value of an asset or liability is measured using the assumption that, when pricing the asset or liability, market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities which are measured at fair value or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy in the manner described below based on the lowest level of inputs that is material for fair value measurement taken as a whole:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 – Valuation techniques for which the lowest level of inputs that is material for fair value measurement taken as a whole is observable, either directly or indirectly,
- Level 3 – Valuation techniques for which the lowest level of inputs that is material for fair value measurement taken as a whole is unobservable.

At each balance sheet date, for assets and liabilities reported in the financial statements at the individual balance sheet dates, the Company determines if there were any transfers between the levels of the fair value hierarchy through reassessment of the classification to the particular levels, based on materiality of inputs from the lowest level that is material for fair value measurement taken as a whole.

The application of IFRS 13 had no impact on the financial position, results of operations or scope of disclosures in the Company's financial statements.

Summary of significant accounting policies concerning fair value measurement

The Management Board determines the principles and procedures to be used for both systematic (recurring) fair value measurements such as, for example, investment properties and unquoted financial assets, as well as non-recurring measurements such as, for example, assets held for sale in discontinued operations.

For the purposes of disclosure of the effects of fair value measurement, the Company determined classes of assets and liabilities based on the nature, characteristics and risks of the specific assets and liabilities and the level of the fair value hierarchy as discussed above.

(in PLN thousand)

11.2. Foreign currency translation

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

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

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

The following exchange rates were used for valuation purposes:

	31 December 2013	*31 December 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

11.3. Property, plant and equipment

Property, plant and equipment are fixed assets which:

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

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

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

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

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

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

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

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

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

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

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

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

11.4. Intangible assets

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

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

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

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

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

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

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

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

Research and development costs

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

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

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

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

11.5. Goodwill

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

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

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

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

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

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

11.6. Shares in subsidiaries, associates and jointly controlled entities

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

11.7. Leases

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

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

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

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

11.8. Impairment of non-financial long-term assets

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

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

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

11.9. Borrowing costs

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

11.10. Recoverable amount of long-term assets

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

11.11. Financial assets

Financial assets are classified into one of the following categories:

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss are measured at fair value taking into account their market value at the balance sheet date and excluding costs to sell. Changes in the values of these financial instruments are recognized in the statement of comprehensive income as finance income or finance costs. If a contract includes one or more embedded derivatives, the whole contract can be classified as a financial asset at fair value through profit and loss. This does not relate to cases where the embedded derivative has no significant impact on the contractual cash flows or is obvious without or only with superficial analysis that if a similar hybrid instrument were considered first, then separate recognition of the embedded derivative would be prohibited. Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment in the area of measurement or recognition (accounting mismatch), or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2013, the Company recognized shares in listed companies in the category of financial assets classified as at fair value through profit and loss.

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

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

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

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

11.12. Impairment of financial assets

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

11.12.1. Assets recognized at amortized cost

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

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

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

11.12.2. Financial assets carried at cost

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

11.12.3. Available-for-sale financial assets

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

11.13. Non-current assets held for sale

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

11.14. Derivative financial instruments and hedges

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

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

11.15. Inventories

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

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

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

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

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

11.16. Trade and other receivables

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

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

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

11.17. Cash and cash equivalents

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

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

11.18. Issued share capital

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

11.19. Provisions

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

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

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

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

11.20. Interest-bearing loans and borrowings

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

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

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

11.21. Trade and other payables

Current trade payables are carried at the amount due and payable.

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

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

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

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

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

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

11.22. Retirement benefits and jubilee bonuses

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

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

The Company recognizes such costs on an accrual basis.

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

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

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

11.23. Taxes

11.23.1. 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 Company in accordance with the provisions of the Corporate Income Tax Act, as well as a movement in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

11.23.1.1. 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 balance sheet date.

11.23.1.2. Deferred income tax

For financial reporting purposes, the Company recognizes 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 recognized for all taxable temporary differences:

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

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

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

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

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

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

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

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

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

11.23.2. Value added tax

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

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

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

11.24. Revenue

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

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

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

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

11.24.2. Rendering of services

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

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

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

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

11.24.3. Interest

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

11.24.4. Dividends

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

11.24.5. Rental income

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

11.24.6. Construction contracts

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

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

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

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

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

11.24.7. Government grants

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

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

11.25. Earnings per share

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

12. Operating segments

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

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

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

(in PLN thousand)

14. Construction contracts

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

The table below presents the effects of valuation of construction contracts, including revenues and costs of contracts being performed in the 12-month periods ended 31 December 2013 and 31 December 2012, as well as amounts due to the customers and amounts due from the customers for contract work at the dates stated above.

	31 December 2013	*31 December2012*
Contract costs incurred to date (cumulative)	2 106 443	3 737 891
Recognized profits less recognized losses to date (cumulative)	121 752	413 710
Contract revenue recognized by reference to the stage of completion of the contract activity (cumulative)	2 228 195	4 151 601
Progress billings (cumulative)	2 159 567	4 045 485
Gross amount due to customers for contract work (presented under liabilities), of which:	(109 337)	(135 274)
- advances received (liabilities arising from advances received)	(103 103)	(186 307)
- adjustment to advances received arising from amounts due from customers	83 993	94 268
- gross amount due to customers for contract work	(90 227)	(43 235)
Gross amount due from customers for contract work (presented as an asset)	160 758	151 416
Provision for penalties due to late performance of contracts or failure to meet guaranteed technical specifications	(50 192)	(64 584)
Provision for losses on contracts	(35 704)	(31 749)

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

In the second half of December 2011, the Company's Management Board was informed of a claim in the form of a call for payment of contractual penalties raised by a member of the consortium performing a contract for the supply of a boiler and flue gas desulfurization system for the 858 MW power unit in PGE Elektrownia Bełchatów S.A. A detailed description of the current status of the case and relevant disclosures are presented in Notes 32 and 45.

(in PLN thousand)

14.1. Provision for losses on construction contracts

The Company recognizes provisions for anticipated losses on contracts in accordance with the methodology described in Note 11.24.6. If analysis shows that the estimated total contract costs will exceed reliable contract revenues (i.e. the overall result on the contract will be a loss), then the entire loss on the contract is recognized in the given reporting period.

	31 December 2013	*31 December 2012*
Opening balance	31 749	21 781
Recognition of a provision for liability	25 191	30 620
Reversal/utilization of a provision for liability	(21 236)	(20 652)
Closing balance	**35 704**	**31 749**
Current as at	35 704	31 749
Non-current as at	–	–
	35 704	**31 749**

14.2. Provision for costs due to late performance of contracts

The Company recognizes a provision for contractual penalty if there is a significant probability that such a penalty will be charged for failure to meet technical specifications provided for in the contract and covered by a contractual penalty, or if the performance of a given contract has resulted in the 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.

	31 December 2013	*31 December 2012*
Opening balance	64 584	50 072
Recognition of a provision for liability	28 895	50 949
Reversal/utilization of a 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**

(in PLN thousand)

15. Revenues and expenses

15.1. Revenue from sale of products and services

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Net revenue from sale of goods	698 823	1 032 448
- of which: from related parties	12 569	6 000
Net revenue from sale of services	45 736	63 048
- of which: from related parties	69	170
Gain /(loss) on realization of derivatives	(34)	(288)
Gain /(loss) on valuation of derivatives	(53)	5 853
Contractual penalties	(7 477)	(21 134)
Realized exchange differences on trade receivables	(2 769)	(735)
Exchange differences on valuation of trade receivables	2 344	(4 381)
Net revenue from sale of products and services, total	**736 570**	**1 074 811**
- of which: from related parties	12 638	6 170

In the 12-month period ended 31 December 2013, the Company's revenue from sales of products and services amounted to PLN 736,570 thousand i.e. PLN 338,241 thousand less than in the corresponding 12-month period of 2012. The decline in the value of sales revenue in 2013 was mainly due to:

- lower amount of costs incurred under contracts in progress compared with 2012, which was mainly due to different stages of completion of contracts in progress for 2012 and 2013 as at 31 December of the respective years;
- a significantly lower weighted average margin on contracts performed in 2013 compared with the margin for 2012;
- delayed entry into force of the Opole contract for the construction of two power units and commencement of the Jaworzno contract for the construction of a power unit. The delays in the commencement of significant works under the aforementioned key contracts resulted in, among others, the Company's inability to use the anticipated internal and external production capacities, resulting in the inability to recognize sales calculated in proportion to the amount of costs incurred under the given contract.

As a result, the Company recorded a decrease in both domestic sales as well as sales to overseas clients. The expected increase in the value of RAFAKO S.A.'s contract portfolio in 2014, resulting from, among others, commencement of construction of power units in the Opole power plant and the expected commencement of construction of a power unit in the Jaworzno Power Plant will bring about an increase of sales revenue in 2014.

15.2. Revenue from sale of materials

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Revenue from sale of materials	3 018	3 778
- of which: from related parties	–	22
Net revenue from sale of goods and materials, total	**3 018**	**3 778**
- of which: from related parties	–	22

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

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

Sales by type of market are presented in section 3.1 of the Director's Report of RAFAKO S.A. for 2013.

(in PLN thousand)

15.3. Geographical structure of revenues

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Revenue from sales to domestic customers	522 280	644 130
- of which: from related parties	12 638	233
Revenue from sales to foreign customers	217 308	434 459
- of which: from related parties	–	5 959
Net sales revenue, total	**739 588**	**1 078 589**
- of which: from related parties	12 638	6 192

15.4. Cost of sales

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Depreciation/amortization	10 243	10 517
Materials and energy consumption	249 024	426 690
External services	339 457	427 502
Taxes and charges	7 107	5 618
Wages and salaries	111 890	120 051
Social security and other benefits	26 082	28 235
Business trip expenses	6 663	6 619
Advertising expenses	2 395	4 464
Gain /(loss) on valuation of derivatives	–	157
Gain /(loss) on realization of derivatives	–	–
Realized exchange differences	156	(1 870)
Unrealized exchange differences	785	(2 451)
Other	2 478	2 468
Costs by type, total	**756 280**	**1 028 000**
Change in inventories, provisions, prepayments and accruals (including adjustment resulting from IAS 11)	12 155	(46 167)
Cost of goods produced for internal purposes	(845)	(3 376)
Selling and distribution expenses (negative value)	(38 202)	(21 062)
Administrative expenses (negative value)	(32 404)	(33 809)
Cost of products sold	**696 984**	**923 586**
Cost of materials sold	3 580	2 352
Costs of sales	**700 564**	**925 938**

The cost of sales for the 12-month period of 2013 amounted to PLN 700,564 thousand and resulted in gross profit of PLN 39,024 thousand. The change in relation to 2012 was mainly due to:

- lower value of sales in 2013;
- lower gross operating margin on contracts performed in the first 12 months of 2013, including contracts performed with a negative margin, which had 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.

(in PLN thousand)

Selling and distribution expenses as presented by the Company mainly include expenses incurred by the cost centers allocated to selling and distribution expenses in the cost accounting model (a significant part of which consists of payroll costs and advertising expenses). In addition, they also include costs of preparing proposals and allowances for doubtful debts. Selling and distribution expenses of PLN 38,202 thousand recognized in comprehensive income for 2013 were affected by the following items:

- selling and distribution expenses excluding doubtful debt allowances of PLN 29,104 thousand (31 December 2012: PLN 35,297 thousand);
- doubtful debt allowance (recognition) of PLN 8,569 thousand (31 December 2012: PLN 15,106 thousand (reversal)).

The utilization/decrease of doubtful debt allowances in 2012 was mainly due to the final settlement of contracts with HPE in Germany based on the agreement under which an allowance of PLN 11,067 thousand was utilized and doubtful debt allowances of a total value of PLN 20,012 thousand were reversed. In addition, in 2012 the Company reversed an allowance for doubtful debts from HPE of PLN 1,038 thousand due to payment of overdue debts.

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

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Items included in cost of sales (cost of goods for resale and products sold)	8 797	9 095
Depreciation of property, plant and equipment	7 302	7 646
Amortization of intangible assets	1 495	1 449
Impairment of property, plant and equipment	–	–
Items recognized in selling and distribution expenses:	404	507
Depreciation of property, plant and equipment	328	308
Amortization of intangible assets	76	199
Items recognized in administrative expenses:	1 042	915
Depreciation of property, plant and equipment	913	783
Amortization of intangible assets	129	132
Total value of depreciation and amortization	**10 243**	**10 517**

15.6. Employee benefit expenses

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Wages and salaries, of which:	111 890	120 051
- current wages and salaries expense	109 936	115 524
- other benefits, including post-employment benefits	1 954	4 527
Social security costs	26 082	28 235
	137 972	**148 286**

(in PLN thousand)

15.7. Other operating income

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Revenue from contractual penalties	605	4 974
Reversal of provision for amounts due to the state budget	–	3 237
Gain on sale of property, plant and equipment	56	81
Grants	514	433
Compensations received	1 313	964
Impairment of property, plant and equipment	55	–
Free-of-charge receipt of property, plant and equipment	98	–
Revenue from forgiven overdue liabilities	138	–
Revenue from sale of CO_2 emission allowances	–	329
Stock-take surpluses	–	267
Reimbursement of the cost of training of juvenile workers	471	817
Other	392	636
	3 642	**11 738**

15.8. Other operating expenses

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Donations	355	326
Cost of scrap property, plant and equipment	354	494
Costs of scrap materials	212	–
Repair of property, plant and equipment	177	–
Remuneration for invention proposals	–	896
Legal costs	343	289
Bailiff costs	579	–
"Power Engineer's Day" organization cost	380	418
Recognition of provisions for future costs	500	–
Other	431	785
	3 331	**3 208**

15.9. Finance income

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Interest on financial instruments	–	1 727
Interest on granted deposits	6 573	6 826
Other interest	17	13
Gains from valuation of financial instruments	42	650
Reversal of accruals for finance costs	–	952
Net foreign exchange gains	26	–
Discount of long-term settlements	8 583	4 490
Dividends	15	23
Other finance income	27	43
	15 283	**14 724**

(in PLN thousand)

15.10. Finance costs

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Net foreign exchange losses	–	3 643
Interest on financial instruments	13 352	11 833
Other interest	715	34
Bank commission on loans taken out	1 445	666
Acquisition costs	–	6
Costs arising from valuation of financial instruments	71	144
Recognition of an allowance for financial assets	10 500	13 426
Recognition of an impairment write-down against non-financial assets	5 676	–
Other finance costs	79	158
	31 838	**29 910**

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

15.11. Items of other comprehensive income

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Exchange differences on translation of a foreign entity	(328)	(98)
Other comprehensive income arising from actuarial gains / (losses)	(537)	–
Income tax related to other comprehensive income	102	–
	(763)	**(98)**

16. Income tax

16.1. Income tax expense

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

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Income statement		
Current income tax	(9 437)	(545)
Current income tax expense	(9 437)	(545)
Adjustments to current income tax from previous years		–
Deferred tax	11 687	(15 686)
Related to recognition and reversal of temporary differences	11 687	(15 686)
Adjustments to deferred tax from previous years		–
Income tax expense in the income statement	**2 250**	**(16 231)**
Deferred tax on other comprehensive income	102	–
Related to recognition and reversal of temporary differences	102	–
Income tax expense in the comprehensive income statement	**102**	–

(in PLN thousand)

16.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the 12-month period ended 31 December 2013 is as follows:

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Profit before tax from continued operations	(142 031)	23 368
	(142 031)	**23 368**
Tax at Poland's statutory tax rate of 19%	(26 986)	4 440
Non-tax-deductible costs (permanent differences), of which:	29 528	13 979
due to recognition of provision for contractual penalties	5 934	1 265
due to the write-off of receivables, classified as non-tax-deductible	953	183
due to donations given	67	62
due to representation costs	120	150
due to recognition of non-deductible provisions/accruals for costs	12	77
due to recognition of a doubtful debt allowance arising from loss of control of a subsidiary		9 434
due to valuation of receivables from related parties under arrangement proceedings	17 900	–
due to manufacturing costs relating to the foreign branch	110	238
due to recognition of a doubtful debt allowance for granted loans	3 423	1 886
other	1 009	684
Income not included in taxable profit (permanent differences)	(4 704)	(2 384)
from contractual penalties	(4 050)	(1 806)
from non-deductible VAT on receivables	(185)	(3)
other	(469)	(575)
Other	(88)	196
Tax at the effective tax rate of 1.58% (2012: 69.46%)	**(2 250)**	**16 231**
Income tax (expense) in the statement of comprehensive income	(2 250)	16 231
Income tax attributable to discontinued operations	–	–
	(2 250)	**16 231**

(in PLN thousand)

16.3. Deferred income tax calculated as at 31 December 2013

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

	Statement of financial position		*Statement of comprehensive income for the period ended*	
	31 December 2013	*31 December 2012*	*31 December 2013*	*31 December 2012*
- investment tax credits	(4)	(5)	1	1
- difference between tax base and carrying amount of property, plant and equipment and intangible assets	(13 142)	(12 296)	(846)	(1 109)
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	–	–	–	146
- difference between tax base and carrying amount of loans and receivables	7 922	6 118	1 804	(3 780)
- different timing of recognition of revenue from sale of products and services for tax purposes	(29 412)	(39 678)	10 266	(30 242)
- difference between tax base and carrying amount of inventories	1 207	1 284	(77)	130
- provisions	21 455	26 301	(4 846)	7 103
- difference between tax base and carrying amount of financial liabilities measured at amortized cost	182	187	(5)	187
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	–	(10)	10	(1 082)
- difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	23	33	(10)	(277)
- different timing of recognition of cost of sales for tax purposes	47 832	47 391	441	9 519
- tax loss	1 468	2 935	(1 467)	2 935
- adjustment to costs of unpaid invoices	9 464	–	9 464	–
- other	(2 619)	327	(2 946)	783
Deferred tax expense			**11 789**	**(15 686)**
Net deferred tax asset / liability, of which:	**44 376**	**32 587**		
Deferred tax asset	44 376	32 587		
Deferred tax liability	–	–		

The Company recorded a tax loss for the year ended 31 December 2012 amounting to PLN 15,446 thousand, of which PLN 7,721 thousand was utilized in 2013.

17. Discontinued operations

The Company did not discontinue any operations in the 12-month period ended 31 December 2013.

18. Proposed absorption of loss for 2013

The Company's Management Board recommends an absorption of the net loss for 2013 of PLN 139,781 thousand using the Company's reserve capital.

(in PLN thousand)

19. Earnings (loss) per share

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

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

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Net profit/(loss) from continued operations	(139 781)	7 137
Profit/(loss) from discontinued operations	–	–
Net profit/(loss)	(139 781)	7 137
Net profit/(loss) attributable to ordinary shareholders, used to compute earnings per share	**(139 781)**	**7 137**
Weighted average number of ordinary shares, used to calculate basic earnings/(loss) per share	69 600 000	69 600 000
Effect of dilution:	–	–
Stock options	–	–
Redeemable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share	69 600 000	69 600 000
Earnings /(loss) per share		
– basic, from profit/(loss) for the period	(2.01)	0.10

The Company does not present diluted earnings/loss per share for the 12-month period ended 31 December 2013 as it does not hold any dilutive financial instruments.

(in PLN thousand)

20. Significant items presented in the statement of cash flows

The PLN 124,367 thousand decrease in receivables presented in the statement of cash flows for the 12-month period ended 31 December 2013 resulted mainly from the following items:

– decrease in trade receivables	PLN 141,612 thousand,
– decrease in receivables from the state budget (including VAT)	PLN 18,728 thousand,
– increase in advances paid	PLN (1,741) thousand,
– increase in receivables from deposits	PLN (48,511) thousand,
– increase in receivables from the Social Fund	PLN (87) thousand,
– decrease in prepayments under bank and insurance guarantees	PLN 16,696 thousand,
– increase in receivables from sale of debts	PLN (667) thousand,
– decrease in other receivables	PLN (1,663) thousand.

A detailed description of movements in the value of deposits in 2013 is included in Note 32.

The PLN 24,701 thousand decrease in liabilities presented in the statement of cash flows was mainly due to the following items:

– decrease in trade payables	PLN (37,248) thousand,
– decrease in provisions for employee benefits (excluding actuarial gains/(losses))	PLN (1,096) thousand,
– decrease in provisions for warranty repairs	PLN (1,277) thousand,
– decrease in provisions for bonuses	PLN (5,286) thousand,
– increase in the accrual for costs of uninvoiced services and materials	PLN 15,754 thousand,
– decrease in accruals for unused leave	PLN (218) thousand,
– increase in other liabilities	PLN 4,670 thousand.

The PLN 45,716 thousand change in prepayments and accruals presented in the statement of cash flows was mainly due to the following items:

– increase in receivables from valuation of construction contracts and the related prepayments and accruals	PLN (9,342) thousand,
– decrease in liabilities from valuation of construction contracts, of which:	PLN (25,937) thousand,
decrease in advances	PLN (72,929) thousand,
– decrease in provisions for valuation of construction contracts	PLN (10,437) thousand.

The PLN 72,929 thousand change in advances for 2013 resulted mainly from:

- settlement of the advance received for the contract relating to the "Design, production, supply, assembly, start-up and transfer for use of complete unit E precipitator" for HITACHI POWER EUROPE GmbH in the Eemshaven Power Plant unit B, amounting to PLN 35,678 thousand;
- settlement of the advance received for the contract relating to the "Design, production, supply, assembly, start-up and transfer for use of complete unit A-1 precipitator" for HITACHI POWER EUROPE GmbH in the Eemshaven Power Plant unit B, amounting to PLN 21,558 thousand;
- settlement of the advance received for the contract relating to the "Design, production, supply, assembly, start-up and transfer for use of complete unit E precipitator" for HITACHI POWER EUROPE GmbH in the Westfallen Power Plant, amounting to PLN 11,244 thousand.

The Company included in the statement of cash flows a gain / loss on investing activities of PLN 16,131 thousand, which resulted mainly from recognition of an allowance for the advance paid in respect of acquisition of rights to a loan of PLN 10,500 thousand and the advance paid in respect of acquisition of shares in Bioelektrownia Szarley Sp. z o.o. of PLN 5,676 thousand, as presented in Notes 33.5 and 34.

The acquisition cost of property, plant and equipment and intangible assets, amounting to PLN 7,024 thousand, resulted from capital expenditures incurred for the purchase of property, plant and equipment of PLN 6,851 thousand and for the purchase of intangible assets of PLN 173 thousand. The expenditures incurred for the purchase of tangible fixed assets were mainly related to modernization of the Company's buildings and structures and purchase of machinery and equipment.

(in PLN thousand)

Proceeds from loans of PLN 16,064 thousand included in the statement of cash flows under financing activities resulted from:

- proceeds from loans taken out of PLN 7,200 thousand,
- utilization of the bank loan from PKO BP S.A. of PLN 8,864 thousand.

The repayment of loans of PLN 44,879 thousand included in the statement of cash flows under financing activities resulted from:

- the repayment of loans taken out of PLN 1,200 thousand,
- the repayment of the bank loan from PKO BP S.A. of PLN 43,679 thousand.

The value of cash from the Company's financing activities was also affected by interest paid on the bank loan from PKO BP S.A. amounting to PLN 13,374 thousand (31 December 2012: PLN 10,851 thousand).

21. Social assets and Social Fund liabilities

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

	31 December 2013	*31 December 2012*
Social Fund assets	3 008	2 386
Cash of the Social Fund	2 637	2 007
Loans granted to employees	371	379
Social Fund liability	(2 804)	(2 269)
Net balance	**204**	**117**

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Transfers made to the Social Fund during the reporting period	2 407	2 421
	2 407	**2 421**

(in PLN thousand)

22. Property, plant and equipment

31 December 2013	*Land*	*Buildings and structures*	*Plant and equipment*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Net carrying amount as at 1 January 2013	**9 172**	**78 420**	**48 707**	**3 141**	–	**8 567**	**148 007**
Purchase	98	–	–	–	–	3 778	3 876
Liquidation / sale	–	–	(63)	(48)	–	–	(111)
Transfers from assets under construction	–	7 079	3 292	952	–	(11 323)	–
Exchange differences on translation of foreign entities	–	–	(4)	–	–	–	(4)
Depreciation charge for the period	–	(2 468)	(5 562)	(513)	–	–	(8 543)
Impairment of property, plant and equipment for the period	–	–	3	52	–	–	55
Other, including reclassification to/from assets held for sale	–	–	(8)	(2)	–	–	(10)
Net carrying amount as at 31 December 2013	**9 270**	**83 031**	**46 365**	**3 582**	–	**1 022**	**143 270**
As at 1 January 2013							
Cost	9 172	96 562	97 999	6 251	2 721	8 567	221 272
Accumulated depreciation and impairment loss	–	(18 142)	(49 292)	(3 110)	(2 721)	–	(73 265)
Net carrying amount	**9 172**	**78 420**	**48 707**	**3 141**	–	**8 567**	**148 007**
As at 31 December 2013							
Cost	9 270	102 079	98 989	7 268	2 538	1 022	221 166
Accumulated depreciation and impairment loss	–	(19 048)	(52 624)	(3 686)	(2 538)	–	(77 896)
Net carrying amount	**9 270**	**83 031**	**46 365**	**3 582**	–	**1 022**	**143 270**

(in PLN thousand)

31 December 2012	*Land*	*Buildings and structures*	*Plant and equipment*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Net carrying amount as at 1 January 2012	**9 169**	**69 541**	**44 201**	**3 572**	–	**7 084**	**133 567**
Purchase	7	–	–	–	–	23 545	23 552
Liquidation / sale	(4)	(49)	(320)	–	–	–	(373)
Transfers from assets under construction	–	11 661	10 339	62	–	(22 062)	–
Exchange differences on translation of foreign entities	–	–	(1)	–	–	–	(1)
Depreciation charge for the period	–	(2 733)	(5 483)	(522)	–	–	(8 738)
Impairment of property, plant and equipment for the period	–	–	–	–	–	–	–
Other, including reclassification to/from assets held for sale	–	–	(29)	29	–	–	–
Net carrying amount as at 31 December 2012	**9 172**	**78 420**	**48 707**	**3 141**	–	**8 567**	**148 007**
As at 1 January 2012							
Cost	9 169	84 951	88 010	6 160	2 721	7 084	198 095
Accumulated depreciation and impairment loss	–	(15 410)	(43 809)	(2 588)	(2 721)	–	(64 528)
Net carrying amount	**9 169**	**69 541**	**44 201**	**3 572**	–	**7 084**	**133 567**
As at 31 December 2012							
Cost	9 172	96 562	97 999	6 251	2 721	8 567	221 272
Accumulated depreciation and impairment loss	–	(18 142)	(49 292)	(3 110)	(2 721)	–	(73 265)
Net carrying amount	**9 172**	**78 420**	**48 707**	**3 141**	–	**8 567**	**148 007**

(in PLN thousand)

Description of fixed assets pledged as security

As at 31 December 2013, a mortgage of an aggregate amount of approx. PLN 300,000,000.00 was established on the real estate for which RAFAKO S.A. was the owner or perpetual usufructuary, excluding residential property, to secure an overdraft from PKO BP S.A.

As at 31 December 2012, none of the fixed assets owned by the Company and classified as property, plant and equipment was pledged to secure the Company's liabilities.

23. Leased assets

As at 31 December 2013, the Company held and made use of motor vehicles under a finance lease agreement with a total gross value of PLN 759 thousand as at the date of acquisition of the leased assets.

The useful life of these assets is consistent with the term of the lease agreements and is 36 - 48 months. The Company charges depreciation on these assets using the straight-line method.

As at 31 December 2012, the Company held and made use of a motor vehicle under a finance lease agreement with a total gross value of PLN 309 thousand as at the date of acquisition of the leased asset.

24. Non-current assets held for sale

As at 31 December 2013, the Company separated fixed assets with a value of PLN 44 thousand (as at 31 December 2012: PLN 34 thousand) and classified them as held for sale.

	31 December 2013	*31 December2012*
Non-current assets held for sale, of which:		
Land	–	–
Buildings and structures	–	–
Plant and equipment	42	34
Motor vehicles	2	–
	44	**34**

25. Investment properties

As at 31 December 2013 and 31 December 2012, the Company held no investment properties.

(in PLN thousand)

26. Intangible assets

31 December 2013	*Goodwill*	*Patents and licenses*	*Other intangible assets*	*Intangible assets under development*	*Total*
Net carrying amount as at 1 January 2013	**376**	**8 507**	–	–	**8 883**
Purchase	–	–	–	173	173
Liquidation / sale	–	–	–	–	–
Transfers from intangible assets under development	–	173	–	(173)	–
Impairment loss	–	–	–	–	–
Amortization charge for the period	–	(1 700)	–	–	(1 700)
Exchange differences on translation of a foreign entity	–	–	–	–	–
As at 31 December 2013	**376**	**6 980**	–	–	**7 356**
As at 1 January 2013					
Cost	376	19 903	108	1 698	22 085
Accumulated amortization and impairment loss	–	(11 396)	(108)	(1 698)	(13 202)
Net carrying amount	**376**	**8 507**	–	–	**8 883**
As at 31 December 2013					
Cost	376	20 076	108	173	20 733
Accumulated amortization and impairment loss	–	(13 096)	(108)	(173)	(13 377)
Net carrying amount	**376**	**6 980**	–	–	**7 356**

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

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

- license for supercritical boilers of the BENSON type, the carrying amount of which amounts to PLN 1,675 thousand as at 31 December 2013 (as at 31 December 2012: PLN 2,011 thousand); the remaining period of amortization of the license from 31 December 2013 is 5 years;
- license for catalytic denitrogenization of flue gas, the carrying amount of which amounts to PLN 1,066 thousand as at 31 December 2013 (as at 31 December 2012: PLN 1,242 thousand); the remaining period of amortization of the license from 31 December 2013 is 7 years;
- the Primavera 6 software, the carrying amount of which is PLN 1,114 thousand as at 31 December 2013 (as at 31 December 2012: PLN 1,247 thousand); the remaining period of amortization of the license from 31 December 2013 is 8 years.

Description of intangible assets pledged as security

No intangible assets were pledged to secure the Company's liabilities as at 31 December 2013 or 31 December 2012.

Intangible assets held for sale

There were no intangible assets held for sale as at 31 December 2013 or 31 December 2012.

Goodwill

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

Amortization of patents and licenses

In the 12-month periods ended 31 December 2013 and 31 December 2012, patents, licenses and computer software were amortized on a systematic basis over their useful lives of 2 to 10 years.

Development expenses

The Company did not incur any development expenses in the 12-month periods ended 31 December 2013 or 31 December 2012.

Business combinations

The Company did not merge with other business entities in the 12-month periods ended 31 December 2013 or 31 December 2012.

27. Interest in joint venture

The Company did not take part in any joint ventures with other business entities in the 12-month periods ended 31 December 2013 or 31 December 2012.

(in PLN thousand)

28. Shares in subsidiaries and other entities

	31 December2013	*31 December2012*
Shares in subsidiaries listed on the stock exchange	–	–
Shares in subsidiaries not listed on the stock exchange	60 216	59 705
Shares in other companies listed on the stock exchange	319	347
Shares in other companies not listed on the stock exchange	19	19
	60 554	**60 071**

None of the Company's shares in subsidiaries were pledged to secure the Company's liabilities as at 31 December 2013 or 31 December 2012.

In the 12-month period ended 31 December 2013, the Company recorded a change of PLN 511 thousand in the balance of shares held in listed subsidiaries, which was due to the following events:

- On 24 April 2013, the Extraordinary General Shareholders' Meeting of RAFAKO Engineering Sp. z o.o. resolved to increase the company's share capital by PLN 500,000.00 by way of creation of 1,000 new shares with a nominal value of PLN 500 each. Based on the declaration of acquisition of new shares in RAFAKO Engineering Sp. z o.o. dated 30 April 2013, the newly created 1,000 shares were acquired by RAFAKO S.A.;
- On 9 October 2013, E001RK Sp. z o.o. with its registered office in Racibórz, a subsidiary set up under the Deed of Association of 8 August 2013, was registered with the National Court Register. RAFAKO S.A. is the sole shareholder of the company and holds 100% of shares with a total value of PLN 5,000;
- On 22 November 2013, the subsidiary E003B7 Sp. z o.o. with its registered office in Racibórz, set up under the Deed of Association of 15 November 2013, was registered with the National Court Register. RAFAKO S.A. is the sole shareholder of the company and holds 100% of shares with a total value of PLN 5,000.

29. Trade receivables and other receivables and prepayments - long-term

	31 December 2013	*31 December 2012*
Trade receivables, of which:	2 877	31
Trade receivables from related parties	–	–
Trade receivables from other entities	2 877	31
Other receivables and prepayments, of which:	909	–
Prepaid bank and insurance guarantees	909	–
Total receivables (net)	**3 786**	**31**
Doubtful debts allowance	–	–
Receivables (gross)	**3 786**	**31**

In 2013, in the statement of financial position the Company has separately recognized an item called "Other long-term receivables and prepayments" amounting to PLN 909 thousand, which consists of long-term prepayments in respect of bank and insurance guarantees.

(in PLN thousand)

30. Other long-term financial assets

	31 December 2013	*31 December 2012*
Loans granted	–	471
Long-term deposits, of which:	–	–
- pledged as security for bank guarantees granted to the Company	–	–
Other long-term financial assets, of which:	31 398	118 274
receivable from PBG S.A. in arrangement bankruptcy from the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	25 786	98 110
receivable from PBG S.A. in arrangement bankruptcy from loan granted to HYDROBUDOWA S.A. in liquidation bankruptcy	5 612	20 164
	31 398	**118 745**

In the 12-month period ended 31 December 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 46.

The change in the value of the receivable compared with the amount reported as at 31 December 2012 is due to the measurement of that receivable at amortized cost, taking into account the assumptions and estimates referred to in Note 7.

31. Inventories

	31 December 2013	*31 December 2012*
Materials (at cost)	19 874	22 587
Cost	26 228	29 347
Net realizable value	19 874	22 587
Work-in-progress	–	–
Cost	–	–
Products	–	–
Cost	–	–
Net realizable value	–	–
Total inventories, at the lower of cost and net realizable value	**19 874**	**22 587**
- of which: pledged as security for liabilities	–	–

Write-downs against inventories

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Opening balance	(6 760)	(6 075)
- recognition of write-downs	(782)	(868)
- reversal of write-downs	1 188	183
Closing balance	**(6 354)**	**(6 760)**

(in PLN thousand)

32. Trade and other receivables and prepayments – short-term

	31 December 2013	*31 December 2012*
Trade receivables, of which:	138 671	283 129
Trade receivables from related parties	69	29
Trade receivables from other entities	138 602	283 100
Income tax receivable	9 622	21 326
Other receivables and prepayments, of which:	359 583	345 228
Advance payments made to related parties	1 518	245
Advance payments made to other entities	28 261	27 793
Receivables from the state budget	5 293	24 021
Receivables from contractual penalties	2 738	4 263
Property insurance costs settlement	824	1 029
Social Fund settlements	204	117
Disputed claims		76 386
Prepaid expenses	767	619
Prepayments for bank and insurance guarantees	1 229	17 925
Deposits	241 254	192 743
Sale of debts (receivables)	667	–
Other receivables	76 386	–
Other	442	87
Other receivables from related parties	–	25
Total receivables (net)	**507 876**	**649 708**
Doubtful debts allowance	57 633	44 539
Receivables (gross)	**565 509**	**694 247**

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

Trade receivables are non-interest bearing and are usually receivable within 30 days. However, payment terms for certain contractors are set based on individual agreements and are between 1 and 3 months.

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

Short-term trade receivables of PLN 138,671 thousand presented in the statement of financial position as at 31 December 2013 relate to commercial contracts with domestic and overseas contractors. The largest items in this group are mainly receivables from the following contractors:

- 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 7,483 thousand,
- Richard Kablitz & Mitthof GmbH - PLN 7,451 thousand,
- Aalborg Energie Technik a/s - PLN 7,096 thousand.

In 2013, the Company recorded a significant decrease in short-term trade receivables of PLN 144,458 thousand. The main reason for the decrease of these receivables was the conclusion of an agreement with ALSTOM Power Sp. z o.o., as discussed in detail in Note 45, and the related receipt of payments from ALSTOM Power Sp. z o.o.

In 2013, prepaid expenses relating to financial and insurance guarantees decreased by PLN 16,696 thousand. This change was mainly due to the settlement of financial and insurance guarantees concerning the contract with PGE Elektrownia Opole S.A.

In 2013, the Company recorded a PLN 48,511 thousand increase in the value of receivables from deposits, which was due to the payment of cash deposits securing the contracts performed by RAFAKO S.A.

(in PLN thousand)

Performance of the following contracts had the main impact on the change in the value of receivables from deposits as at 31 December 2013:

- repayment of the cash deposit related to 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 in PGE Elektrownia Opole S.A. together with equipment and devices as well as the related buildings and structures; the change in the value of deposits paid in 2013 amounted to PLN (-) 5,277 thousand; the deposit relating to the performance of that contract was fully refunded by PGE Elektrownia Opole S.A. after the balance sheet date on 30 January 2014, as discussed in detail in Note 54;
- payment of a cash deposit related to the contract with TAURON Polska Energia S.A. for the design, delivery, assembly and commissioning of the OFz-201 biomass boiler in TAURON Polska Energia S.A. Elektrownia Jaworzno III - Elektrownia II; the amount of deposits paid in 2013 was PLN 20,290 thousand;
- payment of a cash deposit related to the contract with PGE Górnictwo i Energetyka Konwencjonalna S.A. Elektrownia Bełchatów for "Modernization of the flue gas desulfurization system in units nos. 5 and 6 in PGE GiEK Oddział Elektrownia Bełchatów"; the amount of deposits paid in 2013 was PLN 14,271 thousand;
- payment of a cash deposit related to the contract with Elektrownia Połaniec S.A. Grupa GDF SUEZ Energia Polska for the construction of "Catalytic flue gas denitrogenization system for units K2 to K7"; the amount of deposits paid in 2013 was PLN 9,446 thousand.

Receivables from deposits also include deposits representing security for letters of credit, amounting to PLN 1,733 thousand. Letters of credit are opened for the benefit of suppliers as security for future payments. They are opened for the full value of a contract/order or for a selected part thereof. The terms of their validity depend on the deadlines for performance of contracts/orders.

A significant item of other receivables is advances, amounting to PLN 29,779 thousand as at 31 December 2013 and including:

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

Claims under dispute, recognized at an amount of PLN 76,386 thousand in the statement of financial position as at 31 December 2012, related to disputes with the Alstom Group. Due to the signing of the agreement described in detail in Note 45 of these financial statements as at 31 December 2013, they were presented under "Other receivables" and have been paid and settled in the 1st quarter of 2014.

Trade receivables with the carrying amount of PLN 53,207 thousand were pledged as security for guarantees granted and loans taken as at 31 December 2013 (31 December 2012: PLN 42,866 thousand).

32.1. Write-downs against (allowances for) trade and other receivables

	31 December 2013	*31 December 2012*
Opening balance, of which:	(44 539)	(64 170)
- receivables from related parties	–	–
Recognition of allowance for trade receivables	(12 302)	(11 245)
Recognition of allowance for other receivables	(10 148)	(9 013)
Reversal of allowance for trade receivables, of which:	3 733	26 351
- receivables from related parties	–	–
Reversal of allowance for other receivables	5 623	2 451
Utilization of allowance for trade receivables	–	11 087
Closing balance	**(57 633)**	**(44 539)**
- receivables from related parties	–	–

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

(in PLN thousand)

In 2013, the Company recognized an allowance for contractual penalties of PLN 10,139 thousand and, as a result of payments received, reversed an allowance of PLN 3,779 thousand. In addition, it also reversed an allowance for claims under dispute of PLN 1,836 thousand.

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

Presented below is an ageing analysis of short-term trade and other receivables which were past due as at 31 December 2013 and 31 December 2012, but were not considered to be irrecoverable and for which no allowances were therefore recognized.

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
31 December 2013	462 593	437 412	4 470	1 468	699	18 544	–

			Past due but recoverable				
	Total	*Not past due*	*< 30 days*	*30 – 90 days*	*90 – 180 days*	*180 – 360 days*	*>360 days*
31 December 2012	556 577	418 927	6 058	11 467	2 964	91 933*	25 228*

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

In 2013, the Company recorded a significant decrease of PLN 144,458 thousand in short-term trade receivables. The main reason for the decrease was entering into an agreement with Alstom Group companies, as discussed in detail in Note 45.

33. Short-term financial assets

33.1. Derivatives

	31 December 2013	*31 December 2012*
Forward contracts	–	53
Currency options	–	–
	–	**53**

As at 31 December 2013, the Company had no outstanding forward currency transactions with positive fair value.

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

33.2. Short-term investments

As at 31 December 2013 and 31 December 2012, the Company had no financial assets in the form of short-term investments.

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

33.3. Short-term deposits

As at 31 December 2013 and 31 December 2012, the Company had no short-term deposits.

(in PLN thousand)

33.4. Loans granted

Loans	*Collateral*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Receivables from loans granted as at* *31 December 2013*	*31 December 2012*
Long-term loans:							
RAFAKO Engineering Sp. z o.o.*	blank promissory note together with a promissory note agreement	agreement for a cash loan to be used for funding day-to-day operations	PLN	WIBOR 1Y + margin	10.06.2019	–**	471
							471

* subsidiary
** In 2013, the company set off receivables arising from loans granted with the liability arising from the increase of share capital in the subsidiary, as discussed in Note 28.

(in PLN thousand)

33.5. Other short-term financial assets

	31 December 2013	*31 December 2012*
Other short-term financial assets, of which:	1 863	14 500
Additional payments to the share capital of a subsidiary	–	4 000
Advance payment to acquire the right to a loan	10 500	10 500
Impairment of advances for the purchase of the right to a loan	(10 500)	–
Receivable from PBG S.A. in arrangement bankruptcy arising from the return of shares in ENERGOMONTAŻ – POŁUDNIE S.A.	1 549	–
Receivable from PBG S.A. in arrangement bankruptcy arising from loan granted to HYDROBUDOWA S.A. in liquidation bankruptcy	314	–
	1 863	**14 500**

In the 12-month period ended 31 December 2013, based on the adopted assumptions the Company recognized 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 5 April 2012, the Shareholders' Meeting of the Company's subsidiary resolved to make refundable additional payments to the subsidiary's share capital in order to increase the level of its own funds. These additional payments were refunded on 16 August 2013.

On 18 April 2012, the Company entered into a preliminary agreement with Olenia Ltd for sale/purchase of 50% of shares in Bioelektrownia Szarlej Sp. z o.o. as well as transfer of rights to a receivable in the form of a loan granted to that company. The total amount of the advance paid by the Company under the agreement was PLN 16,176 thousand (of which PLN 5,676 thousand related to shares presented as other non-financial assets and PLN 10,500 thousand related to the loan presented under other financial assets). Bioelektrownia Szarlej Sp. z o.o. is a special purpose vehicle set up for the purpose of constructing a biogas power plant using own funds acquired from investors in the form of a loan and a grant. As per written statement provided by the attorney of Olenia Ltd, the status of this investment project is as follows:

- due to administrative problems, Bioelektrownia Szarlej Sp. z o.o. terminated the contract with the contactor responsible for the construction,
- this resulted in a delay in the progress of work and termination of the agreement for financial support for the project,
- in this situation, Bioelektrownia Szarlej Sp. z o.o. hired an independent consultant – leader on the market of preparation and implementation of investment projects relating to renewable energy, who prepared a model for the implementation and funding of the investment taking into account the current circumstances. According to this model, the investment project was to be resumed in autumn 2013 and was to be completed in 2015.

Due to the status of the investment project as described above, the Company's Management Board concluded that the risk of non-recoverability of the above-mentioned assets significantly increased and, therefore, it decided to recognize an impairment write-down for the full value of the investment project.

33.6. Cash and cash equivalents

	31 December 2013	*31 December 2012*
Cash on hand and at bank	10 846	34 210
Short-term deposits up to 3 months, of which:	13 336	1 191
- deposits representing security for contingent liabilities	–	–
	24 182	**35 401**
of which: restricted cash	1 018	872

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

The Company is in the possession of restricted cash, under which it includes cash received from grants and held in separate bank accounts, which the Company may use to settle the liabilities arising from the projects.

34. Other non-financial assets – short-term

As at 31 December 2012, in the statement of financial position the Company separately recognized an item called "Other short-term non-financial assets", which consisted of an advance for the acquisition of shares amounting PLN 5,676 thousand, as discussed in detail in Note 33.5.

As at 31 December 2013, the Company recognized an impairment write-down against other short-term non-financial assets amounting PLN 5,676 thousand.

35. Equity

35.1. Issued share capital

In the 12-month period ended 31 December 2013, the Company's share capital did not change. It amounted to PLN 139,200,000 and was divided into 69,600,000 ordinary shares with a nominal value of PLN 2.00 each, of the following classes:

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

35.2. Nominal value of shares

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

35.3. Shareholders' rights

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

35.4. Share premium reserve

Share premium reserve was created using the excess of issue price over nominal value, amounting to PLN 77,947 thousand. On 15 May 2000, the General Meeting of RAFAKO S.A. resolved to allocate PLN 41,169 thousand for the absorption of accumulated losses from previous years. In the 12-month periods ended 31 December 2013 and 31 December 2012, there were no events resulting in a movement in the share premium reserve, which amounted to PLN 36,778 thousand as at 31 December 2013 (31 December 2012: PLN 36,778 thousand).

35.5. Reserve capital

Reserve capital was created out of statutory transfers from profits generated in previous financial years as well as out of profit appropriations in excess of statutory transfers in the Company. As at 31 December 2013, the share capital amounted to PLN 220,982 thousand (31 December 2012: PLN 213,845 thousand).

35.6. Exchange differences on translation of foreign entities

The balance of translation reserve is adjusted for the exchange differences resulting from translation of the financial statements of the Company's foreign branch. As at 31 December 2013, translation reserve amounted to PLN 204 thousand (31 December 2012: PLN 532 thousand).

(in PLN thousand)

35.7. Retained earnings and dividends paid

As at 31 December 2013, as a result of recognition of a net loss for the 12-month period ended 31 December 2013 amounting to PLN 139,781 thousand, recognition of actuarial losses in the amount of PLN 435 thousand and transfer of profits from previous years of PLN 7,137 thousand to the reserve capital, the Company's retained earnings amounted to PLN (-) 140,216 thousand.

In 2013, no dividend was paid by the Company or proposed by the Management Board.

35.8. Capital management

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

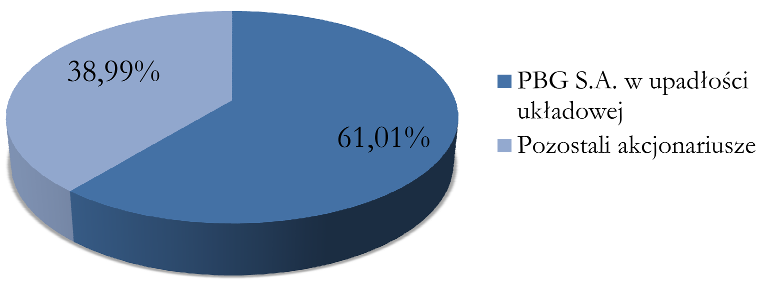
	31 December 2013	*31 December 2012*
Share of debt in equity		
Equity	256 948	397 492
External funding (bank loan and other loans received)	258 869	291 987
Total assets	1 008 351	1 247 699
Capitalization ratio	**0.25**	**0.32**

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

Name of entity	*Number of shares*	*Number of votes resulting from the shares held*	*% share in share capital*	*% share in the total vote at AGM*
PBG S.A. in arrangement bankruptcy[1], of which:	42 466 000	42 466 000	61.01%	61.01%
directly	7 665 999	7 665 999	11.01%	11.01%
indirectly through Multaros Trading Company Limited[2] (subsidiary of PBG S.A.)	34 800 001	34 800 001	50% + 1 share	50% + 1 share

1 – number of shares under the notice of 8 August 2012
2 – number of shares under the notice of 15 November 2011

Shareholding structure as at 31 December 2013



In accordance with the notification received from BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., as a result of the sale of shares in RAFAKO S.A. on 17 October 2013, the Fund is an owner of shares giving the right to less than 5% of the total vote at the General Meeting of RAFAKO S.A.

(in PLN thousand)

37. Interest-bearing loans and borrowings

As at 31 December 2013, the Company had liabilities under bank loans.

Short-term loans	*Collateral*	*Other*	*Currency*	*Effective interest rate*	*Maturity*	*Loan liabilities as at 31 December 2013*	*31 December 2012*
Short-term loans:							
PKO BP S.A.	blank promissory note with a promissory note agreement, transfer of receivables from contracts,* clause providing for deduction of claims against RAFAKO S.A.'s bank accounts, mortgage**, declaration of submission to enforcement	Agreement for a renewable overdraft of PLN 280 million***	PLN	WIBOR 1M + margin	31.03.2014****	256 816	291 987
						256 816	**291 987**
Short-term loans received:							
PGL - DOM Sp. z o.o.*****	blank promissory note with a promissory note agreement	Agreement for a cash loan to be used for funding day-to-day operations	PLN	WIBOR 1M + margin	31.12.2014	2 053	–
						2 053	–

* the loan is secured by receivables from contracts performed by the Company, including: transfer of receivables from contracts performed for PGE Górnictwo i Energetyka Konwencjonalna S.A. for modernization and repair of elements in the Bełchatów Power Plant, Kielce CHP Plant, as well as receivables from the contract performed for the Połaniec Power Plant;

** as at the date of these financial statements, the Company established a mortgage on its real estate (except for apartments and residential buildings) for a total amount of approx. PLN 300 million, which is to be used as an additional collateral for the loan granted by PKO BP S.A.;

*** as at the date of issuance of these financial statements, in accordance with the annex to the overdraft agreement dated 4 March 2014, the overdraft limit amounts to PLN 180,000,000;

**** on 20 December 2013, the Company signed an annex to the overdraft agreement with PKO BP S.A. reducing the overdraft limit to PLN 280 million and extending its maturity until 31 March 2014;

***** subsidiary.

The Company expects that the overdraft agreement with the bank will be extended for subsequent periods. The Company's credit situation should be analyzed in conjunction with Note 6 relating to the Company's going concern.

38. Employee benefit liabilities

38.1. Post-employment benefits and other employee benefits

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

	31 December 2013	*31 December 2012*
As at 1 January	23 367	21 346
Interest expense	935	1 174
Current service costs	482	967
Actuarial (gains)/losses	537	2 386
Benefits paid	(2 513)	(2 506)
Closing balance	**22 808**	**23 367**
Long-term provisions	21 266	21 472
Short-term provisions	1 542	1 895

The main assumptions adopted by the actuary as at 31 December 2013 and for the 12-month period then ended as well as for the 12-month period ended 31 December 2012 in determining the amount of the liability are as follows:

	31 December 2013	*31 December 2012*
Discount rate (%)	4.0	5.5
Anticipated inflation index (%)*	–	–
Staff turnover rate *	5	5
Anticipated salary increase rate (%)	1.83	4

* Data not available in actuary's report

The sensitivity analysis

Changing the adopted discount rate by half a percentage point:

	Increase (PLN thousand)	*Decrease (PLN thousand)*
31 December2013		
Effect on the defined benefit obligation	(1 090)	1 189
31 December 2012		
Effect on the defined benefit obligation	(1 029)	1 279

(in PLN thousand)

39. Trade and other payables

39.1. Trade and other payables – long-term

	31 December2013	*31 December 2012*
Trade payables, of which:		
- to related parties	119	61
- to other entities	13 557	17 382
	13 676	**17 443**
Financial liabilities, of which:		
Finance lease liabilities	222	64
	222	**64**
Other payables, of which:		
Accruals for unpaid bonuses	355	1 101
Capital commitments	128	128
Accruals for costs of warranty repairs	2 689	10 793
	3 172	**12 022**

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

	31 December 2013	*31 December 2012*
Trade payables, of which:		
- to related parties	3 756	3 530
- to other entities	198 998	232 705
	202 754	**236 235**
Capital commitments	302	3 729
	302	**3 729**

(in PLN thousand)

	31 December 2013	*31 December 2012*
Other liabilities		
Value Added Tax	–	928
Personal Income Tax	2 078	1 590
Social security liabilities	8 459	6 475
Other taxation, customs duty and social security liabilities	8	16
Payroll	8 587	8 088
Accruals for unused leave	2 102	2 320
Accruals for unpaid bonuses	769	5 309
Accruals for warranty repairs	7 957	1 130
Financial guarantee and suretyship liabilities	745	745
Accrual for costs of uninvoiced materials and services	20 854	5 100
Liabilities under dispute	367	–
Accrual for audit fees	100	100
Other settlements with employees	729	–
Other	922	1 357
	53 677	**33 158**
Other financial liabilities		
Derivatives' valuation	–	–
Finance lease liabilities	143	111
Loan interest liabilities	–	–
	143	**111**

39.3. Derivative instrument liabilities

As at 31 December 2013, the Company had no outstanding forward currency transactions with a negative fair value.

39.4. Capital commitments

As at 31 December 2013, the Company reported capital commitments for purchase of property, plant and equipment of PLN 430 thousand.
As at 31 December 2013, the Company had no signed agreements for planned capital expenditures that were not invoiced as at the end of the reporting period.

(in PLN thousand)

39.5. Accrual for unused leave

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

	31 December 2013	*31 December 2012*
Opening balance	2 320	1 996
Recognition of the accrual	–	2 246
Costs of benefits paid	(218)	(1 922)
Reversal of the accrual	–	–
Closing balance	**2 102**	**2 320**
Current as at	2 102	2 320
Non-current as at	–	–
	2 102	**2 320**

39.6. Accrual for unpaid bonuses

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

	31 December 2013	*31 December 2012*
Opening balance	6 410	11 661
Recognition of the accrual	3 474	5 891
Costs of benefits paid	(4 785)	(7 702)
Reversal of the accrual	(3 975)	(3 440)
Closing balance	**1 124**	**6 410**
Current as at	769	5 309
Non-current as at	355	1 101
	1 124	**6 410**

(in PLN thousand)

39.7. Accrual for warranty repairs

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

	31 December 2013	*31 December 2012*
Opening balance	11 923	9 257
Recognition of the accrual	7 906	12 723
Costs of warranty repairs incurred	(9 183)	(10 057)
Reversal of the accrual	–	–
Closing balance	**10 646**	**11 923**
Current as at	7 957	1 130
Non-current as at	2 689	10 793
	10 646	**11 923**

39.8. Bank guarantee and suretyship liabilities

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

	31 December 2013	*31 December 2012*
Opening balance	745	800
Recognition of the accrual	–	–
Costs incurred	–	–
Reversal of the accrual*	–	(55)
Closing balance	**745**	**745**
Current as at	745	745
Non-current as at	–	–
	745	**745**

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

(in PLN thousand)

39.9. Income tax payable

As at 31 December 2013 and 31 December 2012 the Company had no income tax liabilities.

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

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

In the 12-month period ended 31 December 2013, a tax audit was held at the Company with respect to VAT for February 2013, the tax audit did not reveal any irregularities resulting in tax penalties.

40. Grants

Grants recorded in the financial statements as at 31 December 2013 amounted to PLN 547 thousand. Grants received by the Company related to:

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

Settlements relating to grants:

Purpose of the grant	*Balance as at 1 January 2013*	*Increases during the period*	*Amortization to other operating income during the period*	*Refund of the grant during the period*	*Other decreases during the period*	*Balance as at 31 December 2013*
Modernization of fixed assets	25	–	(2)	–	–	23
Implementation of part of the research project	459	592	(521)	(6)	–	524
	484	592	**(523)**	(6)	–	**547**

(in PLN thousand)

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

In the 12-month periods ended 31 December 2013 and 31 December 2012, the Company did not issue, redeem or repay any debt or equity securities.

42. Finance lease and hire purchase commitments

As at 31 December 2013, future minimum lease payments under such agreements and the present value of the minimum net lease payments are as follows:

	31 December 2013		*31 December 2012*	
	Minimum lease payments	*Present value of lease payments*	*Minimum lease payments*	*Present value of lease payments*
Within 1 year	143	143	111	111
Within 1 to 5 years	222	222	64	64
More than 5 years	–	–	–	–
Minimum lease payments, total	**365**	**365**	**175**	**175**
Less finance charges	–	–	–	–
Present value of minimum lease payments, of which:	**365**	**365**	**175**	**175**
Current	143	143	111	111
Non-current	222	222	64	64

43. Movements in off-balance sheet items, information on loan suretyships or guarantees granted

	31 December 2013	*31 December 2012*
Off-balance sheet items resulting from bank guarantees received mainly as security for performance of commercial contracts, of which:	272 157	171 663
- from related parties	–	–
Receivables from suretyships received, of which:	7 600	7 600
- from related parties	–	–
Promissory notes/bills of exchange received as security, of which:	51 316	49 700
- from related parties	5 510	13 407
Letters of credit	2 127	1 865
	333 200	**230 828**

	31 December 2013	*31 December 2012*
Off-balance sheet items resulting from bank guarantees granted mainly as security for performance of commercial contracts, of which:	271 234	484 612
- to related parties	–	–
Liabilities arising from suretyships granted, of which:	–	–
- to related parties	–	–
Promissory notes/bills of exchange issued as security, of which:	20 939	15
- to related parties	2 000	–
Letters of credit	1 733	1 881
	293 906	**486 508**

(in PLN thousand)

In the 12-month period ended 2013, RAFAKO S.A. recorded a PLN 192,602 thousand decrease in the level of contingent liabilities, including a PLN 213,378 thousand decrease in guarantee liabilities, PLN 148 thousand decrease in letter of credit liabilities and PLN 20,924 thousand increase in promissory notes/bills of exchange issued as security. In 2013, on the Company's request, banks and insurance companies granted guarantees to contractors of PLN 58,801 thousand, which mainly included tender guarantees and contract performance guarantees. The largest item in this group of liabilities is a tender guarantee of PLN 10 million, issued in the 1st quarter of 2013 due to participation in a tender for power units' construction. The largest item among guarantees granted which expired in 2013 was a guarantee for the refund of an advance of PLN 79,310 thousand related to a power units' construction contract.

In the 12-month period of 2013, the Company recorded a PLN 102,372 thousand increase in the level of contingent assets received mainly as security for proper performance of contacts, including a PLN 1,616 thousand increase in the level of promissory note / bill of exchange receivables. In 2013, the Company also recorded a PLN 100,494 thousand increase in the level of bank and insurance guarantees received. The largest item among guarantees received in 2013 is a guarantee for payment of PLN 85,018 thousand. In this period, RAFAKO S.A. also recorded a PLN 262 thousand increase in receivables from letters of credit opened for the Company's benefit. The largest item among guarantees which expired in 2013 was a guarantee of proper contract performance amounting to PLN 3,541 thousand.

44. Guarantees

As at 31 December 2013, the Company had contingent liabilities resulting from bank and insurance guarantees with a total value of PLN 271,234 thousand, including:

No.	*Bank/insurer granting guarantee*	*Guarantee amount*	*Subject of guarantee*	*Security*
1.	BOŚ S.A.	16 120	good performance of the contract, refund of the advance, proper removal of faults and defects	authorization to bank accounts, blank promissory note with promissory note agreement, transfer of receivables under the contract
2.	BRE Bank S.A.	7 235	proper removal of faults and defects, good performance of the contract, refund of the advance	blank promissory note with promissory note agreement, transfer of receivables under the contract
3.	BZ WBK S.A.	77 325	good performance of the contract, proper removal of faults and defects, refund of the advance, retention	blank promissory note with promissory note agreement; declaration of submission to enforcement; transfer of receivables under the contract
4.	DEUTSCHE Bank Polska S.A.	9 788	proper removal of faults and defects, good performance of the contract, refund of the advance, participation in tender	declaration of submission to enforcement, transfer of receivables under the contract, deposit
5.	T.U. Euler HERMES S.A.	23 633	proper removal of faults and defects, good performance of the contract, refund of the advance	blank promissory note with promissory note agreement
6.	STU ERGO HESTIA S.A.	17 402	proper removal of faults and defects, good performance of the contract	blank promissory notes with promissory note agreements
7.	PKO BP S.A.	67 087	proper removal of faults and defects, good performance of the contract, refund of the advance, participation in tender	declaration of submission to enforcement, clause of deduction from bank accounts, transfer of receivables under the contract, deposit
8.	PZU S.A.	28 241	proper removal of faults and defects, good performance of the contract	blank promissory notes with promissory note agreements, declaration of submission to enforcement under Article 777 of the Code of Civil Procedure
9.	Raiffeisen Bank Polska S.A.	1 185	proper removal of faults and defects	declaration of submission to enforcement, authorization to bank account
10.	UNIQA TU S.A.	3 274	proper removal of faults and defects, good performance of the contract, participation in tender	blank promissory notes with promissory note agreements
11.	TuiR WARTA S.A.	19 944	good performance of the contract and proper removal of faults and defects	blank promissory notes with promissory note agreements, declaration of submission to enforcement under Article 777 of the Code of Civil Procedure
		271 234		

45. Claims under dispute, litigation

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

On 3 November 2009, RAFAKO S.A. brought a suit for payment against ING Bank Śląski S.A. in the Regional Court in Warsaw, XX Commercial Department. RAFAKO S.A. claims the refund of the amount of PLN 9 million that was unjustly collected by ING Bank Śląski S.A. from its accounts. On 29 November 2010, the Court of First Instance passed a judgment awarding payment of PLN 8,996,566.00 together with statutory interest and litigation costs to be made by ING Bank Śląski S.A. to RAFAKO S.A. The judgment of the Court of First Instance was appealed by the attorney of ING Bank Śląski S.A. On 12 October 2011, the Court of Appeal in Warsaw, having examined the case in a hearing, did not consider the objections raised by ING Bank Śląski S.A. in the appeal as legitimate; however, it concluded ex officio that the Court of First Instance had not examined the substance of the dispute, overruled the judgment and remanded the case for re-examination by the Court of First Instance. Currently the case is pending before the Regional Court in Warsaw, XX Commercial Department. The next sitting has been planned for 1 April 2014.

In July 2010, ING Bank Śląski S.A. brought a suit against RAFAKO S.A. and RAFAKO Engineering Sp. z o.o. in the Regional Court in Warsaw, XX Commercial Department, for payment to be made in the proceedings by writ of payment based on documents, in respect of the refund of the amount paid on 1 February 2010 to the beneficiary of a guarantee issued allegedly by ING Bank Śląski S.A. at the request of Fabryka Elektrofiltrów ELWO S.A. in bankruptcy. In the opinion of ING Bank Śląski S.A., the claim against RAFAKO S.A. arises allegedly from the Loan Agreement dated 25 June 2008. On 9 June 2011, the Regional Court in Warsaw, XX Commercial Department, passed a judgment by default awarding an amount of PLN 1,462,176.00 together with statutory interest from 1 February 2010 and PLN 80,326.00 in respect of the refund of litigation costs to be paid to ING Bank Śląski S.A. by RAFAKO S.A. On 17 June 2011, despite the fact that the attorney of RAFAKO S.A. and RAFAKO Engineering Sp. z o.o. notified the attorney of ING Bank Śląski S.A. about lodging an objection, the Court Enforcement Officer, at the request of ING Bank Śląski S.A., attached the bank accounts of RAFAKO S.A. Based on the decision dated 22 June 2011, the Regional Court in Warsaw, XX Commercial Department, in response to the motion of the Defendant Companies' attorney, suspended the sanction of immediate enforceability included in the judgment by default, concluding that there were considerable doubts regarding the legitimacy of passing the judgment by default. As a result of the activities undertaken by the Defendant Companies' attorney, out of the amounts collected by the Court Enforcement Officer from RAFAKO S.A. the amount of PLN 128,392.90 was transferred to ING Bank Śląski S.A., while the amount of PLN 1,687,856.93 was paid into court deposit. On 21 March 2012, the Court passed a judgment which overruled the judgment by default in full, awarded an amount of PLN 1,333,783.10 together with statutory interest as well as statutory interest calculated on the amount of PLN 128,392.90 to be paid jointly and severally by RAFAKO S.A. and RAFAKO Engineering Sp. z o.o. to ING Bank Śląski S.A., while the rest of the claim was dismissed. The attorney of RAFAKO S.A. filed an appeal which was dismissed in full during the hearing held on 21 February 2013 and the Court awarded reimbursement of legal representation costs to be made jointly and severally by the Defendant Companies. The judgment was executed.

With reference to the disputes with Alstom Group companies described in previous financial reports, concerning mutual arbitration and court disputes relating to the contracts carried out in Karlsruhe, Hamm/Westfalen and PGE Elektrownia Bełchatów S.A., RAFAKO S.A. informs that, on 15 October 2013, a settlement was signed which regulates comprehensively both the rules for financial settlements and waiver of mutual claims between the Company and the Alstom Group as well as the scope of cooperation between the Company and the Alstom Group on the projects carried out by the Company. The final agreements and settlement with Alstom Group companies included the following key provisions:

- (i) Alstom Group companies paid RAFAKO S.A. an amount of EUR 23 million within 10 days of the effective date of the Settlement; the Company received the payment on 31 October 2013;
- (ii) Alstom Group companies paid RAFAKO S.A. an amount of EUR 20.5 million within 30 days of the later of the following two events: (i) the effective date of the Settlement or (ii) the date of issuing an Order to Begin Work by PGE Górnictwo i Energetyka Konwencjonalna S.A. ("PGE") under the agreement of 15 February 2012 for the construction of units 5 and 6 in the Opole Power Plant ("the Opole Contract"); the Company received the payment on 28 February 2014;
- (iii) the Company and the Alstom Group waived their existing mutual claims concerning the Karlsruhe, Westfalen and Bełchatów projects and withdrew their suits and arbitration requests submitted in relation to the aforementioned disputes; and
- (iv) the Company committed to cooperate with the Alstom Group with regard to the Opole Contract, including subcontracting the Alstom Group to perform part of the work attributable to the Company under the Opole Contract. The detailed principles of cooperation and the scope of work contracted from the Alstom Group were regulated in the multilateral agreement between the Alstom Group, the Company, PGE and other members of the consortium to which the Opole Contract had been granted ("the Multilateral Agreement") and in the agreement between the Alstom Group and the consortium implementing the Opole Contract ("the Agreement").

As at the date of these financial statements, all the conditions precedent have been fulfilled and both tranches of payment to the Company totaling EUR 43.5 million have been made.

On 6-7 November 2013, the parties submitted pleadings withdrawing their actions and cross actions relating to the dispute before the Court of Arbitration of the International Chamber of Commerce (ICC) in Paris over the performance of the contract in PGE Elektrownia Bełchatów S.A., the dispute before the International Chamber of Commerce in Zurich over the performance of the contract in Karlsruhe and the dispute before the Commercial Chamber of the Court in Stuttgart over the performance of the contract in Hamm/Westfalen, as a result of which all of these proceedings have been cancelled. The withdrawal of all of these suits, the signing of a settlement and the cash payment made under the agreement have put an end to all settlements, disputes, penalties and claims between RAFAKO S.A. and the Alstom Group companies in relation to the Hamm/Westfalen, Karlsruhe and Elektrownia Bełchatów projects, as discussed in detail in the corresponding notes to the previous financial statements.

Following an inspection conducted by Rybnik Branch of ZUS (Social Security Institution), on 17 November 2011 RAFAKO S.A. was served with a decision imposing an obligation to pay contributions for Social Security, Labor Fund and the Guaranteed Employee Benefits Fund. ZUS challenged payments made from the Social Fund in respect of occasional gift vouchers. The decision issued by ZUS gave rise to the obligation to pay an amount of PLN 2,369,923.72 (without interest) to ZUS. RAFAKO S.A. did not agree with the findings included in the decision and decided to lodge an appeal against it with the Regional Court in Gliwice, IX Labor and Social Security Department. The court acknowledged the Company's arguments and issued judgments in favor of the Company, which were appealed by ZUS. As at the date of these financial statements, the date of the hearing has not yet been set. The Company believes that the court of the second instance will uphold the judgments in favor of the Company. Due to the fact that the court's judgment was favorable for the Company, in 2012 RAFAKO S.A. reversed the provision of PLN 2,370 thousand that had been recognized in this respect, as well as the provision for the related interest of PLN 952 thousand.

A significant proceeding conducted by the Company is the action for damages brought against the Ukrainian company Donieckobłenergo for an amount of USD 11,500 thousand (PLN 38,151 thousand) due to the client's ultimate resignation from the construction of a boiler. In 2009, the courts of the first and second instance passed judgments that were in favor of the Company; however, the Higher Commercial Court, after examining the defendant's cassation appeal, overruled those judgments and remanded the case for re-examination. On 6 August 2010, the Company received the judgment of the Court Chamber for Commercial Affairs of the Supreme Court of Ukraine, which was passed in favor of the cassation appeal filed by the Company on 2 March 2010 and upheld the judgment of the Donieck Commercial Court of Appeal of 23 December 2008 awarding the total amount of 56.7 million hryvnas to be paid to RAFAKO S.A. in respect of damages, interest for delay, court fees and legal representation costs (this amounted to approximately USD 11,500 thousand at the date of bringing the suit). As the recovery of the awarded receivable is uncertain, the Company did not recognize that amount as revenue. RAFAKO S.A.'s attorney informed that, in July 2012, the Commercial Court of the Donieck Region resumed the case due to Donieckobłenergo's demand to declare the contract of 16 May 1994 invalid. In the attorney's opinion, there are no new arguments or evidence to allow that claim. The next hearing is expected to take place on 10 April 2014.

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

At the balance sheet date, the Company recognized in the statement of financial position net receivables of PLN 33 million from related parties in the process of bankruptcy by way of arrangement with creditors.

On 20 December 2011, RAFAKO S.A. entered into an agreement ("Agreement") with PBG S.A. based in Wysogotowo ("higher level parent") under which it acquired shares in ENERGOMONTAŻ - POŁUDNIE Spółka Akcyjna ("EP") based in Katowice, ul. Mickiewicza 15. Under this agreement, RAFAKO S.A. purchased 46,021,520 EP's ordinary bearer shares with a nominal value of PLN 1 per share and a total nominal value of PLN 46,021,520, representing 64.84% of the share capital and 64.84% of the total number of votes at the General Meeting, i.e. giving the right to exercise 46,021,520 votes from shares. Under this agreement, PBG S.A. sold the shares held for an amount of PLN 160,154,889.60, i.e. PLN 3.48 per 1 share. The purchase price was paid on 30 December 2011. As a result of the analysis performed, taking into account the probability of realization of additional payments and claims of RAFAKO S.A., the Company's Management Board determined the purchase price at PLN 160,154,889.60, plus transaction costs of PLN 557,363.40.

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

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

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

On 16 July 2012, the Company's Management Board received a letter from the Court Supervisor of PBG S.A. in arrangement bankruptcy addressed to PBG S.A. in arrangement bankruptcy ("PBG"), informing PBG S.A. that the transaction of sale of

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

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

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

Given the ineffectiveness of PBG S.A.'s disposal of shares in ENERGOMONTAŻ – POŁUDNIE S.A. to RAFAKO S.A., the Company is entitled to a claim for the refund of the price paid for the shares of ENERGOMONTAŻ – POŁUDNIE S.A. RAFAKO S.A.'s right to the refund of the price paid for the shares of ENERGOMONTAŻ – POŁUDNIE S.A. results in the recognition, in the statement of financial position, of a receivable which was initially recognized at fair value by reference to the present value of the expected inflows. Accordingly, the fair value of the receivable was estimated taking into account the expected cash inflows to the Company, taking into consideration PBG S.A.'s preliminary arrangement proposals providing for a 31% reduction of the debt (for which no deferred tax asset was recognized) and the expected timing of the inflow of the first installment of cash to the Company, assessed by the Company's Management Board as the end of 2014.

In the 3rd quarter of 2013, the Company performed another valuation of that asset based on updated arrangement proposals of PBG S.A. in arrangement bankruptcy, providing for the repayment of PLN 500 thousand and 80% reduction of the debt in excess of PLN 500 thousand. The receivable will be repaid on an annual basis over the period of 5 years after the lapse of 3 months from the approval of the arrangement. The Company's Management Board expects that the first payment will be made by 31 December 2014. The value of the receivable determined based on the assumptions discussed above as at 31 December 2013, recognized under "Other long-term financial assets" amounts to PLN 25.8 million and under "Other short-term financial assets" amounts to PLN 1.5 million. The receivable in the full amount 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* of 4 June 2013).

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

On 4 June 2012, PBG S.A. and Hydrobudowa Polska S.A. filed petitions with the District Court Poznań – Stare Miasto in Poznań, XI Commercial Department for Bankruptcy and Reorganization, for declaring bankruptcy of PBG S.A. and Hydrobudowa Polska S.A. with the possibility of entering into an arrangement with creditors. On 13 June 2012, the District Court Poznań – Stare Miasto in Poznań, XI Commercial Department for Bankruptcy and Reorganization issued a decision declaring bankruptcy of PBG S.A. with a possibility of entering into an arrangement with creditors. On 11 June 2012, the District Court Poznań – Stare Miasto in Poznań, XI Commercial Department for Bankruptcy and Reorganization issued a decision declaring bankruptcy of Hydrobudowa Polska S.A. including liquidation of the company's assets. Due to the declaration of bankruptcy by Hydrobudowa Polska S.A., pursuant to Article 124 Clause 2 of the Bankruptcy and Reorganization

Law, RAFAKO S.A. is entitled to claim a refund of the actually granted loan according to the rules set out in the Bankruptcy and Reorganization Law. On 26 October 2012, the Company's Management Board filed a proof of the Company's claim in respect of the loan in the bankruptcy proceedings of Hydrobudowa Polska S.A, which is on the list of claims acknowledged by the Official Receiver.

In light of the process of liquidation bankruptcy of Hydrobudowa Polska S.A., in order to claim a refund of the loan, on 21 September 2012 the Company's Management Board filed a proof of the Company's claim in respect of the loan in the bankruptcy proceedings of PBG S.A. with a possibility of entering into an arrangement with creditors. In the 3rd quarter of 2013, taking into consideration current arrangement proposals, the fair value of the receivable was estimated taking into account the expected cash inflows to the Company, assuming repayment of PLN 500 thousand per one creditor and 80% reduction of the receivable in excess of PLN 500 thousand (for which no deferred tax asset was recognized) as well as the expected timing of the first inflow of cash to the Company, assessed by the Company's Management Board as 31 December 2014 (arrangement proposals provide for the repayment of the debt on an annual basis over the period of 5 years). As at 31 December 2013, the value of the receivable determined based on the assumptions discussed above, recognized under "Other long-term financial assets" amounts to PLN 5.6 million and under "Other short-term financial assets" amounts to PLN 0.3 million. The receivable in the full amount 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* of 4 June 2013).

The total amount of receivables from the related party (PBG S.A.) subject to bankruptcy proceedings with a possibility of entering into an arrangement, which results from the above-mentioned titles and has been recognized in the statement of financial position is PLN 33 million. The effect of the change in estimates on the measurement of receivables from related parties under arrangement proceedings in 2013 was PLN (-) 94,205 thousand. The recoverable amount of those receivables depends on the terms of the arrangement with the entity's creditors, which has not been concluded as at the date of these financial statements, as well as on the possibility of realization of that arrangement by the related party in the future.

(in PLN thousand)

47. Related party disclosures

In the 12-month periods of 2013 and 2012, the Company did not enter into any significant transactions with related parties on other than arm's length terms.

Total amounts of transactions with related parties for the 12-month periods ended 31 December 2013 and 31 December 2012:

Related party	*12-month period ended 31 December:*	*Sales to related parties*	*Purchases from related parties*	*Receivables from related parties*	*Payables to related parties*
Parent company:					
PBG S.A. in arrangement bankruptcy	2013	–	516	33 261*	129
	2012	–	243	118 274*	22
Entities of the PBG S.A. Capital Group:					
GasOil Engineering a.s..	2013	–	338	–	294
	2012	–	1 466	–	390
ENERGOMONTAŻ-POŁUDNIE S.A. in liquidation bankruptcy **	2013	5	–	–	–
	2012	62	2 604	–	999
ENERGOMONTAŻ-POŁUDNIE Sp. z o.o.**	2013	522	13 633	–	–
	2012	–	12 221	–	228
PBG Energia Sp. z o.o.***	2013	12 378	–	–	–
PBG Avatia Sp. z o.o. in arrangement bankruptcy	2013	–	3	–	–
Subsidiaries:					
PGL-DOM Sp. z o.o.	2013	–	63	–	23
	2012	–	69	–	2
RAFAKO Engineering Sp. z o. o.	2013	35	1 804	1	1 137
	2012	167	2 889	37	18
RAFAKO Engineering Solution doo.	2013	186	1 093	60	568
	2012	5 960	415	17	41
FPM S.A.	2013		19		22
	2012	–	712	–	99
ENERGOTECHNIKA ENGINEERING Sp. z o.o.	2013	32	8 612	5	1 702
	2012	–	780	–	242
E001RK Sp. z o.o.	2013	–	–	2	–
E003B7 Sp. z o.o.	2013	–	–	1	–

** receivables from PBG S.A. in arrangement bankruptcy, which are discussed in detail in Note 46*
*** related party until 30 June 2013*
****related party until 4 December 2013*

(in PLN thousand)

47.1. Parent of the Company

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

As at 31 December 2013, PBG S.A. with its registered office in Wysogotowo held 61.01% of the Company's ordinary shares (directly: 11.01% of shares, indirectly: 50% + 1 share).

47.2. Joint ventures in which the Company is a partner

The Company is not a party to any joint ventures.

47.3. Terms of related party transactions

In the 12-month period of 2013, the Company did not enter into any significant transactions with related parties on other than arm's length terms. All transactions with related parties are made on terms applied by the Company in its business relations with non-related parties. Consideration is usually determined by way of a tender and standard payment terms are agreed. The related party must ensure performance of a contract in line with the documentation, give a warranty for a specified period and submit collateral in the form of a bank guarantee of good performance of the contract. In addition, related parties are also subject to standard contractual penalties and clauses concerning confidentiality, industrial property, contract insurance, force majeure and dispute resolution.

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

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

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

47.5. Shares held by members of management and supervisory bodies

The number of shares held in the Company or in the Company's related entities by members of management and supervisory bodies as at 31 December 2013 is presented below:

	Company name	*Total number of shares*	*Nominal value of shares in PLN*
Management personnel			
Paweł Mortas	RAFAKO S.A.	10 693	21 386
Edward Kasprzak	RAFAKO S.A.	2 000	4 000
Jarosław Dusiło	PBG S.A. in arrangement bankruptcy	100	100
	Hydrobudowa Polska S.A. in liquidation bankruptcy	150	150
Supervisory personnel			
Małgorzata Wiśniewska	PBG S.A. in arrangement bankruptcy	3 279	3 279
Jerzy Wiśniewski	PBG S.A. in arrangement bankruptcy	3 881 224	3 881 224

47.6. Participation of senior management in employee share option scheme

The Company does not run any employee share option scheme.

47.7. Compensation of senior management personnel

	12-month period ended 31 December 2013	*12-month period ended 31 December 2012*
Short-term employee benefits (salaries and surcharges)	9 574	3 390
Jubilee bonuses	81	–
Post-employment benefits		493
Employment termination benefits	120	–
Share-based employee benefits		–
Total costs of compensation for key management personnel *	**9 775**	**3 883**

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

Remuneration paid to members of the Company's Management Board and Supervisory Board for the year ended 31 December 2013 was as follows:

figures in PLN thousand

	Base pay	*Awards*	*Other*
Management Board	**2 314**	**510**	**112**
Paweł Mortas	600	150	27
Krzysztof Burek	480	–	–
Jarosław Dusiło	480	120	16
Kasprzak Edward	377	120	11
Modrowski Maciej	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**

(in PLN thousand)

Remuneration paid to members of the Company's Management Board and Supervisory Board for the year ended 31 December 2012 was as follows:

	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-Kalat	11	–	–
Total	**3 403**	**715**	**255**

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

The Company did not publish any forecasts for 2013.

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

On 11 April 2012, the Company's Supervisory Board, acting based on authorization granted by the Company's Statutes, appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit Sp. z o.o.) with its registered office in Warsaw, Rondo ONZ 1, entered in the KIBR (National Chamber of Statutory Auditors) register under number 130, as the entity authorized to audit the financial statements for 2012, 2013 and 2014. The auditor was chosen in accordance with binding regulations and professional standards. In the past, the above-mentioned entity provided the Company with services relating to the review and audit of separate financial statements as well as the financial statements of the RAFAKO Capital Group for 2002-2005 and 2011.

On 15 June 2012, the Company signed a contract with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit Sp. z o.o.). with its registered office in Warsaw for a review and audit of separate and consolidated financial statements for the years 2012-2014. The total amount of the fees for the review and audit of the financial statements was set at PLN 537 thousand.

(in PLN thousand)

The table below presents the fees paid or payable to the entity authorized to audit financial statements for the years ended 31 December 2013 and 31 December 2012 by category of services:

Category of services	*Year ended 31 December 2013**	*Year ended 31 December 2012**
Statutory audit of separate and consolidated financial statements	179	177
Other attest 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.)*

50. Financial risk management objectives and policies

The objective of financial risk management in RAFAKO S.A. is to limit the variability of cash flows generated and results achieved on principal business activities to an acceptable level. The main financial instruments used by the Company in 2013 include: cash and cash equivalents, short-term deposits, forward currency transactions, loans granted, overdraft and lease agreements. The main objective of those instruments is to provide support and financial security for the Company's day-to-day activities by stabilizing and neutralizing liquidity risks and foreign exchange and interest rate variability as well as to ensure effective distribution of surplus cash. Other financial instruments such as trade receivables and payables arise in the course of day-to-day business activities carried out by the Company and are an inherent part of such activities.

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

Liquidity risk, which has been discussed in detail in Note 50.5, is the most significant type of financial risk in the Company.

In 2013, the Company continued the Overdraft Agreement with PKO BP S.A. for an amount of PLN 280 million, as a result of which it is exposed to an interest rate risk which will affect the amount of finance charges incurred by the Company in the subsequent periods. However, due to the reduction of the nominal value of the overdraft in 2013, the exposure to the interest rate risk has decreased.

Other financial risks to which the Company was exposed in the period under review and continues to be exposed now are currency risk and interest rate risk. The magnitude of those risks is presented in detail in Notes 50.1 and 50.2.

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

Accounting policies applicable to derivative instruments are discussed in Note 11.14.

50.1. Interest rate risk

As at 31 December 2013, the Company had an active loan agreement, thus credit risk and potential changes in interest rates represent a risk for RAFAKO S.A.'s operations. The risk associated with a change in interest rates may result in a change of the interest rate of the loan and deposits held by the Company. Sensitivity to such changes is presented in the table below.

(in PLN thousand)

Interest rate risk – sensitivity to changes

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

	Increase / decrease by percentage points	***Effect on profit before tax / pre-tax loss***
Period ended 31 December 2013		
PLN	+ 1%	(1 403)
EUR	+ 1%	359
PLN	- 1%	1 403
EUR	- 1%	(359)
Period ended 31 December 2012		
PLN	+ 1%	(1 174)
EUR	+ 1%	1 070
BAM	+ 1%	31
PLN	- 1%	1 174
EUR	- 1%	(1 070)
BAM	- 1%	(31)

50.2. Currency risk

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

In the period under review, over 35% of the Company's invoiced revenue was expressed in foreign currencies, mainly in EUR.

The currency risk management strategy applied by the Company provides for the use of natural hedging to the largest extent possible. The Company aims at ensuring the best possible structural matching of contract revenues and expenses in the same currency. From 30% to 70% of the estimated net exposure to currency risk that is not covered by natural hedging is hedged using only the accepted types of derivative instruments. As at 31 December 2013, the Company had no open hedges.

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

(in PLN thousand)

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

	Increase / decrease of currency rate	*Effect on profit before tax / pre-tax loss*	*Effect on net profit / loss*
31 December 2013 – EUR	+10%	(1 316)	(1 066)
	-10%	1 316	1 066
31 December 2013 – CHF	+10%	(7)	(6)
	-10%	7	6
31 December 2013 – DKK	+10%	(3)	(2)
	-10%	3	2
31 December 2013 – TRY	+10%	1	1
	-10%	(1)	(1)
31 December 2012 – EUR	+10%	19 808	16 044
	-10%	(19 808)	(16 044)
31 December 2012 – CHF	+10%	17	14
	-10%	(17)	(14)
31 December 2012 – DKK	+10%	107	87
	-10%	(107)	(87)
31 December 2012 – BAM	+10%	314	254
	-10%	(314)	(254)

50.3. Commodity price risk

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

50.4. Credit risk

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

Those clients whom the Company believes to be not creditworthy based on the credit verification procedure are obliged to submit proper collaterals to minimize the risk of their insolvency against the Company.

50.5. Liquidity risk

The Company is exposed to liquidity risk arising from the mismatch of maturities of cash flows generated from contracts performed. The Company aims at ensuring so-called positive cash flows, which significantly reduces liquidity risk given timely payment of receivables. The nominal value of credit facilities available to the Company reduces any negative events associated with a delay in timely payment of receivables. Since 2012, the Company has been using external funding in its operations. Credit limits available at banks were utilized to a significant extent and were sufficient to fund the Company's operating activities.

The issue of the Company's financial liquidity (going concern) with respect to 2013 has been discussed in detail in Note 6.

(in PLN thousand)

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December 2013 and 31 December 2012 based on contractual undiscounted payments:

31 December 2013	*On demand*	*Less than 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total*
Interest-bearing loans and borrowings	–	258 869*	–	–	–	258 869
Lease liabilities	–	54	89	222	–	365
Trade payables and capital commitments	67 427	122 458	12 683	13 353	939	216 860
Liabilities' discount	–	–	–	1 328	328	1 656
	67 427	**381 381**	**12 772**	**14 903**	**1 267**	**477 750**

* in accordance with the annex to the overdraft agreement signed on 20 December 2013

31 December 2012	*On demand*	*Less than 3 months*	*From 3 to 12 months*	*From 1 year to 5 years*	*Over 5 years*	*Total*
Interest-bearing loans and borrowings	–	–	291 987	–	–	291 987
Lease liabilities	–	27	84	64	–	175
Derivatives	–	53	–	–	–	53
Trade payables and capital commitments	84 110	114 758	41 096	16 999	572	257 535
Liabilities' discount	–	–	–	1 878	237	2 115
	84 110	**114 838**	**333 167**	**18 941**	**809**	**551 865**

51. Derivatives

As at 31 December 2013, the Company had no outstanding forward currency transactions.

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

(in PLN thousand)

52. Financial instruments

52.1. Carrying amount of categories and classes of financial instruments

The carrying amounts of the categories and classes of financial instruments as at 31 December 2013 and 31 December 2012 are presented in the tables below.

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

Categories and classes of financial assets	*Carrying amount 31 December 2013*	*Carrying amount 31 December 2012*
Assets at fair value through profit or loss	–	**53**
Investment fund units	–	–
Derivatives	–	53
Financial assets available for sale	**319**	**347**
Long-term shares	319	347
Loans and receivables	**495 187**	**689 791**
Trade receivables	141 548	283 129
Other receivables	320 378	273 417
Loans granted	–	471
Long-term deposits	–	–
Short-term deposits	–	–
Other long-term financial assets	31 398	118 274
Other short-term financial assets	1 863	14 500
Cash and cash equivalents	**24 182**	**35 401**
	519 688	**725 592**

Categories and classes of financial liabilities	*Carrying amount 31 December 2013*	*Carrying amount 31 December 2012*
Financial liabilities at fair value through profit or loss	–	–
Derivatives	–	–
Financial liabilities measured at amortized cost	**475 729**	**549 522**
Loans and borrowings	258 869	291 987
Trade payables (including capital commitments)	216 860	257 535
Other financial liabilities	–	–
Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**365**	**175**
Finance lease and hire purchase commitments	365	175
	476 094	**549 697**

(in PLN thousand)

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

31 December 2013	*Level 1*	*Level 2*	*Level 3*
Assets at fair value through profit or loss	–	–	–
Investment fund units	–	–	–
Derivatives	–	–	–
Financial assets available for sale	**319**	–	–
Long-term shares	319	–	–
Financial liabilities at fair value through profit or loss	–	–	–
Derivatives	–	–	–

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

(in PLN thousand)

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

12-month period ended 31 December 2013 *Financial assets*	*Category according to IAS 39*	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Reversal / (recognition) of impairment write-downs/allowances*	*Gains / (losses) on valuation*	*Gain / (loss) on sale of financial instruments*	*Other*	*Total*
Financial assets available for sale (long-term), of which:	AFS	–	–	–	(29)	–	15	(14)
- shares	AFS	–	–	–	(29)	–	15	(14)
Other (long-term) financial assets, of which:		9 199	–	–	(88 899)	–	–	(79 700)
- long-term deposits	LaR	–	–	–	–	–	–	–
- long-term loans	LaR	7	–	–	29	–	–	36
- receivables from related parties in the process of bankruptcy by way of arrangement with creditors	LaR	9 192	–	–	(88 928)	–	–	(79 736)
Other (short-term) financial assets, of which:		3	–	(10 500)	(5 277)	–	–	(15 774)
- short-term deposits	LaR	3	–	–	–	–	–	3
- certificates of deposit	FVtPL	–	–	–	–	–	–	–
- receivables from related parties in the process of bankruptcy by way of arrangement with creditors	FVtPL	–	–	–	(5 277)	–	–	(5 277)
- advance for purchase of rights to a loan	FVtPL	–	–	(10 500)	–	–	–	(10 500)
- short-term loans	LaR	–	–	–	–	–	–	–
Trade and other receivables	LaR	6 534	(232)	(13 094)	(179)	–	–	(6 971)
Derivative financial instruments, of which:	FVtPL	–	–	–	(53)	(34)	–	(87)
- forward currency contracts	FVtPL	–	–	–	(53)	(34)	–	(87)
Cash and cash equivalents	LaR	46	(167)	–	–	–	–	(121)
Total		**15 782**	**(399)**	**(23 594)**	**(94 437)**	**(34)**	**15**	**(102 667)**

(in PLN thousand)

12-month period ended 31 December 2013	*Category according to IAS 39*	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Reversal / (recognition) of impairment write-downs/allowances*	*Gains / (losses) on valuation*	*Gain / (loss) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing loans and borrowings, of which:	FLaAC	(13 352)	–	–	–	–	(1 445)	(14 797)
- variable interest rate loans	FLaAC	(129)	–	–	–	–	–	(129)
- variable interest rate overdrafts	FLaAC	(13 223)	–	–	–	–	(1 445)	(14 668)
- other short-term variable interest rate loans	FLaAC	–	–	–	–	–	–	–
Other financial liabilities, of which:	FLaAC	(11)	–	–	–	–	–	(11)
- finance lease and hire purchase commitments	FLaAC	(11)	–	–	–	–	–	(11)
Trade and other payables	FLaAC	(704)	(941)	–	(459)	–	–	(2 104)
Hedging instruments	FLaAC	–	–	–	–	–	–	–
Derivative financial instruments, of which:	FVtPL	–	–	–	–	–	–	–
- forward currency contracts	FVtPL	–	–	–	–	–	–	–
Total		**(14 067)**	**(941)**	–	**(459)**	–	**(1 445)**	**(16 912)**

(in PLN thousand)

12-month period ended 31 December 2012	*Category according to IAS 39*	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Reversal / (recognition) of impairment write-downs/ allowances*	*Gains / (losses) on valuation*	*Gain / (loss) on sale of financial instruments*	*Other*	*Total*
Financial assets								
Financial assets available for sale (long-term), of which:	AFS	–	–	–	(144)	–	23	(121)
- shares	AFS	–	–	–	(144)	–	23	(121)
Other (long-term) financial assets, of which:		29	(10)	–	(1)	–	–	18
- long-term deposits	LaR	–	–	–	–	–	–	–
- long-term loans	LaR	29	(10)	–	(1)	–	–	18
Other (short-term) financial assets, of which:		197	–	–	506	125	–	828
- short-term deposits	LaR	197	–	–	–	–	–	197
- certificates of deposit	FVtPL	–	–	–	–	–	–	–
- TFI KBC fund units	FVtPL	–	–	–	–	–	–	–
- TFI Allianz fund units	FVtPL	–	–	–	506	125	–	631
- short-term loans	LaR	–	–	–	–	–	–	–
Trade and other receivables	LaR	13 577	(6 104)	21 970	–	–	–	29 443
Derivative financial instruments, of which:	FVtPL	–	–	–	5 853	(288)	–	5 565
- forward currency contracts	FVtPL	–	–	–	5 853	(288)	–	5 565
Cash and cash equivalents	LaR	1 377	(2 646)	–	–	–	–	(1 269)
Total		**15 180**	**(8 760)**	**21 970**	**6 214**	**(163)**	**23**	**34 464**

(in PLN thousand)

12-month period ended 31 December 2012	*Category according to IAS 39*	*Interest income / (expense)*	*Foreign exchange gains / (losses)*	*Reversal / (recognition) of impairment write-downs/allowances*	*Gains / (losses) on valuation*	*Gain / (loss) on sale of financial instruments*	*Other*	*Total*
Financial liabilities								
Interest-bearing loans and borrowings, of which:	FLaAC	(11 833)	–	–	–	–	(666)	(12 499)
- variable interest rate overdrafts	FLaAC	(11 833)	–	–	–	–	(666)	(12 499)
- other short-term variable interest rate loans	FLaAC	–	–	–	–	–	–	–
Other financial liabilities, of which:	FLaAC	–	–	–	–	–	–	–
- finance lease and hire purchase commitments	FLaAC	(22)	–	–	–	–	–	(22)
Trade and other payables	FLaAC	(13)	4 323	–	(2 221)	–	–	2 089
Hedging instruments	FLaAC	–	–	–	–	–	–	–
Derivative financial instruments, of which:	FVtPL	–	–	–	(157)	–	–	(157)
- forward currency contracts	FVtPL	–	–	–	(157)	–	–	(157)
Total		**(11 868)**	**4 323**	–	**(2 378)**	–	**(666)**	**(10 589)**

(in PLN thousand)

52.3. Interest rate risk

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

31 December 2013

Fixed interest rate	*<1 year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	–	–	–	–	–	–
Short-term deposits	–	–	–	–	–	–	–
Floating interest rate							
Cash and cash equivalents	24 182	–	–	–	–	–	24 182
Loans granted	–	–	–	–	–	–	–
Finance lease and hire purchase commitments	143	222	–	–	–	–	365
Loans received	258 869	–	–	–	–	–	258 869
	283 194	**222**	–	–	–	–	**283 416**

(in PLN thousand)

31 December 2012

Fixed interest rate	*<1 year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Long-term deposits	–	–	–	–	–	–	–
Short-term deposits	–	–	–	–	–	–	–
Floating interest rate							
Cash and cash equivalents	35 401	–	–	–	–	–	35 401
Loans granted	–	–	–	–	–	471	471
Finance lease and hire purchase commitments	111	64	–	–	–	–	175
Loans received	291 987	–	–	–	–	–	291 987
	327 499	**64**	–	–	–	**471**	**328 034**

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

53. Employment structure

Average employment in the Company in the period from January to December 2013 was 2,024 employees.

54. Events after the balance sheet date

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

On 30 January 2014, of the Company received an inflow of cash of PLN 125,5 million from PGE Górnictwo i Energetyka Konwencjonalna Elektrownia Opole S.A. in respect of the refund of the deposits paid to that company.

On 29 January 2014, RAFAKO S.A. received an advance of PLN 317,2 million from PGE Górnictwo i Energetyka Konwencjonalna Elektrownia Opole S.A., which was transferred by RAFAKO S.A. to the Alstom Group companies under the subcontract signed with these companies.

On 31 January 2014, the consortium of RAFAKO S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. received an Order to Begin Work on the Opole Project from PGE Górnictwo i Energetyka Konwencjonalna S.A.

On 27 February 2014, RAFAKO S.A. provided a declaration to TAURON Wytwarzanie S.A. on extending the validity of the proposal submitted by the consortium for the "Construction of new production capacities using coal-based technologies in TAURON Wytwarzanie S.A. – Construction of a 800-910 MW supercritical power unit in the Jaworzno III Power Plant – Power Plant II – comprising: steam boiler, turbo set, main building, electrical and measurement, control and automation systems of the power unit" until 30 April 2014, and provided an annex to the bid bond extending its validity until 30 April 2014.

On 3 February 2014, RAFAKO S.A. signed an annex to the overdraft agreement with Powszechna Kasa Oszczędności Bank Polski S.A. in Warsaw. In accordance with the wording of this annex, the amount of overdraft granted under that agreement for funding of the Issuer's day-to-day operations currently is PLN 240,000,000. No significant amendments were made to the contents of the remaining provisions of the overdraft agreement.

On 4 March 2014, RAFAKO S.A. signed an annex to the overdraft agreement with Powszechna Kasa Oszczędności Bank Polski S.A. in Warsaw. In accordance with the wording of this annex, the amount of overdraft granted under that agreement for funding of the Issuer's day-to-day operations currently is PLN 180,000,000. No significant amendments were made to the contents of the remaining provisions of the overdraft agreement.

On 13 February 2014, a subsidiary named RAFAKO Construction Sp. z o.o. was set up based on a notary deed. Its share capital amounts to PLN 5,000 and is divided into 100 shares with a nominal value of PLN 50 each. Shares in the new company have been acquired for cash contributions by RAFAKO Engineering Sp. z o.o., which took up 99 shares, and E001RK Sp. z o.o., which took up 1 share. The company's principal activities include construction site preparation, dismantling and demolition of buildings as well as digging, drilling and boring for geological and engineering purposes.

On 12 February 2014, an Extraordinary General Meeting of RAFAKO S.A. was held, which agreed to establishing a limited property right in the form of a registered pledge on a set of chattels and rights comprising the economic whole of the enterprise of RAFAKO S.A. for the benefit of PKO BP S.A. in order to secure the overdraft.

On 25 February 2014, RAFAKO S.A. issued a current report in which it notified about an Extraordinary General Meeting to be held on 24 March 2014 in order to pass a resolution amending the Company's Statutes so as to authorize the Management Board to increase the share capital within the limits of the authorized capital and give it the right to disregard pre-emptive rights.

On 28 February 2014, the Company received an inflow of cash of EUR 20.5 million from the Alstom Group due to entering into the agreement as discussed in detail in Note 45.

(in PLN thousand)

These financial statements of the Company were authorized for issue on 21 March 2014 based on resolution No. 27 of the Management Board of RAFAKO S.A. dated 21 March 2014.

Signed by:

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