GRUPA PBG

DIRECTORS' REPORT ON ACTIVITIES

OF RAFAKO S.A.
in Racibórz

in the year 2012

19 March 2013

Table of contents

Page number

Appendices:

I. General information

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

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

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

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

RAFAKO S.A. is a leading supplier of large desulfurization systems installed in Poland. The Company delivered such systems to Elektrownia Jaworzno III, Elektrownia Bełchatów, Elektrownia Pątnów and Ostrołęka „B".

In May 2012, the Company gave over for use one of its largest products – a Wet Lime Desulfurization System in Elektrociepłownia Siekierki PGNiG Termika SA. The underlying contract with a value of PLN 489 million had been executed since June 2008. The constructed system is one of the largest ecological investments in Poland as well as one of the largest units ever constructed by RAFAKO S.A. The system will operate using a modern system of pre-heating de-sulfurised flue gas which is composed of two heat exchangers with forced internal circulation, first time produced in Poland for this type of installation. In the first half of 2012, the Company also issued over for use a desulfurization installation in Elektrownia „Dolna Odra" with a value of approx. PLN 250 million.

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

In 2011, the Company entered a new area of ecological investments in the power industry sector which related to the reduction of nitric oxide by way of delivering modern de-nitriding or NOx reduction systems of selective catalytic reduction (the SCR system) under the „turn-key" method. Apart from the first NOx reduction system built for the K8 boiler at PKN Orlen, since June 2011 the Company has been constructing at Elektrownia „Kozienice" the SCR system. In June 2012, a contract was signed with GDF SUEZ Energia Polska S.A. for the delivery of a Catalytic De-nitriding System or the SCR (selective catalytic removal) system for six power generation units at Elektrownia Połaniec S.A.

The share of exports in total sales of RAFAKO S.A. is significant (40.3% in 2012). The largest boilers produced by RAFAKO S.A. operate in power generation plants in the countries of former Yugoslavia, and considerable number of such boilers was delivered to power generation plants in the Czech Republic, China, Turkey and India. RAFAKO S.A. is also an important manufacturer of boiler components and auxiliaries on the European market. Our clients in 2012 were the companies from such countries as France, Germany, Switzerland, Finland, Serbia, Czech Republic and Denmark.

The Company has continued to gain a stronger and stronger position on the European market of thermal waste utilisation. In 2011, we delivered 3 heat recovery steam generators for the system of thermal waste utilization in Torino (Italy) and 2 such generators for our client in Baku, Azerbaijani. Since February 2011, we have been executing a contract for the supply of a steam boiler for municipal solid waste (MSW) incineration plant in

Roskilde in Denmark. The construction of a waste incineration boiler in Billingham in the county of Cleveland, England, has reached its final stage.

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

In December 2012, in Elektrownia Jaworzno (the Tauron Group) a fluidized-bed boiler, fired using solely biomass fuel, was given over for use, as opposed to earlier units fired with coal or coal and biomass. In Stalowa Wola, the contract to adjust the existing pulverised-coal fired boiler to biomass combustion only has reached its final stage. These innovative projects stand for the strong position of the Company as the supplier of technologies for the production of energy from renewable energy sources. These projects are part of both the strategy of Poland, which should increase its overall power capacity produced from clean, renewable energy sources, and of the „ecological strategy" of RAFAKO S.A.

Since 2009 the product offer of the Company has been extended to include dust extractor devices, including electrostatic precipitators and bag filters. In 2009, RAFAKO S.A. signed, among other things, an agreement for the supply, assembly and start-up of 2 electrostatic precipitators at a power plant in Westfalen, Germany and 2 electrostatic precipitators at a power plant in Eemshaven in Holland, and an agreement for the modernization of electrostatic precipitators of the BB-1150 boiler for power units No. 5 and No. 6 in Elektrownia Bełchatów. In 2010, an agreement was signed with Elektrownia „Kozienice" S.A. for the exchange of electrostatic precipitators in power unit No. 10, and in 2011 – for the exchange of electrostatic precipitators (ESPs) in power units No. 3 and No. 4. In 2012, a contract was signed for the exchange of electrostatic precipitator and modernization of a slag and cinders transportation line for the power unit No. 6-215 MW in Elektrociepłownia Tuzla, Bosnia & Hercegovina.

Currently, the Company's product offer includes:

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

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

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

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

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

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

After the transformation:

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

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

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

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

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

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

(the shareholding structure of the Company as at 31 December 2012 was presented in point 3 of Appendix 8).

The Company was entered in the Commercial Register of the District Court in Katowice on 12 February1993 under the name „Fabryka Kotłów RAFAKO S.A."[1].

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

II. Economic and financial situation

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

A. External factors:

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

B. Internal factors:

- capacity to consume the effects of completed and planned investment projects executed to improve the efficiency of business operations, particularly in the area of production and management, and improvement in the capacity to secure and execute orders;
- improvement of the Company's management processes, including the process of managing long-term contracts and „fixed" costs;
- maintaining financial liquidity of the Company;
- development of multi person and multi-disciplinary teams to coordinate the work relating to execution of complete power industry objects;
- retaining and recruiting new, highly qualified design and production personnel for the Company.

2. Main threats and risk factors

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

- the risk of sufficiency of recognised provisions for and write-downs against some contracts, including those executed for the Clients who are parties to litigation proceedings as regards reasonableness and amount of contract-based claims;
- the risk of non-recovery of receivables covered and not covered by impairment write-downs, including the risk of non-recoverability of amounts not covered by an allowance and remaining due and receivable from the companies which are parties to litigation proceedings relating to, among other things, the reasonableness and amount of contract-based claims;
- the risk of changes in costs estimates for executed contracts resulting, among other things, from contracted purchases of goods and services which may have an „in plus" or „in minus" effect on the result recognised after 31 December 2012;
- the risk of the necessity to recognise provisions for liquidated damages (contractual penalties) for delayed contract execution, or the risk of not meeting the guaranteed technical parameters of certain contracts;
- technological risk arising from the implementation of complicated, innovative technological processes and quality procedures, or from the use of "difficult" and high quality raw materials in components production processes, and the related risk of contractual penalties following identification of technological errors;

- the risk of incurring potential costs of repairs, overhauls, modernization in the contracted warranty period, not covered by recognised warranty provision;
- the risk of claims and penalties arising from contract suspending or rescinding by one of the parties to the contract;
- the risk of lower revenues following final weight settlement with the Orderer;
- the risk of recoverability of receivables from entities under bankruptcy proceedings with a possibility of entering into an arrangement;
- the risk of recoverability of receivables following delays in the execution of the investment called "Construction of Szarley Biogas Power Plant" *(„Budowa Elektrowni Biogazowej Szarlej");*
- the risk of project limiting or delay by the Company's Clients, following the threat of another wave of economic crisis and bank lending restrictions;
- the risk of increase in interest rates for loan or guarantee products;
- macroeconomic risk relating, among other things, to instability of Polish zloty exchange rate, which could impede the correct assessment of profitability of concluded long-term contracts, or to changes in the taxation system.

Description of financial risk management objectives and policies, including the most significant types of risk, was presented in Note 51 to the financial statements of the Company.

3. Analysis of key economic-financial results

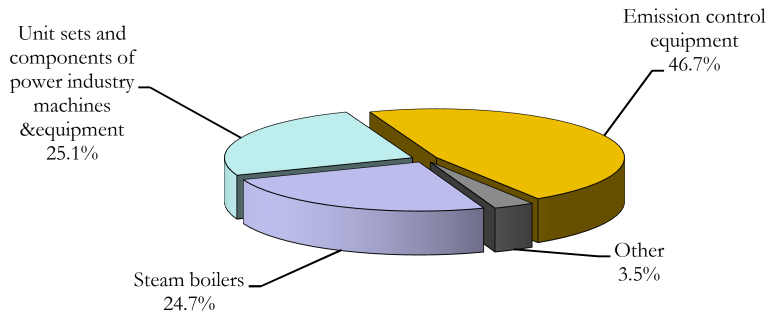
3.1. Sales revenue and its structure

Revenue from the sale of finished goods, goods for resale and raw materials in 2012 amounted to PLN 1 078 589 thousand and was PLN 48 497 thousand (4.7%) higher than in the prior year. Sales of finished goods and services amounted to PLN 1 074 811 thousand, sales of raw materials – to PLN 3 778 thousand, whilst revenue from FX differences on sale and revenue from hedging transactions (FX risk) – to PLN 448 thousand.

Sales structure on the domestic market did not materially change in 2012. Sales of emission control equipment amounted to PLN 347 990 thousand and were 1.8% lower than in the prior year (PLN 354 327 thousand in 2011). Sales of steam boilers amounted to PLN 188 703 thousand and were 32.4% lower than in the prior year; the decrease was mainly due to the completion in 2011 of the construction of a 858 MW power unit in Elektrownia Bełchatów. Lower sales in the range of steam boilers were compensated with higher sales of unit sets and components of power industry machines and equipment, and services.

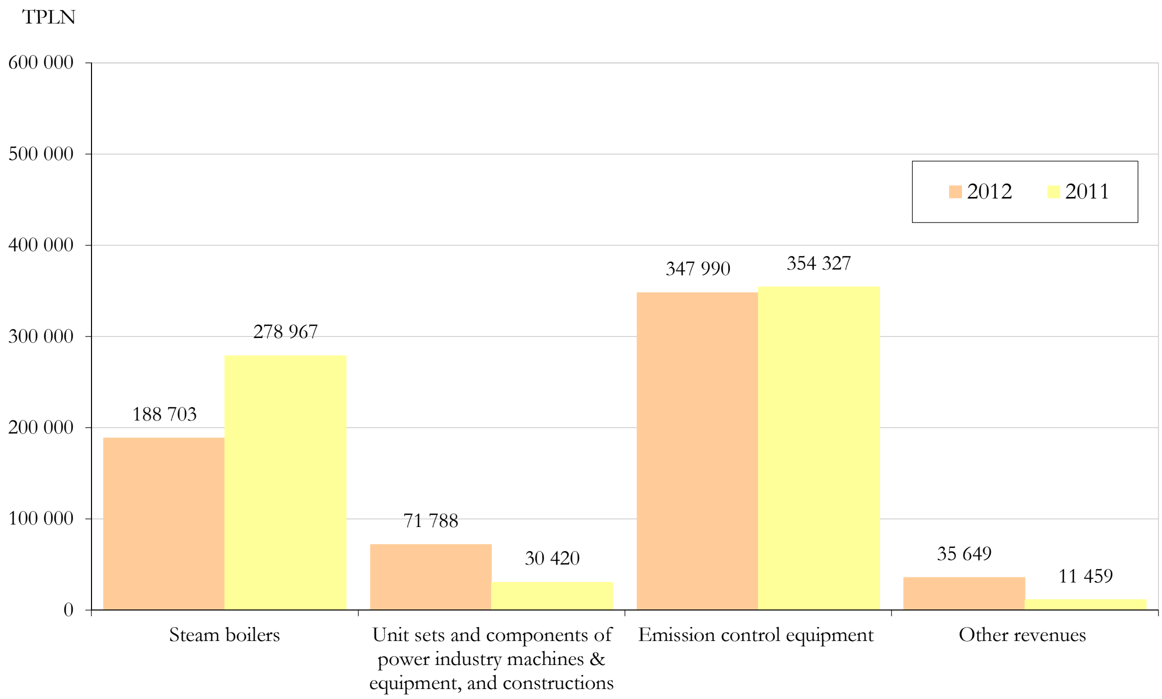
The share of exports in total sales was 40.3%, which marks a 5.8% increase compared to the corresponding period of the prior year. Exports in 2012 amounted to PLN 434 459 thousand and were 22.4% higher compared to 2011, when they were PLN 354 919 thousand. Higher export sales resulted from higher sales of electrostatic precipitators realized mainly in connection with execution of contracts on the German market.

The 2012 sales, by product range, are presented below:

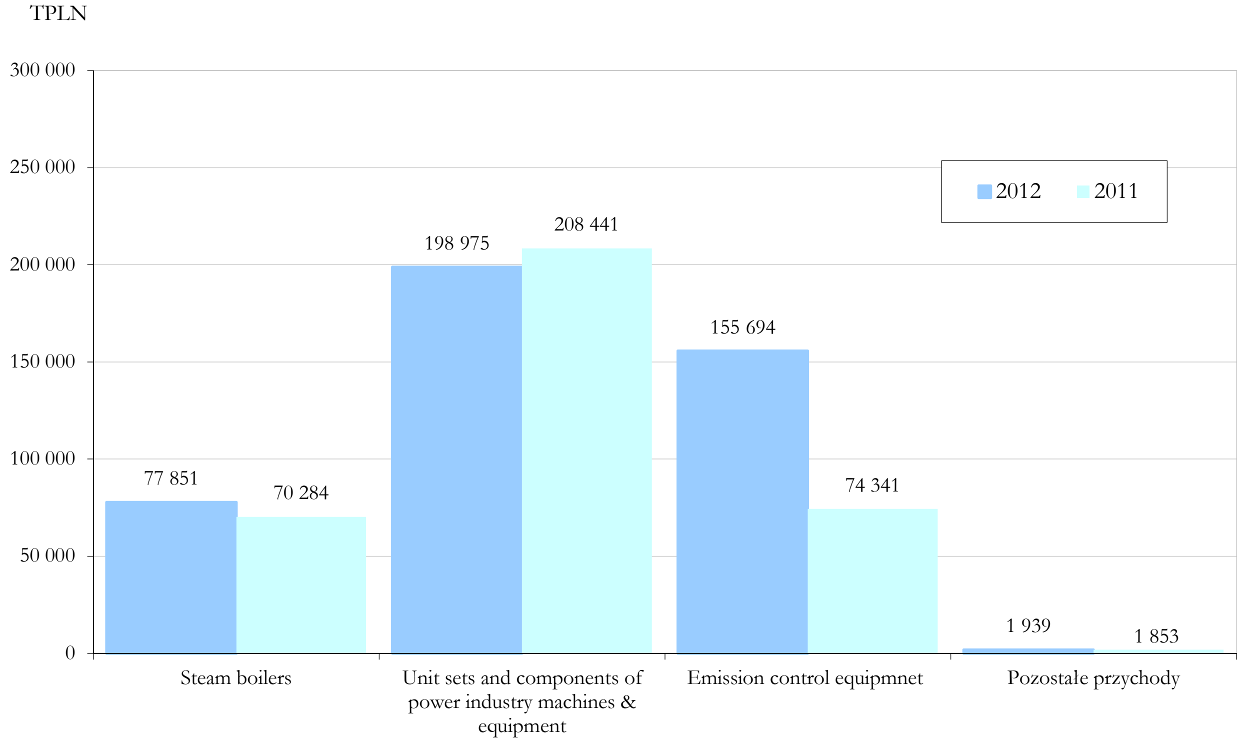


The 2012 product sales, by market, are as follows:

Domestic market (2012: PLN 644 130 thousand; 2011: PLN 675 173 thousand):

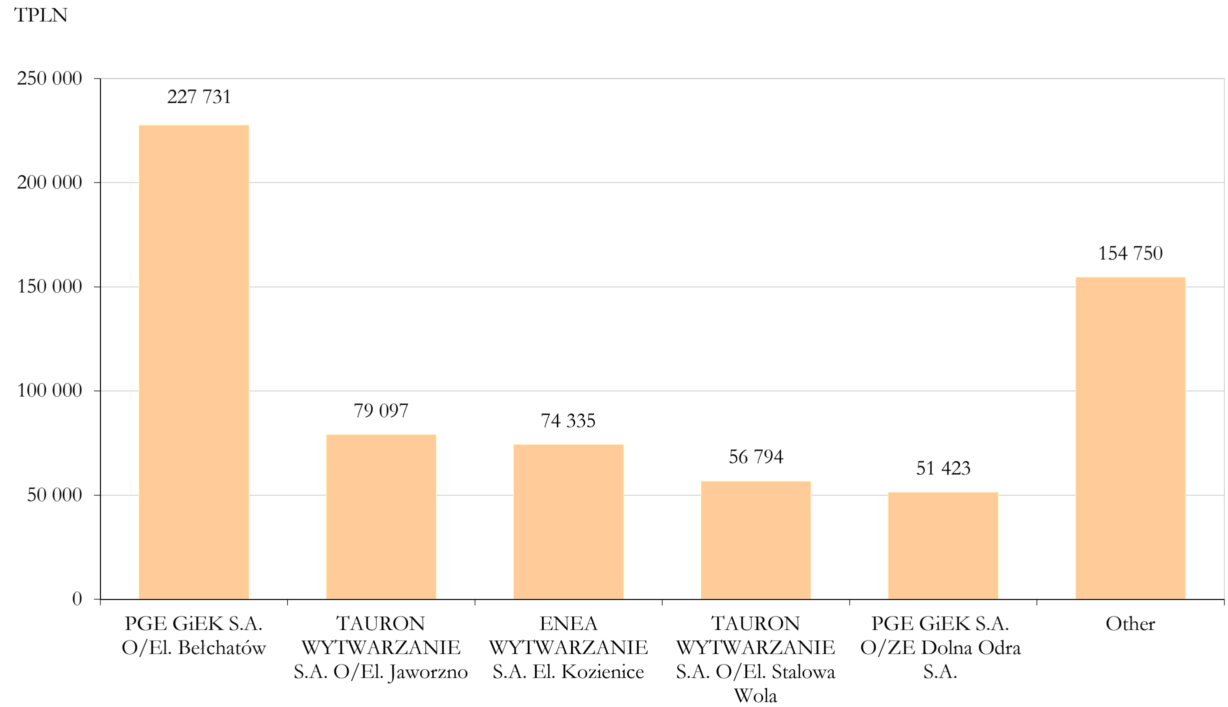


Exports (2012: PLN 434 459 thousand; 2011: PLN 354 919 thousand):



In 2012, the main customers of RAFAKO S.A. were as follows:

On the domestic market (total of PLN 644 130 thousand):

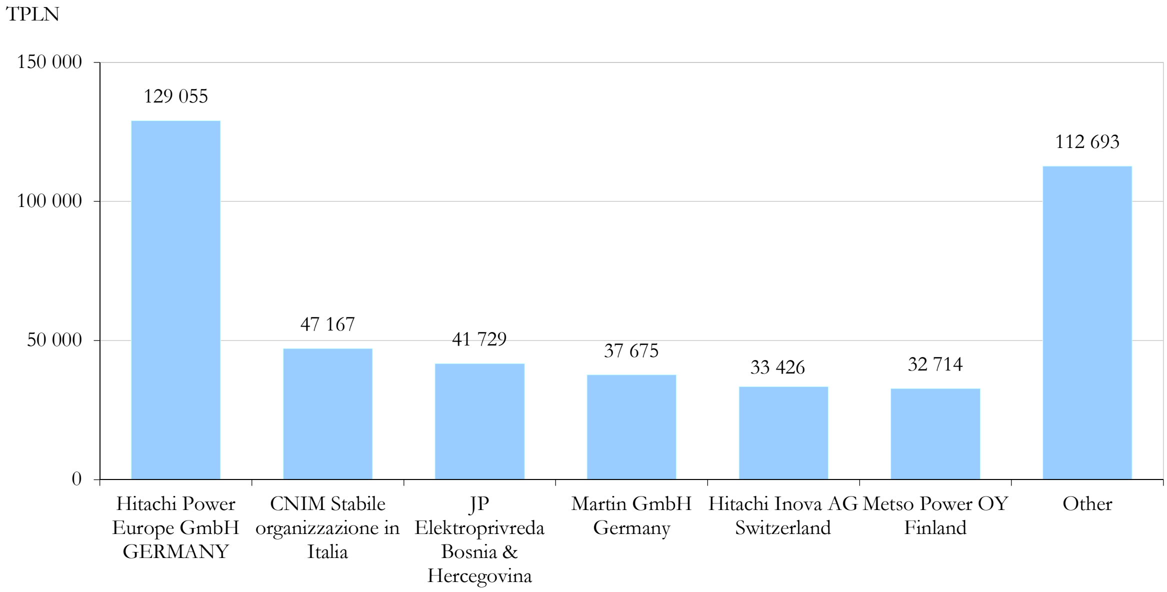


In 2012, the main customer of the Company became PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział [Branch] Elektrownia Bełchatów, whose sale result accounted for 21.1% of total sales (14.9% in 2011) and the subject of realized sales to this client was mainly the construction of a wet lime desulfurization system. Total sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. amounted to PLN 326 273 thousand.

A significant share in the sale result had also Tauron Wytwarzanie S.A. Oddział [Branch] Elektrownia Jaworzno (whose sales result accounted for 7.3% of total sales in 2012 and 11.5% in 2011), and the subject of realised sale was mainly the construction of a biomass-fired boiler with electrostatic precipitator at Elektrownia Jaworzno. Total sales to Tauron Wytwarzanie S.A. amounted to PLN 136 765 thousand.

For Enea Wytwarzanie S.A. – Elektrownia Kozienice (whose sales result accounted for 6.9% of total sales in 2012 and 2.6% in 2011), the subject of realised sale was the construction of a NOx reduction system and electrostatic precipitator exchange at Elektrownia Kozienice.

On foreign markets (total of PLN 434 459 thousand):



On foreign markets, the main customer of RAFAKO S.A. was Hitachi Power Europe GmbH based in Germany whose share in total sales accounted for 12.0% (6.0% in 2011). Subject to the sale to this Client were electrostatic precipitators and boiler pressure components.

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

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

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

In 2012, the main sources of supply for RAFAKO S.A. were as follows:

Sources of supply	*Purchases in PLN thousand*			
	2012		*2011*	
	Value	*Share in total purchases*	*Value*	*Share in total purchases*
Domestic suppliers	618 205	72.2%	649 037	80.5%
Foreign suppliers	238 335	27.8%	156 816	19.5%
TOTAL	**856 540**	**100.0%**	**805 853**	**100.0%**

In 2012, the structure of suppliers showed a considerable dispersion, and sales result of no single supplier accounted for more than 10% of total purchase value of the Company.

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

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

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

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

3.3. Related party transactions

In 2012, the Company did not enter into any significant transactions with related parties on other than an arm's length basis.

3.4. Operating expenses, their structure and gross sales result

Cost of sales of finished goods, services and raw materials amounted in 2012 to PLN 925 938 thousand, which given the sales revenue of PLN 1 078 589 thousand, allowed the Company to earn gross profit on sales of PLN 152 651 thousand (i.e. 14.8% higher than in 2011).

Higher profits resulted, among other things, from higher sales level (a 4.7% increase compared to 2011).

Operating profitability of gross sales also increased and reached the level of 14.2% (compared to 12.9% in 2011).

The most significant positive effect on the profitability level had:

- reversal of a provision for liquidated damages, after reaching settlement with a foreign Client (description in point III.4.d);
- decrease in the estimated costs of some contracts realized for domestic Clients, mainly in the field of external delivery of goods and services;
- decrease in the planned costs on one of the contracts realized for a Polish Client, following the review of estimated costs and contract threat factors

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

- recognition of a provision for possible liquidated damages (contractual penalties) for untimely execution of three domestic contracts;
- increase in the estimated costs of two contracts realised for a Polish Client – mainly as a result of the review of estimated costs and contract threats.

General administrative expenses amounted to PLN 33 809 thousand and were PLN 7 701 thousand higher compared to the corresponding period of the prior year, mainly as a result of higher remuneration of Management Board Members and higher costs of legal and IT services.

Selling expenses in 2012 amounted to PLN 21 062 thousand and were PLN 29 935 thousand lower compared to the corresponding period of the prior year. Selling expenses, without accounting for the impaired and written off previously impaired trade receivables, amounted in 2012 to PLN 35 223 thousand and were PLN 6 488 thousand higher compared to 2011, which resulted mainly from higher advertising expenses and higher costs of client offer preparation following participation in high-value public tenders. Impairment write-downs against trade receivable, together with previously impaired trade receivables written-off, decreased in 2012 by PLN 14 161 thousand (in 2011, the increase was PLN 22 262 thousand). Lower balance of impairment write-downs was mainly due to reaching a settlement agreement with one of the Company's Clients.

After considering selling and general administrative expenses, profit on sales amounted to PLN 97 780 thousand and was PLN 41 868 thousand (i.e. 74.9%) higher than in 2011.

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

3.5.1. Result on other operating activities

In 2012, the Company reported profit on other operating activities in the amount of PLN 8 530 thousand (in 2011 - PLN 4 155 thousand), which was the result of the following:

		In PLN thousand
1.	revenues from liquidated damages (contractual penalties)	4 974
2.	reversal of a provision for public settlements	3 237
3.	received compensations	964
4.	refund of costs of supplementing education of young employees	817
5.	remuneration for invention projects	(896)
6.	negative balance of other operating income and other operating expenses	(566)

3.5.2. Result on financing activities

In 2012, the Company incurred a loss on financing activities in the amount of PLN 82 942 thousand (in 2011 – earned profit of PLN 13 607 thousand), which was the result of the following:

		In PLN thousand
1.	result on the loss of control over subsidiary company (description in point 3.6)	(67 756)
2.	impairment of loans granted (description in chapter III point 4)	(13 426)
3.	interest on financial instruments	(10 106)
4.	FX losses	(3 643)
5.	bank commissions	(666)
6.	interest on deposits issued	6 826
7.	discount of long-term settlements	4 490
8.	reversal of a provision for finance costs	952
9.	valuation of financial instruments	506
10.	negative balance of other finance income and other finance costs (net finance costs)	(119)

3.6. Loss of control over subsidiary company

An exceptional one-off event in the history of RAFAKO, namely ineffective acquisition of control over ENERGOMONTAŻ – POŁUDNIE S.A., as described in detail in Note 46.1 to the 2012 financial statements, resulting in a loss of control over this company, caused that in the statement of financial position a receivable balance was recognized which was estimated after considering the expected cash inflows to the Company, including the inflows from the PBG S.A.'s offer of a 31% reduction in debt balance under proceedings for an arrangement with creditors (composition proceedings). The underlying loss recorded in 2012 was PLN 67 756 thousand.

3.7. Revenue and its structure

The main source of the gross profit, which in 2012 amounted to PLN 23 368 thousand (and was 68.3% lower than in the prior year), was the profit on sales i.e. profit on the main operating activities of the Company, in the amount of PLN 97 780 thousand.

After considering profit on other operating activities (PLN 8 530 thousand), loss on financing activities (PLN 82 942 thousand), including negative outcome of the loss of control over subsidiary company (PLN 67 756 thousand) and income tax (PLN 16 231 thousand), the net profit earned in 2012 amounted to PLN 7 137 thousand, compared to PLN 54 845 thousand in the prior year.

The financial results presented in the Directors' Report for the year 2012 cannot be compared to forecasted results because the Company did not publish any financial forecasts.

The structure and dynamics of gross result for the year 2012 and 2011 was presented in Appendix No. 4.

3.8. Profitability and Return on Equity

Compared to the prior year, the operating profitability level increased in 2012 and was 9.9% (5.8% in 2011).

Following a 87.0% decrease in the net profit, with a 1.8% increase in the shareholders' equity, return on equity (ROE) decreased in 2012 to 1.8% (14.0% in the prior year).

Profitability levels for the year 2012 and 2011 were presented in Appendix No. 1.

3.9. Financial liquidity

At the end of 2012, the level of liquidity ratios of RAFAKO S.A. approximated that of the prior year. Liquidity I (being the ratio of current assets to current liabilities) was 1.1.

In 2012, the Company reported an increase by 31 days (to the level of 84 days) in Debtors Days ratio which was accompanied by a similar 31 days increase (to the level of 110 days) in the Inventory Days ratio and a 22 days increase (to the level of 99 days) in Creditors Days ratio. Compared to the end of 2011, Working Capital ratio (trade debtors days + inventory days – trade creditors days) increased by 40 days and at the end of 2012 was 95 days.

The increase in Debtors' Days ratio was mainly caused by the overdue receivables from Alstom Power sp. z o.o. in connection with a court dispute over settlement of the construction of a 858 MW power unit in Elektrownia Bełchatów (compare description presented in Note 45 to the 2012 financial statements).

The increase in Inventory Days ratio was mainly the result of higher costs incurred on the projects relating to the supply of emission control equipment.

The Company has the ability to discharge its liabilities as they fall due. Consistent compliance with adopted standards, observation of the terms of payment set forth in the subcontractor contracts and recovery of Clients receivables were the main reasons that allowed the Company maintain appropriate liquidity levels.

In 2012, all liabilities towards the Social Security Office (ZUS), State Treasury and employees were discharged on time; delays were, however, recorded in discharging supplier liabilities. To improve its liquidity, on 8 February 2012, the Company signed an overdraft facility agreement with Bank PKO BP S.A. for the amount of PLN 300 million; the overdraft facility was granted for the purpose of financing Company's current operations. The overdraft facility was made available for the period of 12 months and then extended to 30 June 2013. Interest is paid on a monthly basis.

Fluctuations in the interest rate of said overdraft facility had effect on the level of finance costs incurred by the Company. Using the overdraft facility based on a variable interest rate of 1M WIBOR plus margin exposed the Company also to interest rates fluctuations typical for this type of financing.

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

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

As at 31 December 2012, the Company reported unsettled (open) forward currency transactions (currency forwards). The currency forwards referred to above were the transactions of forward sale of Euro in the amount of EUR 0.9 million.

Due to the expected change in the net foreign currency position of the Company i.e. from an exporter to importer, the Company did not enter into new foreign currency transactions within the limits specified in its adopted FX hedge accounting policy.

Information on financial risk management objectives and policies was presented in Note 51 to the Company's financial statements for the year 2012.

3.10. Debt balance

In 2012, the level of liabilities of RAFAKO S.A. towards its creditors increased by PLN 240 064 thousand. The sum total of current and non-current liabilities as at 31 December 2012 was PLN 850 207 thousand compared to PLN 610 143 thousand as at 31 December 2011. The increase related mainly to the incurred overdraft facility balance (at the end of December 2012, it was PLN 291 987 thousand). On the other hand, a decrease was recorded in the balance of liabilities from valuation of construction contracts (by PLN 88 526 thousand).

The value of assets not encumbered by liabilities (current and non-current) amounted as at 31 December 2012 to PLN 397 492 thousand (as at 31 December 2011 it was 1.8% lower and amounted to PLN 390 453 thousand).

The Debt ratio (calculated using the current and non-current liabilities), showing the possibility of securing repayment of debt with assets, increased compared to the prior year, by 7.1 p.p. to the level of 68.1%.

The Debt ratio does not account for contingent liabilities of the Company incurred in connection with the requested bank and insurance guarantees issued (mainly performance bonds and obligation to refund advance payments which are typical liabilities for the business operations of RAFAKO S.A. and the entire market of power industry equipment manufacturers), letters of credit and bills of exchange issued as security. The total balance of contingent liabilities of the Company from the above instruments amounted as at 31 December 2012 to PLN 484 612 thousand (as at 31 December 2011 – PLN 478 402 thousand).

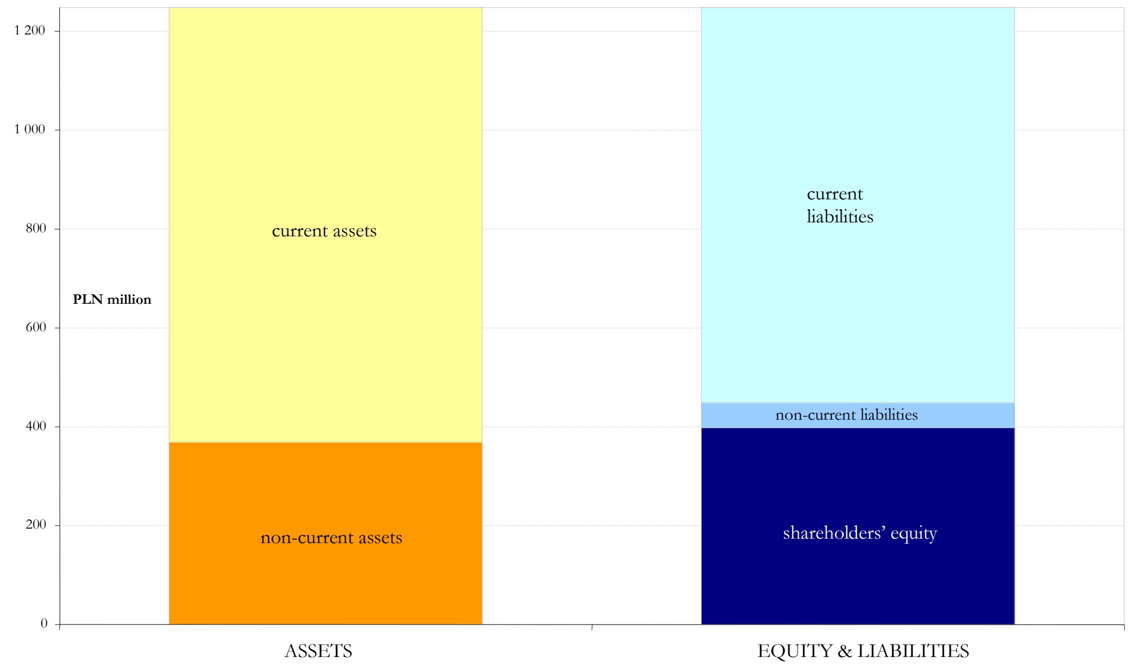
In 2012, at the request of the Company, banks and insurance companies issued to its business partners guarantees, mainly the performance bonds and guarantees of refund of advance payments, in the total amount of PLN 316 331 thousand. The greatest item in this group of contingent liabilities was the guarantee of advance payment refund with a value of PLN 79 310 thousand, issued in connection with signing a contract for the construction of power units in Elektrownia Opole.

In connection with realised contracts, apart from the contingent (off balance sheet) liabilities, the Company reported contingent assets (receivables) which as at 31 December 2012 amounted to PLN 230 828 thousand (PLN 268 166 thousand as at 31 December 2011). The main items of reported contingent assets were bank and insurance guarantees for the amount of PLN 171 663 thousand. In 2012, the value of received guarantees was PLN 64 065 thousand.

In 2012, the Company did not issue any sureties.

Liquidity and debt ratios for the year 2012 and 2011 were presented in Appendix No. 1.

3.11. Assets financing structure



As at 31 December 2012, total assets amounted to PLN 1 247 699 thousand and were PLN 247 103 thousand (i.e. 24.7%) higher compared to 31 December 2011, mainly as a result of an increase in current assets (by PLN 274 213 thousand) with a slight decrease in the value of fixed assets (by PLN 27 107 thousand).

The share of the shareholders' equity in the total of sources of assets financing decreased by 7.1 p.p. compared to 31 December 2011 and was 31.9%.

Fixed capital, being the sum total of the shareholders' equity and non-current liabilities, covered the entire value of non-current assets and 9.1% of the value of current assets.

As at 31 December 2012, assets financing structure was as follows:

1. non-current assets and non-current assets held for sale with a value of PLN 368 358 thousand were financed in full by fixed capital,
2. current assets with a value of PLN 879 341 thousand were financed by:
   - fixed capital 9.1%,
   - short-term loans and borrowings 33.2%,
   - liabilities from valuations of construction contracts 26.4%,
   - trade liabilities 26.9%,
   - other current liabilities 4.4%.

3.12. Non-current assets

3.12.2. Structure of non-current assets

Following realisation of investment projects, sale of property, liquidation or sale of redundant fixed assets, revaluation/ impairment of fixed assets or change in the value of deferred tax asset, the structure of non-current assets changed, and as at 31 December 2012 and 31 December 2011 was as follows:

	31 December 2012	*31 December 2011*
1. Property, plant and equipment :	40.2%	33.8%
• land and buildings	23.8%	19.9%
• plant and machinery	13.2%	11.2%
• motor vehicles	0.9%	0.9%
• construction in progress (AUC)	2.3%	1.8%
2. Intangible assets	2.4%	2.4%
3. Shares	16.3%	51.6%
4. Other financial assets	32.2%	0.0%
5. Deferred tax assets	8.9%	12.2%

The decrease in the share of shares (securities) in the structure of assets is the result of a loss of control over subsidiary company due to ineffective disposal by PBG S.A. of 64.84 % shares in Energomontaż Południe S.A. to RAFAKO S.A. The underlying amounts due to PGB S.A. in arrangement bankruptcy were recognized under other long-term financial assets. The result on the loss of control over subsidiary company was minus PLN 67 756 thousand (the description was presented in Note 46 to the 2012 financial statements).

3.12.3. Description of main investments in non-current assets

In 2012, the Company incurred capital expenditure for non-financial long-term assets in the amount of PLN 25 243 thousand, of which for:

- property, plant and equipment PLN 23 545 thousand,
- intangible assets PLN 1 698 thousand.

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

In 2012, the Company did not issue any securities.

3.13. Current assets

In 2012, an increase was recorded in the value of current assets by PLN 274 213 thousand to the level of PLN 879 341 thousand. The recorded change in the value of this group of assets resulted mainly from an increase in the value of deposits issued as security/ collateral (by PLN 191 156 thousand). An increase was also recorded in the value of trade receivables (by PLN 99 348 thousand), mainly as a result of a court dispute over settlement of a 858 MW power unit construction in Elektrownia Bełchatów (compare description in Note 45.1 to the 2012 financial statements).

3.14. Amount and structure of shareholders' equity

As at 31 December 2012, the shareholders' equity of RAFAKO S.A. amounted to PLN 397 492 thousand and consisted of the following items:

1. issued capital in the amount of PLN 139 200 thousand divided into 69 600 000 ordinary shares, series A,B,C,D,E,F,G,H,I. During the period of 12 months of 2012, no changes were recorded in this item of the shareholders' equity;
2. share premium in the amount of PLN 36 778 thousand. During the period of 12 months of 2012, no changes were recorded in this item of the shareholders' equity;
3. reserve capital in the amount of PLN 213 845 thousand (increase of PLN 55 191 thousand was the result of allocation of the 2011 net profit to reserve capital);
4. retained earnings in the amount of PLN 7 137 thousand;
5. cumulative FX differences from translation of foreign operations in the amount of plus PLN 532 thousand.

In 2012, no shares were re-acquired.

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

In 2012, the following changes occurred in capital relations between the Company and other entities:

1. On 30 March 2012, the subsidiary company, PGL – DOM Sp. z o.o., increased its share capital by PLN 17 200 000 to the amount of PLN 23 270 000, by way of issuance of 1 720 new shares with a nominal value of PLN 10 000 each. On 30 March 2012, RAFAKO S.A., based on the statement on taking up shares in the increased share capital of this entity, took up 1 720 shares in PGL – DOM Sp. z o.o. for the amount of PLN 17 200 000. The percentage share of the parent in the issued capital of PGL - DOM Sp. z o.o. did not change.
2. On 29 August 2012, the subsidiary company, RAFAKO ENGINEERING Sp. z o.o., acquired 100% shares in ENERGOTECHNIKA ENGINEERING Sp. z o.o. for the amount of PLN 14 750. The main type of business activities of this company comprises construction, urban and technological design, engineering advisory and installation of production machines and equipment.

III. Significant events in the operations of the Company in 2012 and in the period from the reporting date to the date of authorization of its financial statements

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

1. Contract with PGE Elektrownia Opole

On 15 February 2012, RAFAKO S.A. as the Leader of the Consortium comprising: RAFAKO S.A., Polimex – Mostostal S.A. based in Warsaw and Mostostal Warszawa S.A. based in Warsaw (hereinafter jointly referred to as General Contractor) entered into a contract with PGE Elektrownia Opole S.A. based in Bełchatów (the Orderer) with a value of PLN 9 397 million for the design, supply, performance of construction work, assembly, start-up and all the related services rendered on a "turn-key" basis with respect to a facility comprising power unit No. 5 and power unit No. 6 in PGE Elektrownia Opole S.A., including the equipment and fittings as well as the related buildings and structures. In accordance with the terms of this Contract, the General Contractor undertakes to execute the contract within 54 (fifty four) months of the date of issuing the order to begin work in relation to power unit No. and within 62 (sixty two) months of the date of issuing the order to begin work in relation to power unit No. 6. The coal-fired power generation units will have the capacity of 900 MW each, and the expected net efficiency of each unit is to reach 45.5%.

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

Due to the complaint of the ClientEarth organization concerning an environmental decision on new power units in PGE in Opole, no order to commence works has been issued to date.

On 19 February 2013, the Voivodship Administrative Court in Warsaw dismissed the complaint of ClientEarth concerning an environmental decision on new power units in PGE in Opole. The decision is not final and binding. The plaintiff may appeal against that decision to the Supreme Administrative Court, in which case the verdict of the Supreme Administrative Court cannot be expected earlier than in the second half of the year.

2. Other significant orders

a. Receipt of a notification from TAURON Wytwarzanie S.A. about selection, as the most favorable, in a tender proposal filed by a consortium comprising RAFAKO S.A. (the Leader) and MOSTOSTAL WARSZAWA S.A. in a tender procedure concerning granting a public order in publically announced tender negotiations for "The construction of new capacity in coal-fired technologies in TAURON Wytwarzanie S.A. – Construction of a power generation unit of 800 – 910 MW for supercritical parameters in Elektrownia Jaworzno III – Elektrownia II – steam boiler, turbine set, main building, electrical installation and AKPiA for this unit". *("Budowa nowych mocy w technologiach węglowych w TAURON Wytwarzanie S.A. – Budowa bloku energetycznego o mocy 800 – 910 MW na parametry nadkrytyczne w Elektrowni Jaworzno III – Elektrownia II – w zakresie: kocioł parowy, turbozespół, budynek główny, część elektryczna i AKPiA bloku").* The price set forth in public tender was approx. PLN 5.4 billion gross (PLN 4.4 billion net). The notification was received on 24 January 2013.

b. Concluding, as the Leader of a consortium comprising RAFAKO S.A. (99% share) and PBG S.A. in arrangement bankruptcy (1% share), with the companies of the EDF Polska Group (the Orderer or Contracting Party), in favour and on behalf of which EDF Polska CUW Sp. z o.o. acts as an authorized representative, of the following contracts:

1. Contract with EDF Kraków S.A. based in Cracow, for the amount of PLN 237.8 million; the contract was for the design, supply and start-up of a wet lime desulfurization system using the lime-gypsum technology in Elektrociepłownia Kraków.
2. Contract with EDF Wybrzeże S.A. based in Gdańsk:
   - for the amount of PLN 186 million; the contract was for the design, supply and start-up of a wet lime desulfurization system using the lime-gypsum technology in Elektrociepłownia Gdańsk.
   - for the amount of PLN 147.1 million; the contract was for the design, supply and start-up of a wet lime desulfurization system using the lime-gypsum technology in Elektrociepłownia Gdynia.
3. Contract with Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. based in Wrocław, with a net value of PLN 199 million; the contract was for the design, supply and start-up of a wet lime desulfurization system using the lime-gypsum technology in Elektrociepłownia Wrocław.

c. Contract with Elektrownia Połaniec S.A. – the GDF SUEZ Energia Polska Group, for the amount of approx. PLN 242 million, including the option of the supply of equipment with a value of approx PLN 26 million. The contract was for the supply of the selective catalytic removal (SCR) system in Elektrownia Połaniec S.A.;

d. Contract with Elektrownia Połaniec S.A. – the GDF SUEZ Energia Polska Group, for the amount of PLN 93.5 million; the contract was for the modernization of pressure parts of the EP-650-137 boiler in seven power generation units in Elektrownia w Połańcu;

e. Contract in consortium with EFOR Makina (the Contractor) with EUAS, Turkey, for the amount of EUR 13.3 million. The contract was for the modernization of EPSs (electrostatic precipitators) in power generation units No. 3 and No. 4 in Elektrociepłownia SOMA in Turkey;

f. Contract with JPE Elektroprivreda Bosne i Hercegovine d.d. Sarajewo to be executed by a consortium comprising RAFAKO S.A., Energoinvest d.d. Sarajevo and Deling d.o.o. Tuzla, for the amount of EUR 11.2 million. The contract was for the exchange of the EPS and modernization of a slag and cinders transportation system in a power unit No. 6-215 MW in Elektrociepłownia Tuzla, Bosnia & Hercegovina;

g. Contract with JP EPS Belgrade – PD "Termoelektrane Nikola Tesla" (TENT) d.o.o. Obrenovac based in Obrenovac (Serbia) with a value of approx. EUR 10.9 million. The contract was for the production and delivery of equipment, boiler components and auxiliaries, supervision and maintenance services for a boiler at the B1 power unit, which is the first of four stages of work to be performed at Elektrownia TENT B;

h. several contracts with Constructions Industrielles de la Mediterranee for the total amount of approx. EUR 13 million. The contract with the highest value of EUR 10.28 million was for the supply of boiler pressure components for two boilers at MSW combustion plant at Oxfordshire (Great Britain);

i. Conditional contract for PLN 227 370 thousand with Mostostal Warszawa S.A. for the design, supply and assembly of a two-line technological component for the MSW *(municipal solid waste)* Incineration Plant of Szczecin Metropolitan Area *(Zakład Termicznego Unieszkodliwiania Odpadów dla Szczecińskiego Obszaru Metropolitalnego).* The contract, together with annexes, was concluded under the condition precedent of obtaining by 29 March 2013 of unconditional approval of the Contractor and approval of the terms and conditions of the contract by end user i.e. Zakład Unieszkodliwiania Odpadów Sp. z o.o.

3. Bankruptcy of the PBG S.A. Group companies

In 2011, changes were recorded in the Company's capital relations. RAFAKO S.A. became a part of the PBG Capital Group, with PBG S.A. as the parent.

PBG S.A. is the leader of the Capital Group which comprises the companies operating on the specialist construction market. The service offer of the PBG Capital Group companies includes general contracting work for "turn-key" constructions of natural gas, crude oil, water and fuel installations, and comprehensive execution of industrial, housing, infrastructure, road-building and power generation investment projects.

In the first half of 2012, under a court ruling, the bankruptcy of PBG S.A. and Hydrobudowa Polska S.A. was declared with the possibility of entering into an arrangement with creditors (in September 2012, the court declared the liquidation bankruptcy of Hydrobudowa Polska S.A.).

The objective of bankruptcy proceedings with a possibility of entering into an arrangement with creditors is to protect creditors and employees so that their claims may be satisfied based on the same terms and conditions and to the greatest extent possible, and to uphold and ensure the further functioning and operations of a company, which is in the shareholders' best interests.

4. Other significant events or contracts

a. Granting by bank PKO BP S.A. in February 2013 an overdraft facility for the amount of PLN 300 million with a view to funding the day-to-day operations of the Company. The facility was granted for a period of 12 months. On 7 March 2013, an annex was signed to the overdraft facility agreement. The annex extended the original term of the agreement to 30 June 2013;

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

   The guarantee was valid until 15 February 2013. On 13 February 2013, an annex was signed to the contract which extended the term of the guarantee to 15 May 2013. The annex did not significantly change the contents of the remaining terms and conditions of the guarantee contract;

c. Initiation by the Company of arbitration proceedings against the HPE company incorporated under German law before the ICC International Court of Arbitration in Paris. The subject of arbitration proceedings covered monetary claims of the Company as the plaintiff against HPE as the defendant arising from three projects carried out in Germany for which the Company acted as a subcontractor of HPE. The value of the claim comprised disputed receivables with a total value of EUR 13 386 595.11. In the opinion of the Management Board, the fundamental issue to settle the dispute is to determine whether it was objectively possible to produce, in accordance with binding technical and legal parameters, membrane screens using the materials and welding technology imposed by HPE. On 16 May 2012, the Company applied for withdrawal of a claim following an out-of-court settlement. As a result of the settlement, HPE paid to RAFAKO S.A. the amounts resulting from the settlement and the Company reversed/utilised the impairment write-downs against underlying trade receivables (Note 33.1 to the 2012 financial statements of the Company). In addition, the settlement cancelled the responsibility of the parent for the use of T24 steel, and for any faults resulting from fractures in the T24 raw material as regards the components made of T24 steel. The settlement exhausted any mutual claims of the parties resulting from the three contracts jointly executed in Germany with respect to T24 steel components;

d. Filing a claim against ALSTOM Power Systems GmbH and ALSTOM Power sp. z o. o. (jointly referred to as "Alstom") with the Court of Arbitration at the International Chamber of Commerce in Paris; place of arbitration proceedings - Zurich, Switzerland, for a total of approx. PLN 375.1 million and EUR 4.3 million. The dispute relates to the execution of a contract for the supply of a boiler and desulfurization system for a 858 MW power unit in PGE Elektrownia Bełchatów S.A. (the matter was described in detail in Note 45 to the 2012 financial statements);

e. Claim against the Company filed by Alstom Power Systems GmbH (APS) for a total of approx. EUR 7.3 million. The matter has been heard before the Court of Arbitration of the International Chamber of Commerce; place of arbitration proceedings - Zurich, Switzerland. The dispute relates to a contract for the supply of pressure components made of T24 steel for a 910 MW power station in Karlsruhe. The fundamental claim relates to the allegedly faulty quality of welding works performed by RAFAKO SA, which were said to lead to major delays in the contract's execution. In the opinion of RAFAKO S.A., these claims are completely unfounded (the matter was described in detail in Note 45 to the 2012 financial statements);

f. Claim against the Company filed by Alstom Power Systems GmbH (APS) for a total of approx. EUR 28.7 million. The matter has been heard before the Chamber of Commerce of the Court in Stuttgart. The dispute relates to a contract for the supply of pressure components to two power units (power unit D and power unit E) for the power station, RWE Power AG in Hamm, Westphalia, and to alleged non-performance or improper performance by RAFAKO S.A. of the contract under which RAFAKO S.A. acted as a subcontractor of APS. In the opinion of the Company's Management Board, the claim should be dismissed in its entirety (the matter was described in detail in Note 45 to the 2012 financial statements);

g. Agreement between RAFAKO S.A. and PBG S.A. in arrangement bankruptcy, relating to the transfer of 46 021 520 ordinary bearer shares of ENERGOMONTAŻ – POŁUDNIE S.A. (EPD) with a nominal value of PLN 1 each, representing 64.84% of the issued capital of EPD and 64.84% of the total number of votes at the general meeting of shareholder of EPD. PBG S.A. is obligated to return the mutual consideration to which the Company is entitled arising from the transfer of shares by the Company to PBG S.A., in the amount of PLN 160 154 889.60 i.e. PLN 3.48 per share, as provided in article 134 of the Act - Bankruptcy and Reorganization Law;

h. Notification on 21 September 2012 to the judge commissioner at the District Court in Poznań – Stare Miasto in Poznań, XI Commercial Department for Bankruptcy and Reorganization, of the receivables of the Company from PBG S.A. in arrangement bankruptcy based in Wysogotów („PBG"). The receivables were notified under article 236, 239 and 240 of the act dated 28 February 2003 - The Bankruptcy and Reorganization Law (Journal of Laws 2009, No. 175, item 1361 as amended) in the total amount of PLN 193 070 677. This amount is composed of: PLN 160 155 thousand that relates to the return of mutual consideration due to RAFAKO S.A. from PBG S.A. in arrangement bankruptcy in connection with ineffective sale agreement between these companies concerning the sale of 46 021 520 ordinary bearer shares in ENERGOMONTAŻ – POŁUDNIE S.A. and the value of a bill of exchange guarantee as collateral for the repayment of a loan issued by RAFAKO S.A. to Hydrobudowa Polska S.A. in liquidation bankruptcy]. PBG S.A. in arrangement bankruptcy as the guarantor of the bill of exchange is a joint and several debtor, and therefore RAFAKO S.A. has the right to assert its claim under the loan granted from both of these entities.

i. Issuance to Hydrobudowa Polska S.A. (currently in liquidation bankruptcy) for a 12-month period (i.e. to 9 January 2013) of a cash loan of PLN 32 million to finance current operations of this company. Given the declared liquidation bankruptcy of Hydrobudowa Polska S.A., RAFAKO S.A. registered its receivables with the bankruptcy estate of Hydrobudowa Polska S.A. in the amount of PLN 33 479 thousand. Following the announcement of declaration in bankruptcy by Hydrobudowa Polska S.A., pursuant to article 124 paragraph 2 of the Bankruptcy and Reorganization Law, RAFAKO S.A. has the right to enforce a claim with respect to the actually granted loan proceeds as provided under the Bankruptcy and Reorganization Law. In order to ensure the recoverability of its loan receivables, the Management Board of RAFAKO S.A. secured a bill of exchange guarantee from another PBG Group company which is not in bankruptcy (the matter was described in detail in Note 46 to the 2012 financial statements);
j. Changes in the Company's Articles of Association (uniform text of the Articles of Association was provided in the current report No. 8/2013 dated 5 March 2013).

Included in the cooperation contracts concluded in 2012, which are material to the Company's business activities are – apart from the contracts listed in Chapter III of this Report – the insurance contracts.

Listing of insurance contracts valid as at 31 December 2012 was presented in Appendix No. 5.

Information on the contract with an entity authorised to audit the financial statements was presented in Note 50 to the Company's financial statements.

5. Development and quality projects

The research and development activities conducted in the last year concentrated mainly on the utilisation of new applications for technologically advanced raw materials, and on the new forms of organization of investment projects based on innovative solutions. The most important open projects of the Company are executed as multi-entity cooperation projects commissioned by the National Centre for Research and Development, EIT or by the Knowledge & Innovation Community, or directly by the European Commission.

RAFAKO S.A. has regularly cooperated with institutions of scientific studies, especially with Politechnika Wrocławska, Politechnika Śląska, Politechnika Krakowska, Akademia Górniczo Hutnicza, Instytut Metalurgii Żelaza and Instytut Spawalnictwa.

In 2012, eight patent notifications were filed with the Patent Office of the Republic of Poland, and several others have been prepared for filing.

The major research & development and quality-related projects completed in 2012 are as follows:

a. Development of guidelines for the design of traditional boilers and those fired with biomass or solid waste;
b. Optimization of raw materials selection, technology of production and repair of gas-tight tubular walls in boilers for supercritical parameters, with particular emphasis of the need to conduct detail research of the T24 type steels;
c. Testing innovative methods of measurement of emissions velocity distribution in large EPSs;
d. Researching operational parameters of desulfurization systems to update a computational model of emissions control in the semi-dry technology;
e. Assessment of a response to and forecasts of long-term use of a new generation steels used to produce components of boilers operating in the above critical temperature;
f. Analysis of the impact of a 400- and 500-based scale on selected operational parameters of electrostatic precipitator;
g. Securing certified rights to welding technologies involving austenitic steels;
h. Researching new types of ferritic steels for gas-tight walls.

6. Computerisation and management

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

In 2012, the Company enhanced the level of data security by transferring its systems to a new server room equipped with the systems guaranteeing business continuity in contingency circumstances.

Another significant element of the Company's computerization- and management-related initiatives was the start of an implementation process of the Oracle Primavera system which facilitates large projects scheduling and project portfolio analysis. In 2012, the systemic functions of planning, budgeting and project control were implemented for the RAFAKO and the Capital Group Planning Office.

In 2012, RAFAKO S.A. did not make any changes to its basic policies of Company management.

In the second half of 2012, the Company ceased to conduct production activities in Radomsko.

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

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

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

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

8. Other information

Statement on the principles of corporate governance at RAFAKO S.A. in 2012 is included in Appendix No. 8.

Information on remuneration, bonuses or allowances for management and supervisory personnel was included in Note 48.7 to the financial statements of the Company.

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

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

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

Information on the number of shares of RAFAKO S.A. held by Management and Supervisory Board Members, and the number of shares held in entities related to RAFAKO S.A. held by Management and Supervisory Board Members was presented in Note 48.5 to the financial statements of the Company.

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

IV. Company business perspectives for 2013

1. Energy policy

In 2010, work was completed on the new Directive of the European Parliament and the Council of the European Union (or Council of Ministers) on industrial emissions *(the IED - Industrial Emissions Directive).* At the core of the IED is an integrated approach to environmental protection issues, stressing preventive measures for environmental pollution, and if the application of such preventive measures is not possible, the IED provides for limitations on emissions through technical initiatives, and the implementation of system and organisational solutions in the area of production activities. The IED has implemented the requirement to obtain integrated permits that specify the operational conditions for a given system/ installation based on the best available techniques (BAT) criteria, after considering the specific nature of a given system, local environmental conditions and technical-economic conditions.

The IED enters into force on 7 January 2014. Excluded from this effective date are the current regulations limiting certain emissions by large combustion plants, which will become effective as of 2016. Implementation of the new regulations means that practically every coal-fired boiler will have to undergo significant modernization or replacement. The IED practically rules out the possibility of burning coal in power generators that are not equipped with highly-efficient desulfurization, NOx reduction or dust removal systems.

In December 2012, the Polish Council of Ministers adopted a Transitional National Plan which allows for shifting the deadline for the effective date of tighter emission standards for sulphur dioxide, nitric oxide and dust from 2016 to mid 2020.

Despite this, all power generation units must be successively adapted or modernized in order to operate in accordance with these new standards.

The Transitional National Plan allows for certain exemptions from the objective-based standards provided in the IED; it requires, however, a swift reduction of total emissions by the installations covered by the Plan. This effectively means that in subsequent years more energy production plant groups will need to be modernized for them to become operational under the new standards.

However, implementation of the IED will bring about the greatest changes for lesser energy sources and these are the plants that will suffer the most when it comes to adjusting their operations to the new regulations. For the professional power generation industry, where the majority of boilers have a production capacity of more than 300 MW, the changes relate mainly to reductions in NOx emissions. Such plants will have to use more effective NOx emission reduction systems than those currently used for primary emissions reduction.

The levels required by the IED can be achieved by the use of selective catalytic removal systems (SCRs). Such installations increase, however, the costs of energy production by several percent. It may also transpire that in older power generation units, the construction of SCR installations or fulfilment of other standards of the IED may not prove feasible.

From the IED perspective, the Transitional National Plan is of no great significance for new investments, as its term is not long. The main obstacle to the construction of new system power units is the uncertainty relating to EU climate policy, as well as uncertainty regarding economic and industrial growth.

On 8 March 2011, the EU Commission adopted a roadmap the objective of which is to change by 2050 the entire European Union into a competitive low-emission economy. The adopted action plan describes cost-effective measures to achieve the objective to reduce by 2050 the emission of greenhouse gases by 80-95%, compared to the level set for 1990.

Poland vetoed the EU plan for combating climate change which assumed the reduction of CO2 emission by 80% to 2050. The EU plan provided for a gradual reduction of CO2 emissions; by 40% to 2030, by 60% to 2040, so as to reach the 80% CO2 emission reduction by 2050. Poland argued that it is still too early for the EU to assume such a major commitment. It was emphasized that the European Union should first wait until global climate negotiations are completed in 2015 and see what the commitments are of the largest polluters, namely the United States, China and Russia.

In July 2012, the EU Commission accepted the application request of Poland to be granted free of charge CO2 emission rights for our energy sector after 2012. The requirement necessary to receive the free of charge emissions rights is that given enterprises carry out appropriate investments.

The EU Commission proposed a change in the EU Emissions Trading Scheme Directive (EU ETS) which allowed implementation of the *backloading* mechanism. B*ackloading* leads to a withdrawal from the market of certain CO2 emission rights between 2013- 2015 and re-introducing them into the EU ETS Scheme in the years 2019-2020.

2. Energy sector investment plans

In 2012, Poland reported a 0.57% decrease in energy consumption (to the level of 157 TWh) and a 2.02% decrease in reported in energy production. At the same time, the greatest ever demand for capacity was recorded, which during a period of severe frost on 8 February 2012 reached a level of 25 844 MW. A planned phase out of a significant number of power units may lead to the capacity shortage during peak hours. The best solution to avoid an energy deficit is to construct new power capacity, which should be an important argument for the State as a shareholder in the largest domestic energy groups. The plans of energy groups are ambitious, but their actual actions are relatively modest. It appears that the main reason behind delays in taking concrete investment decisions is the reduction in electrical energy prices and uncertainty with respect to EU energy policy.

Among large power units currently being realised, aside from contracts executed by RAFAKO, of note is the contract for the construction in Kozienice of a 1000 MW lignite-fired unit for Enea, being performed by Polimex-Mostostal together with Hitachi Power Europe with a value of more than PLN 4.8 billion.

In Poland, with the power industry being 90% dependent on coal, the actual process of increasing the share of gas in the production of electrical energy has already started. In December 2012, the construction started in Stalowa Wola of the first, in many years, large thermal – electric power station using gas fuel with a power capacity of 449 MW. The investors, Tauron PE and PGNiG, plan another such investment in Łagisza. Two other thermal – electric power stations are under construction by Energa in Grudziądz and Gdańsk. PKN Orlen is in the process of construction in Włocławek of a gas-steam power unit with the capacity of 463MW. All these investors are counting not only on low CO2 emissions of their new power stations, but on reasonable gas prices as well.

In the summer of 2012, a consortium was established of companies controlled by the State Treasury with the common business objective to exploit the deposit near Wejherowo, explored by Polskie Górnictwo Naftowe i Gazownictwo. Apart from PGNiG, PGE, Tauron, Enea and KGHM Polska Miedź joined the consortium. A separate hydrocarbon prospecting program has been executed by PKN Orlen. Industry entities mobilized by the Ministry of the State Treasury have the ambition to develop specific Polish technologies required for the process of production and utilization of gas and other hydrocarbons from shale gas. In July 2012, a contract was signed whereby a special fund was established for research into shale gas technologies.

A tender procedure for the construction of two coal-fired power generation units in Elektrownia Północ (Kulczyk Investments) with a capacity of 780 and 1050 MW may be resolved very soon.

The main barrier to the construction of new power units is uncertainty surrounding EU climate policy as well as the current uncertainty over economic and industrial development.

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

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

In 2013, RAFAKO S.A. will continue to offer to its clients boilers for supercritical steam parameters, CFB boilers *(Circulating Fluidized Bed boilers),* heat recovery steam generators (HRSGs), including those interacting with gas turbine, as well as diagnostic, modernization and repair services of boiler components and auxiliaries.

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

3. Business plans

The greatest effect on the Company's development and business perspectives in 2013 will have the following events: participation in public tenders for the construction of power units, including solution of a tender for the construction of a 800-910 MW power unit for supercritical steam parameters at Elektrownia Jaworzno, execution of the largest ever contract for the construction of two power units in PGE Elektrownia Opole, execution of a large number of significant contracts on the domestic and European markets such as the contracts for the construction of modern boilers and desulfurization and NOx reducing systems, construction of biomass-fired boilers, thermal MSW and other waste combustion boilers, as well as production of pressure components for boilers for supercritical steam parameters.

Investment expenditure planned for the year 2013 will relate mainly to modernization of buildings and constructions, purchase of production machines and equipment, software and computer hardware. These investments will be financed primarily from the Company's own funds.

According to the 2013 financial forecasts, RAFAKO S.A. is to report net positive financial result. These forecasts are based on the expected realisation of all signed contracts, which account for a significant part of planned levels of sale, and on the amount of orders the Company expects to secure during 2013 to fully realize its business plans and objectives.

V. Management Board Representations

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

1) according to its best knowledge, the financial statements for the year ended 31 December 2012 and comparative financial data for the year ended 31 December 2011 were prepared in accordance with binding accounting policies and reflect fairly and truly the financial position of the Company and its financial result, and that the Directors' Report on Activities of RAFAKO S.A. for the year 2012 contains the true picture of the Company's development and achievements and its results, including the description of key threats and risks;
2) the entity authorised to audit the financial statements who audited annual financial statements of the Company was selected in accordance with binding laws, and this entity and certified auditors performing the audit fulfilled the requirements to issue an impartial and independent auditors' opinion on the audited annual financial statements, in accordance with binding auditing norms.

Signatures of Management Board Members:

19 March 2013	Paweł Mortas	President of the Management Board	....
19 March 2013	Krzysztof Burek	Vice-president of the Management Board	....
19 March	Jarosław Dusiło	Vice-president of the Management Board	....