THE PBG GROUP

DIRECTORS' REPORT
on the operations
of the
RAFAKO GROUP
of
Racibórz

for the year ended
December 31st 2013

March 21st 2014

Table of contents

Appendices:

1. General information

RAFAKO S.A. (the "Parent") is one of the largest Polish companies designing, manufacturing, constructing and servicing power sector equipment and facilities. On December 31st 1949, the Minister of Heavy Industry established a state-owned enterprise operating under the name of Fabryka Urządzeń Technicznych of Racibórz. The company's principal business activity was manufacture of steam generators. The history of the enterprise is also a history of development of Poland's power sector.

Since its inception, the Parent has been a leading supplier of steam generators for the country's power sector and industry. The combined capacity of RAFAKO-delivered steam generators accounts for a significant part of the capacity installed in the Polish commercial and industrial power sector. The most important facilities which use RAFAKO steam generators include Warsaw CHP Plants, Wrocław CHP Plants, Łódź CHP Plants, Wybrzeże CHP Plants, and Zielona Góra CHP Plant, as well as the following power plants: Opole, Bełchatów, Kozienice, Dolna Odra, Rybnik, Pątnów-Adamów-Konin, Turów, and the power plants of Południowy Koncern Energetyczny. The Company has delivered circulating fluidised bed (CFB) steam generators to the Żerań CHP Plant, Bielsko-Biała II CHP Plant, the Siersza Power Plant, and Zakłady Farmaceutyczne Polpharma Starogard Gdański.

In 2008, a 464 MW unit was commissioned at Pątnów II Power Plant; RAFAKO S.A., in cooperation with SNC Lavalin, supplied the steam generator and the flue gas delsulfurization (FGD) unit. The supercritical power generating unit at Pątnów II Power Plant was the first such unit in Poland, both in terms of the capital expenditure incurred and the generating capacity delivered. The unit's high efficiency helps significantly reduce emissions of harmful gasses, mainly carbon dioxide.

In 2011, an 858 MW unit was commissioned at the Bełchatów Power Plant. RAFAKO S.A. was the supplier of the boiler island comprising the steam generator, electrostatic precipitator, and flue gas desulfurization unit. The power generating unit in Bełchatów is the most powerful lignite-fired unit in Poland. It is also the most efficient one (expected efficiency of 42%).

RAFAKO S.A. is also a leading manufacturer of large FGD units in Poland. The Company has delivered such units to the following power plants: Jaworzno III, Bełchatów, Pątnów, Ostrołęka B, and Dolna Odra.

In 2012, RAFAKO S.A. delivered one of its largest projects, the wet flue gas desulfurization unit at the Siekierki CHP Plant owned by PGNiG Termika S.A. The unit is also one of the largest pro-environmental projects completed in Poland, and one of the largest stand-alone structures ever built by RAFAKO S.A.

In 2007-2008, RAFAKO S.A. commissioned high-efficiency wet and semi-dry flue gas desulfurization units at the Łódź CHP Plant and the Skawina Power Plant. The semi-dry system was engineered exclusively by RAFAKO S.A. and is a more cost-efficient solution than the wet method.

In 2011, the Parent gained foothold in a new area of pro-environmental projects in the power sector, i.e. the catalytic reduction of nitrogen oxides, and commenced manufacture of state-of-the-art SCR units on a turn-key basis. Following construction of the first unit delivered for the K8 boiler at PKN Orlen, construction of a second SCR unit has been under way since June 2011 at the Kozienice Power Plant. In June 2012, a contract for delivery of Catalytic Flue Gas Denitrification Systems for six power generating units at Elektrownia Połaniec S.A. was signed with GDF SUEZ Energia Polska S.A.

Foreign sales account for a significant part of the RAFAKO Group's total sales (27.6% in 2013). The largest steam generators manufactured by RAFAKO S.A. are used in power plants in the former Yugoslavia. A number of large units has also been delivered to China, Turkey, and India. RAFAKO S.A. is also an important player on the European market for steam-generator components. In 2013, RAFAKO products were sold to customers in France, Germany, Switzerland, Finland, Serbia, Turkey, and Denmark.

The Group is building its position on the European market of waste incineration solutions. In 2011, the Group supplied three heat recovery steam generators to a waste incineration facility in Turin, Italy, and further two heat recovery steam generators were delivered to Baku, Azerbaijan. Since 2011, a steam generator for the municipal waste incineration facility in Roskilde, Denmark, has been under construction. Also, construction of a waste incineration boiler in Billingham, England nears completion. In 2013, the Group began execution of a contract for delivery of the process part for two units at the waste thermal treatment plant of the Szczecin Metropolitan Area.

In December 2012, a fluidised bed boiler was commissioned at the Jaworzno Power Plant (Tauron Group). The boiler will be exclusively biomass-fired, as opposed to coal-fired and biomass co-fired units already operated at the power plant. The contract at the Stalowa Wola Power Plant for conversion of the existing coal-fired boiler into a biomass-fired unit is nearing completion, as is a contract for delivery of a biomass-fired boiler to a customer in Wiesbaden, Germany. These innovative projects highlight the Group's established position as a supplier of renewable power generation technologies. They are also aligned with

Poland's strategy for the power sector, where the share of renewables in power generation should be increased, as well as with the RAFAKO Group's own pro-environmental strategy.

In 2009, the Group added to its offering dust extraction equipment, such as electrostatic precipitators and bag filters. Also in 2009, RAFAKO S.A. signed contracts for delivery, assembly and start-up of two electrostatic precipitators at the Westfalen Power Plant in Germany and two electrostatic precipitators at the Eemshaven Power Plant in the Netherlands, as well as a contract for upgrade of electrostatic precipitators of the BB-1150 steam generator at units No. 5 and No. 6 of the Bełchatów Power Plant in Poland. In 2010, the Group signed a contract with Elektrownia Kozienice S.A. for replacement of the electrostatic precipitator at power generating unit No. 10. Then, in 2011, another contract was signed for replacement of electrostatic precipitators at power generating units No. 3 and No. 4. In 2012, RAFAKO was contracted to replace an electrostatic precipitator and upgrade 215 MW power generating unit No. 6 at the Tuzla CHP Plant in Bosnia and Hercegovina.

At present, the Group's offering includes:

- manufacture and delivery of complete power generating units fired with fossil fuels and biomass,
- manufacture and delivery of conventional sub- and supercritical stoker-fired, fluidised bed-, and pulverised fuel power and utility steam generators,
- manufacture and delivery of heat recovery steam generators,
- manufacture and delivery of waste incineration boilers,
- manufacture and delivery of semi-dry flue gas desulfurization units,
- manufacture and delivery of wet flue gas desulfurization units,
- manufacture and delivery of flue gas denitrification units, including SCR units,
- manufacture and delivery of dust extraction equipment (electrostatic precipitators, bag filters),
- manufacture and delivery of furnaces, burners, mills, and stokers,
- manufacture and delivery of coal mills and stokers for supercritical boilers,
- diagnostics, repairs, and upgrades of boiler equipment,
- manufacture of components for steam generators and precipitators,
- manufacture of steel structures and other non-pressure parts for the power generation industry,
- manufacture of equipment for waste incineration facilities,
- manufacture of heat exchangers,
- manufacture of flue gas and air ducts, steel stacks,
- manufacture of steam and process pipelines,
- delivery of large size dampers, flaps, and tanks,
- design and engineering services,
- servicing of manufactured machinery and equipment,
- efficiency analyses of steam generators and CCGT units,
- design services for water and sewage systems and ventilation systems,
- analyses and design concepts for water technology,
- analyses, design concepts, and offerings for electrical and I&C systems,
- housing community management.

The Group provides after-sale support and servicing for all products and equipment supplied by RAFAKO. The Parent also offers upgrades for the existing equipment to enhance its operating parameters and mitigate negative environmental impacts.

Certificates held by the RAFAKO Group confirm its compliance with the ISO 9001, ISO 14001, PN-N 18001 standards and Directive 97/23/EC. They also provide assurance to the Group's customers that RAFAKO-manufactured equipment complies with the technical safety requirements in Poland, the EU, and the US.

Historical background and ownership changes

December 31st 1949: the Minister of Heavy Industry established a state-owned enterprise operating under the name of Fabryka Urządzeń Technicznych of Racibórz. The company's principal business activity was manufacture of steam generators.

January 12th 1993: the Minister of Ownership Transformation transformed the state-owned enterprise operating under the name of Raciborska Fabryka Kotłów RAFAKO, into a state-owned stock company.

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

March 7th 1994: RAFAKO S.A. shares were floated on the Warsaw Stock Exchange;

December 10th 1997: ELEKTRIM S.A. became the Company's strategic investor and, following the issue of Series H shares by RAFAKO S.A., acquired a 46.38% interest in the Company's share capital;

May 24th 2007: Increase in the Company's share capital registered, following issuance of 52,200 Series I shares;

November 14th 2011: RAFAKO S.A. joined the PBG Group, following PBG S.A.'s indirect acquisition of controlling interest;

June 11th 2012: the District Court in Poznań declared PBG S.A. (indirect parent) insolvent (arrangement bankruptcy).

The Parent was entered in the Commercial Register of the District Court in Katowice, under the name Fabryka Kotłów RAFAKO S.A., on February 12th 1993[1].

(For shareholding structure as at December 31st 2013, see Appendix 7).

[1] On August 24th 2001, the Company was registered with the National Court Register under entry No. 34143. On January 8th 2010, the District Court registered the change of the Company's name from Fabryka Kotlów RAFAKO Spólka Akcyjna to RAFAKO Spólka Akcyjna.

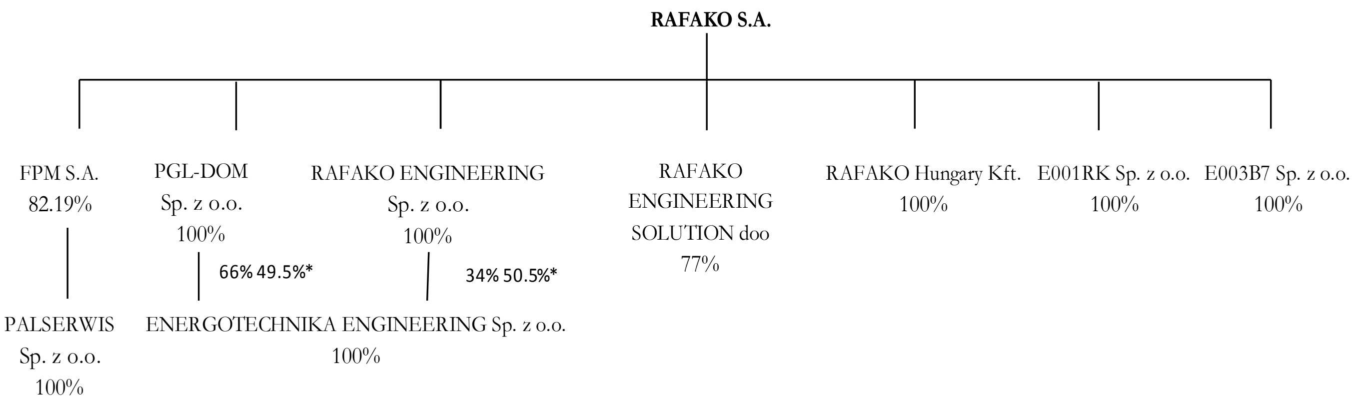
2. Structure of the Group and its consolidated subsidiaries

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

As at December 31st 2013, in addition to the parent, the RAFAKO Group comprised:

- FMP S.A., registered office at ul. Towarowa 11, Mikołów, Poland. The parent holds an 82.19% interest in the company's share capital and the same percentage of voting rights at the General Meeting. Principal business activity: production of boilers, furnaces and burners.
- PALSERWIS Sp. z o.o., registered office at ul. Towarowa 11, Mikołów, Poland. FPM S.A., a subsidiary, holds the entire share capital of the company and all voting rights at the General Meeting. Principal business activity: production of boilers, furnaces and burners.
- Przedsiębiorstwo Gospodarki Lokalami PGL-DOM Sp. z o.o., registered office at ul. Bukowa 1, Racibórz, Poland. Principal business activity: housing community management.
- RAFAKO ENGINEERING Sp. z o.o., registered office at ul. Łąkowa 33, Racibórz, Poland. The parent holds the entire share capital of the company and all voting rights at the General Meeting. Principal business activity: construction and process design, urban planning.
- ENERGOTECHNIKA ENGINEERING Sp. z o.o. of Gliwice; a 34% interest held by RAFAKO ENGINEERING Sp. z o. o. (50.5% of voting rights) and a 66% interest by PGL-DOM Sp. z o.o., an indirect subsidiary of RAFAKO S.A. Principal business activity: construction and process design, urban planning and engineering consultancy.
- RAFAKO ENGINEERING SOLUTION doo, registered office at Učiteljska 46, Belgrade, Serbia. The parent holds a 77% interest in the share capital of the company and the same percentage of voting rights at the General Meeting. Principal business activity: process design, construction, industry, and environmental protection consultancy and supervision.
- RAFAKO Hungary Kft. of Budapest, Hungary. The parent holds the entire share capital of the company and all voting rights at the General Meeting. Principal business activity: equipment assembly for the power sector and the chemical industry.
- E001RK Sp. z o.o. of Racibórz, entered in the National Court Register on October 9th 2013. The parent holds 100% of the company shares. Principal business activity: development of building projects; construction of roads and highways, railways and subways, bridges and tunnels; engineering activities and technical and scientific consultancy; production, repair and maintenance of machinery and equipment, generation and transmission of and trading in electricity.
- E001RK Sp. z o.o. of Racibórz, entered in the National Court Register on November 22nd 2013. The parent holds 100% of the company shares. Principal business activity: development of construction projects, construction, engineering and process consultancy and design.

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



* % share of voting rights at the General Meeting.

The parent holds 1,956 shares, i.e. 26.23% of the share capital, of SANBEI-RAFAKO Sp. z o.o., of Zhangjiakou, Hebei Province, China. The company's principal business activity includes production of small steam generators and water boilers and other power equipment. As at December 31st 2013, the parent's interest in the company's share capital was not material for the assessment of the Group's assets, liabilities, profits or losses.

The RAFAKO Group's parent is PBG S.A. w upadłości układowej (in company voluntary arrangement), registered office at ul. Skórzewska 35, Wysogotowo, Poland.

3. Significant changes of equity interests

In the 12 months ended December 31st 2013, there were material changes in the composition of the RAFAKO Group.

The following changes of RAFAKO S.A.'s equity interests occurred in 2013:

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

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

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

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

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

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

- a contribution to be made by RAFAKO ENGINEERING Sp. z o.o. – PLN 612,000,
- a contribution to be made by PGL–DOM Sp. z o.o. – PLN 1,200,000.

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

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

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

4. Parent's governing bodies

The governing bodies of RAFAKO S.A. include:
the General Meeting;
the Supervisory Board;
the Management Board.

General Meeting

The Annual General Meeting of RAFAKO S.A. held on June 21st 2013 passed the following resolutions:

1. To set the number of Supervisory Board Members at seven;
2. To appoint Mr Agenor Gawrzyał, Ms Edyta Senger-Kałat, Mr Piotr Wawrzynowicz, Mr Przemysław Schmidt, Ms Małgorzata Wiśniewska, Mr Jerzy Wiśniewski and Mr Dariusz Sarnowski, as Supervisory Board Members;
3. To approve the separate and consolidated financial statements for 2012;
4. To distribute profit for 2012, which was transferred to the Parent's statutory reserve funds in full.

Supervisory Board

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

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

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

At the date of this report, the composition of the Supervisory Board is as follows:

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

Management Board

The Management Board manages RAFAKO S.A.'s day-to-day operations and its affairs and represents it in relations with third parties.

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

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

At the date of this report, the composition of the Parent's Management Board is as follows:

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

5. Key events and developments in 2013 and in the period from the end of the financial year to the date of the report

The key events and developments related to the activities of the RAFAKO Group are presented below.

5.1. Contract with PGE Elektrownia Opole

On February 15th 2012, the Parent, acting as the Leader of a Consortium comprising RAFAKO S.A., Polimex-Mostostal S.A. of Warsaw and Mostostal Warszawa S.A. of Warsaw (General Contractor), executed a PLN 9,397m contract with PGE Elektrownia Opole S.A. of Bełchatów (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.) for turn-key design, delivery, construction, assembly, start-up and performance of all related services with respect to a facility consisting of power unit No. 5 and power unit No. 6 at PGE Elektrownia Opole S.A., together with equipment and devices as well as all related buildings and structures. Under the Contract, the General Contractor undertook to complete the work within 54 months of the notice to proceed for unit No. 5, and within 62 months of the notice to proceed for unit No. 6. The units will be fired with hard coal and have a capacity of 900 MW each, with an expected net efficiency of 45.5%.

On October 11th 2013, the General Contractor and PGE Górnictwo i Energetyka Konwencjonalna S.A. executed an annex to the Contract. Under the annex, ALSTOM Power Sp. z o.o. has been added to the list of subcontractors ("Alstom").

Consequently, on October 15th 2013 RAFAKO S.A. signed an out-of-court settlement with ALSTOM Power Systems GmbH, ALSTOM Boiler Deutschland GmbH and ALSTOM Power Sp. z o.o. (jointly the "Alstom Group"), which regulates in a comprehensive manner the terms of financial settlements, providing for a mutual waiver of claims by the Company and the Alstom Group, and defining the scope of collaboration between RAFAKO and the Alstom Group on RAFAKO's projects.

The settlement became effective on November 7th 2013, following execution of a subcontractor agreement for the Opole Project between the RAFAKO Group and the Alstom Group. The key provisions of the settlement are presented below:

- The Alstom Group will pay EUR 43.5m to the Parent, of which EUR 23m will be transferred within 10 days of the settlement's effective date, with the remaining EUR 20.5m payable within 30 days of the Notice to Proceed Order issued by PGE Górnictwo i Energetyka Konwencjonalna S.A., in accordance with the Contract (January 31st 2014). As at the date of this report, both payments have been made.
- The Parent and the Alstom Group will waive their mutual claims related to the Karlsruhe, Westfallen and Bełchatów projects, and will withdraw the actions and calls for arbitration submitted in connection with the disputes; at present, the Parent is awaiting formal confirmation of their conclusion by the relevant arbitration courts.

In October 2013, all consortium members executed subcontractor agreements with their respective subsidiaries responsible for the performance of the Opole Project, which was one of the conditions for obtaining support from Powszechna Kasa Oszczędności Bank Polski S.A. Delegating the work defined in the subcontractor agreements to Consortium members' subsidiaries will ensure stable cash flows and mitigate the risk of non-performance or improper performance of obligations under the Contract by any of the Consortium members.

E001RK Sp. z o.o. ("SPV-RAFAKO") was appointed by RAFAKO S.A., its parent, as the subcontractor in charge of 100% of work and services related to the construction of the power generating units at Elektrownia Opole. SPV-RAFAKO's remuneration for the performance of the works and services is PLN 3,965,520,000.

On October 26th 2013, SPV-RAFAKO and Alstom entered into a subcontractor agreement, whose execution was required for the settlement (see above) to become effective. Under the agreement, SPV-RAFAKO appointed Alstom as its subcontractor responsible for 100% of the work and services making up the Company's scope of work under the Opole Project. Consequently, Alstom agreed to provide the employer, as the beneficiary, with a Performance Bond amounting to 8% of the remuneration, and with an Advance Payment Bond equal to the advance payment to be received by Alstom for the subcontracted work. Alstom also agreed to pay RAFAKO PLN 67,650,000.00 as remuneration for the work performed to date by RAFAKO as part of the Opole Project. Further, Alstom Power Sp. z o.o. declared its readiness to engage RAFAKO Group companies to perform specific deliveries and works, with the expected total value of PLN 650,000,000.

The Consortium members and Alstom signed an agreement, whereby the parties agreed to appoint Alstom as the general designer and leader of the design work for the Opole Project, with the proviso that Alstom, acting in the capacity of the general designer, would not change the original project designs in a way that affect the environmental approval for and the deadlines of the Opole Project.

On January 31st 2014, the Consortium received a Notice to Proceed Order for the Opole Project from PGE Górnictwo i Energetyka Konwencjonalna S.A.

5.2. Contract for construction of power generation unit at the Jaworzno III Power Plant

On January 24th 2013, the Parent received a notice from TAURON Wytwarzanie S.A. stating that the bid put forward by a consortium comprising RAFAKO S.A. (Consortium Leader) and Mostostal Warszawa S.A. was selected as the best bid in a contract award procedure, carried out as negotiated procedure with prior contract notice, for "Development of new coal-fired generation capacities at TAURON Wytwarzanie S.A. – Construction of supercritical 800–910 MW generating unit at the Jaworzno III Power Plant – Power Plant II: Steam boiler, turbine generator set, main building, electrical and I&C systems" (the "Jaworzno project"). The bid price is approximately PLN 5.4bn, VAT-inclusive (PLN 4.4bn, VAT-exclusive).

On June 25th 2013, the Parent executed a cooperation agreement with China Power Engineering Consulting Group Corporation (CPECC) of Beijing and North China Power Engineering Co. Ltd. of China Power Engineering Consulting Group (NCPE) concerning joint execution of the Jaworzno project. As a result of the parties' divergent views on the project execution, and because of their inability to reach understanding as to key terms and conditions of the subcontracting agreement, the Parent withdrew from cooperation with NCPE and CPECC on October 28th 2013.

On August 4th 2013, the Jaworzno project consortium agreement of October 17th 2012 was amended and restated.

The most important changes effected in the consortium agreement were as follows:

a) RAFAKO S.A.'s and Mostostal Warszawa S.A.'s shares in the total scope of works and deliveries were agreed at 99.99% and 0.01%, respectively;
b) remuneration due to each of the consortium partners was agreed to correspond to the partners' respective shares in the scope of works and deliveries under the Jaworzno project;
c) RAFAKO S.A., as the consortium leader, is authorised to make independent decisions and represent the consortium before the employer, save for a closed list of matters reserved under the Amended Consortium Agreement for joint decision by the consortium partners.

In connection with the Amended Consortium Agreement, on August 4th 2013 the parties also entered into an additional agreement, which defines the commercial terms for the new framework of cooperation between the parties on the Jaworzno Project, including compensation due to Mostostal Warszawa S.A. for the reduction of its share in the total remuneration and scope of works and deliveries under the Jaworzno project.

Following the termination of cooperation with the Chinese partners, in late 2013 RAFAKO S.A. executed non-binding letters of intent concerning the Jaworzno Project with the following financial institutions: Powszechna Kasa Oszczędności Bank Polski S.A., Bank Gospodarstwa Krajowego, Powszechny Zakład Ubezpieczeń S.A., Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A., Korporacja Ubezpieczeń Kredytów Eksportowych S.A., Generali Towarzystwo Ubezpieczeń S.A. and Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.

The institutions confirmed that they are interested in providing support for the Jaworzno project, in particular by extending the bank or insurance guarantees provided for in the contract, and by ensuring a proper settlement mechanism is in place. The signatories of the letters of intent also confirmed their readiness to commence negotiations to determine financial terms, settlement terms and security for payments, all of which are required to secure support for the Project.

On February 27th 2014, the Parent extended the validity period of the consortium's bid until April 30th 2014 and submitted to the Employer an annex to the bid bond whereby its validity period was extended until April 30th 2014. Another extension of the bid's validity period was necessary to ensure that all relevant agreements and arrangements with the financial institutions and subcontractors interested in participating in the project are finalised.

5.3. Other significant contracts

a) February 28th 2013 was the effective date of a PLN 227,370 thousand contract, executed between the Parent and Mostostal Warszawa S.A., for the design, delivery and assembly of the technological components for two process lines at the waste thermal treatment plant in the Szczecin Metropolitan Area. The contract was signed on December 18th 2012.

b) Signing of a PLN 116,000 thousand contract by and between the Parent and PGE Górnictwo i Energetyka Konwencjonalna S.A. of Bełchatów for upgrading of the FGD system at units No. 5 and 6 at PGE GiEK S.A., Elektrownia Bełchatów Branch, on May 22nd 2013.

c) Signing of a PLN 18,900 thousand contract by and between the Parent and PGNiG Termika S.A. of Warsaw for upgrading of a flue gas desulfurization unit at the Siekierki CHP Plant (assembly of the fourth set of spray nozzles in absorbers No. 1 and 2), on September 24th 2013.

d) Singing of a PLN 151,650 thousand contract by and between the Parent and Synthos Dwory 7 for construction of a fluidized bed boiler at the employer's plant, on October 18th 2013.

e) Signing of a PLN 6,500 thousand contract by and between FPM S.A., a subsidiary, and Zespół Elektrowni Pątnów-Adamów-Konin S.A. for delivery and assembly of a set of after burning grates (ABG) with support structure, on September 13th 2013.

f) Signing of two contracts between FPM S.A., a subsidiary, and EDF Polska S.A. for construction of grinding systems, on January 17th 2013 and February 28th 2013. The contacts' aggregate price was PLN 4,801 thousand;

g) Signing of a contract between FPM S.A., a subsidiary, and ENEA Wytwarzanie S.A. for construction of a grinding system, on July 5th 2013. The contract price was PLN 4,246 thousand.

5.4. Other material events

a) Signing of an annex to the credit facility agreement by and between the Parent and Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw, on March 4th 2014. Under the credit facility agreement, in February 2012 the Bank granted to the Parent a PLN 300,000 thousand overdraft facility for the financing of its day-to-day operations. In accordance with the annex, the facility amount was reduced to PLN 180,000 thousand. The other terms and conditions of the credit facility agreement were not materially amended under the annex. The term of the facility agreement was set until March 31st 2014 (annex of December 20th 2013). The facility bears interest at 1M WIBOR + bank margin. The agreement also provides for customary bank fees and commissions. Interest is payable on a monthly basis.

   On June 28th 2013, RAFAKO S.A. agreed to establish in favour of the Bank a registered pledge over a set of movables and rights comprising the entire business of RAFAKO S.A., and to create a joint mortgage of up to PLN 300,000 thousand over real property owned or held in perpetual usufruct by RAFAKO S.A., excluding the Parent's residential property. The Bank is not a related party of RAFAKO S.A.

Additional collateral was also established to secure the repayment of the facility, including:

- blank promissory note with a promissory note declaration,
- assignment of claims under the Company's trading contracts,
- set-off clause allowing deduction of claims from the Company's bank accounts,
- Parent's declaration of submission to enforcement.

On September 4th, the Parent established a joint mortgage of up to PLN 300,000 thousand to secure repayment of amounts due to Powszechna Kasa Oszczędności Bank Polski S.A. of Warsaw under the credit facility agreement, as amended.

b) PLN 32m cash loan advanced by the Parent to Hydrobudowa Polska S.A. (currently in liquidation bankruptcy), to finance the borrower's day-to-day operations, granted for a period of 12 months (i.e. until January 9th 2013). As Hydrobudowa Polska S.A. was declared bankrupt by liquidation, RAFAKO S.A. filed a claim against assets of the company's bankruptcy estate. Pursuant to Art. 124.2 of the Bankruptcy and Restructuring Law, Hydrobudowa Polska S.A. having been declared bankrupt, RAFAKO S.A. is entitled to seek the return of the actually advanced loan, in accordance with the Bankruptcy and Restructuring Law. Taking into consideration the process of bankruptcy liquidation of Hydrobudowa Polska S.A., in order to seek the return of the loan amount, on September 21st 2012, the Management Board of RAFAKO S.A. filed the claim in the register of claims maintained as part of the PBG bankruptcy arrangement proceedings. In Q3 2013, taking into consideration the then current arrangement proposals, the fair value of the receivable was estimated based on expected proceeds to RAFAKO S.A., assuming an 80% write-down on the loan principal (for which no deferred tax asset was recognised) and the first cash inflows to the Company expected by the Company's Management Board to occur by December 31st 2014 (PBG's arrangement proposals provide for repayment of the receivable in annual instalments over five years). As at December 31st 2013, the amount receivable, measured based on the assumptions discussed above, is PLN 5.9m, which represents ca. 17.9% of the aggregate amount of the payment claims filed by RAFAKO S.A. The full amount of the receivable, i.e. PLN 32,915,787.40, was presented in the proof of the Company's claim against the bankruptcy estate of PBG.S.A. and is included in the list of claims acknowledged by the Court Supervisor (published in *Monitor Sądowy i Gospodarczy* of June 4th 2013). For details, see Supplementary Note 43 to the consolidated financial statements of the RAFAKO Group for the twelve months ended December 31st 2013.

c) On November 29th 2013, JANAR Jan Rędziniak, a company subcontracted by the Parent as part of the project for replacement of electrostatic precipitator at the Tuzla CHP Plant, filed with the District Court of Gliwice a petition for declaring RAFAKO S.A. as bankrupt by liquidation. In January 2014, after the parties had agreed on the amounts of mutual claims and on the terms of further cooperation, the bankruptcy petition was withdrawn.

d) Amendments to the Articles of Association of RAFAKO S.A. (consolidated text of the Articles of Association was published by RAFAKO S.A. in Current Report No. 8/2013) of March 5th 2013.

In addition to the agreements specified in Section 6, partnership and cooperation agreements significant to the business of the RAFAKO Group and executed in 2013 also include insurance agreements.

A list of insurance agreements in effect as at December 31st 2013 is presented in Appendix 6.

For information on the agreement with the qualified auditor of financial statements, see Supplementary Note 55 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

6. Management's discussion and analysis of the Group's operating and financial position

6.1. Revenue and its structure

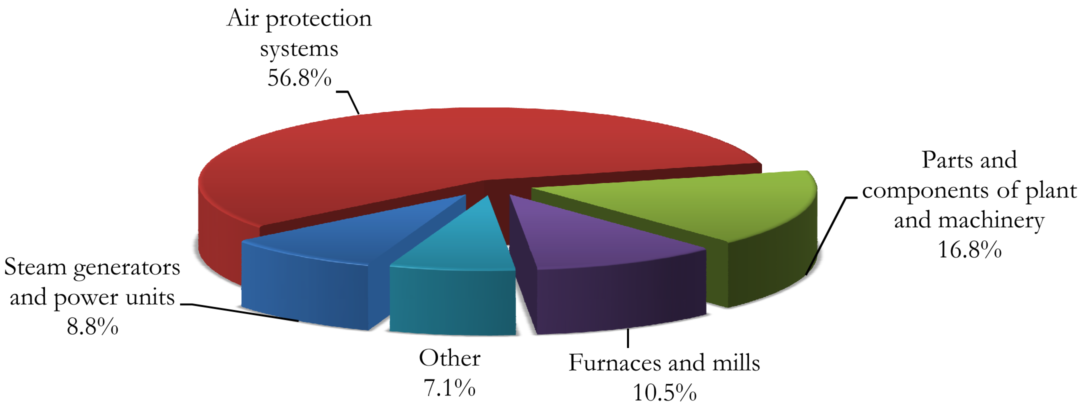
Revenue from sales of products, merchandise and materials was PLN 836,015 thousand, having decreased year on year by PLN 455,376 thousand (or 35.3%). Revenue from sales of goods and services was PLN 814,672 thousand, revenue from sales of materials was PLN 29,398 thousand, while an adjustment of revenue due to foreign exchange differences under hedging transactions (foreign exchange risk) and contractual penalties was PLN -8,055 thousand.

2013 saw sales falling across all product groups.

In the domestic market, revenue from sales of air protection equipment was PLN 363,653 thousand, having increased by 4.5% year on year (2012: PLN 347,990 thousand). Sales of steam generators and power equipment stood at PLN 53,025 thousand, having fallen by PLN 192,131 thousand. The decrease was attributable to fewer contracts in this product category having been secured in 2012. However, the decrease was partially offset by higher sales of power equipment, machinery and components (up by PLN 18,079 thousand, to PLN 89,867 thousand in 2013), and higher sales of air protection equipment.

The share of export sales in total sales was 27.6%, having decreased year on year by 14.2 percentage points. In 2013, export sales were PLN 230,512 thousand, down by 57.3%, from PLN 539,619 thousand in 2012. 2013 saw export sales falling across all product groups. The decrease was attributable to fewer contracts acquired by the Group in the relevant product categories in 2012.

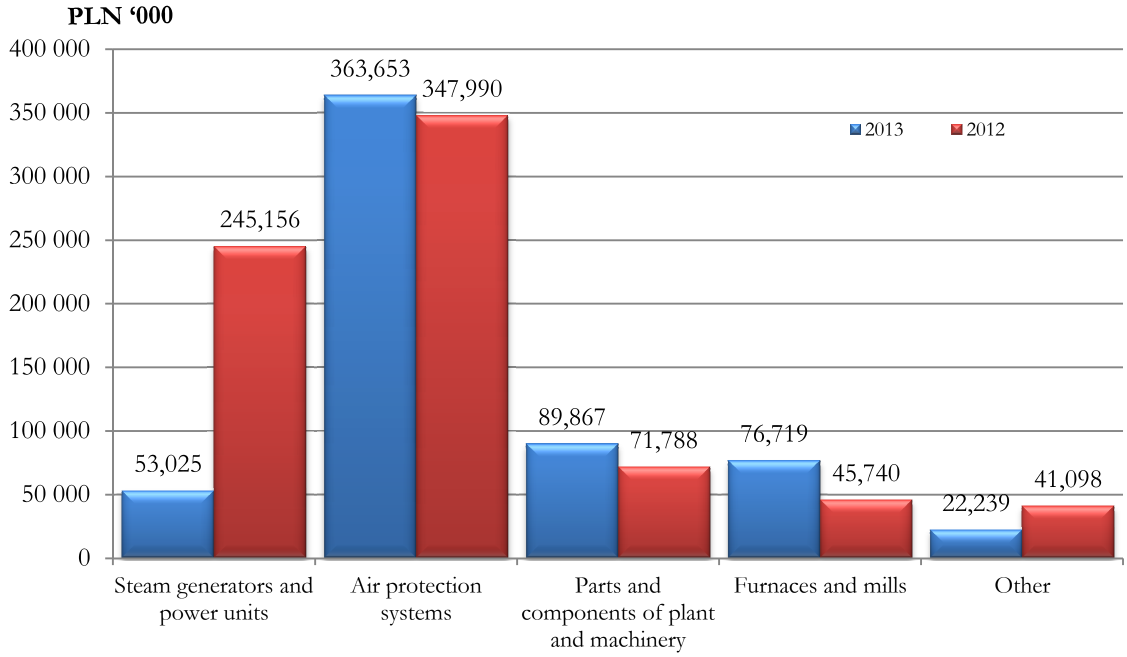
In 2013, the Group's sales by product groups were as follows:



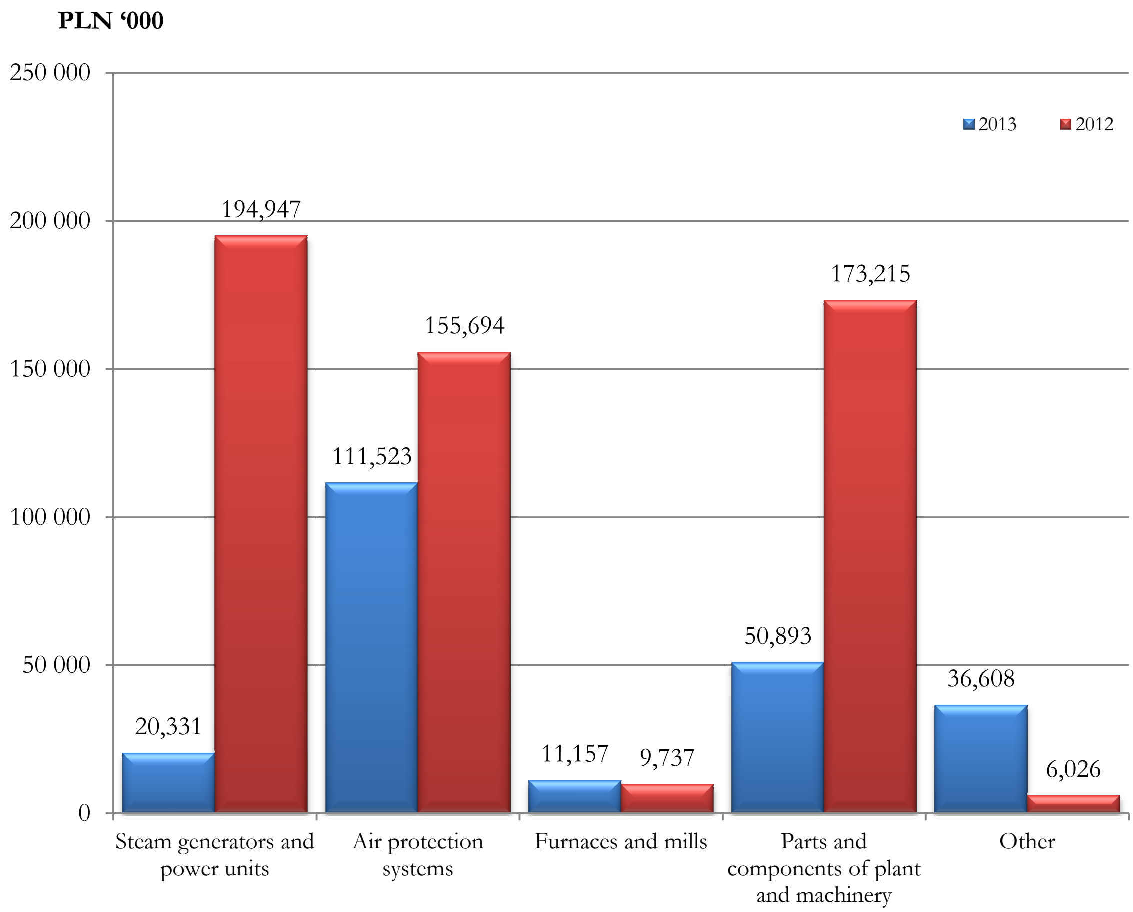
Domestic and foreign professional and industrial power companies as well as foreign and domestic suppliers of power engineering facilities continued as the main group of customers for the Company's goods and services.

Sales by market:

Domestic market (2013: PLN 605,503 thousand; 2012: PLN 751,772 thousand)

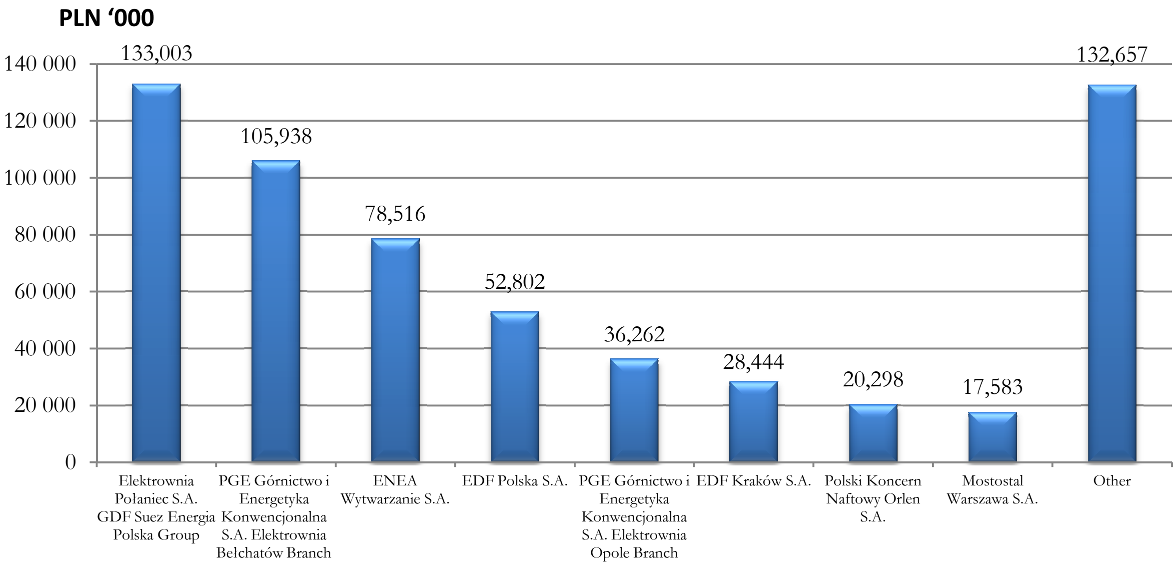


Foreign markets (2013: PLN 230,512 thousand; 2012: PLN 539,619 thousand):



The RAFAKO Group's major customers in 2013 included:

in the domestic market:



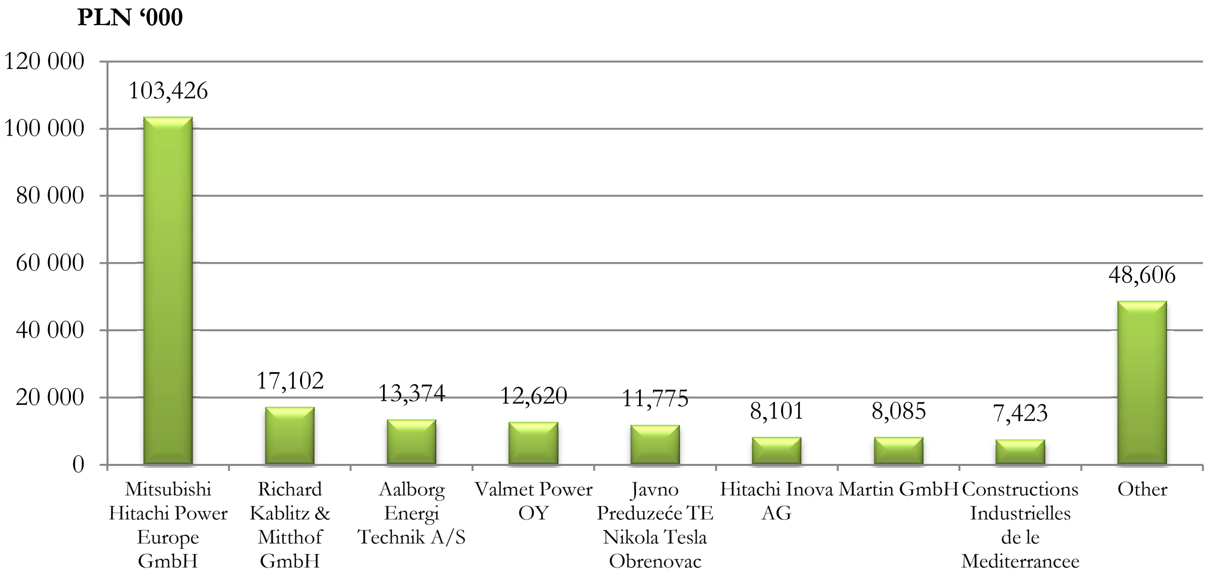
In 2013, GDF Suez Energia Polska S.A. − Połaniec Power Plant, with a 22% share in domestic sales, was the Group's largest customer. Sales to that customer included mainly construction of a flue gas denitrification unit and upgrade of a steam generator high-pressure section.

PGE Górnictwo i Energetyka Konwencjonalna S.A., Elektrownia Bełchatów Branch, also accounted for a significant share of the Group's sales (17.5% of domestic sales). Sales to that customer included mainly construction of a wet flue gas desulphurisation unit. Total Sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. amounted to PLN 147,137 thousand in 2013.

Sales to Enea Wytwarzanie S.A. – Kozienice Power Plant (13% of domestic sales in 2013) included construction of a flue gas denitrification unit and replacement of an electrostatic precipitator at the Kozienice Power Plant.

Another major customer of the RAFAKO Group was EDF Polska S.A., accounting for 8.7% of the Group's sales. Sales to that customer included construction of a wet flue gas desulphurisation unit.

in the foreign market:



In the foreign market, the Group's main customer was Hitachi Power Europe GmbH of Germany, accounting for 44.9% of the Group's export sales. Sales to that customer included delivery of electrostatic precipitators and steam generator high-pressure sections.

Given the nature of the Group's sales, major customers' individual shares in total sales exceed 10% at times of execution of large projects.

The presented revenue data includes construction contract revenue accounted for using the percentage of completion method.

6.2. Deliveries, procurement and purchase of production materials

In 2013, the Group's main suppliers included:

Source	*2013* *value*	*2013* *share in total purchases*	*2012* *value*	*2012* *share in total purchases*
	PLN '000			
Domestic purchases	485,485	84.0%	671,937	73.8%
Foreign purchases	92,382	16.0%	238,689	26.2%
TOTAL	**577,867**	**100.0%**	**910,626**	**100.0%**

In 2013, supplies to the Group were highly fragmented, as none of the suppliers represented more than 10% of the total value of purchases.

The Group relies on external suppliers for pipes, metal sheets, shaped materials, welding materials and specialist equipment, as well as various services, including design work, delivery and assembly of machines and equipment, construction and installation services and transport.

The range of purchases depends heavily on the nature and requirements of individual orders (customised production). The Group is not limited by availability of production materials, supplies or procurement services. Suppliers are chosen based on their ability to provide materials and equipment that meet relevant technical and quality standards within specified deadlines and in the most cost-effective manner. The procurement process is based on market analysis, with the pool of suppliers including only manufacturers recognised for the quality of their products and compliance with safety, environmental and other relevant standards.

With some contracts, the list of potential manufacturers and service providers must be approved by the Group's employers.

Some products made for sale on foreign markets are manufactured from employers' own materials (customer-provided materials), which on the one hand reduces the risk of cost increases caused by changing prices of supplies, but on the other hand results in lower value of sales.

6.3. Related-party transactions

In 2013, the Parent and its subsidiaries did not enter into any material related-party transactions on non-arm's length terms. The list of related-party transactions is disclosed in Note 46 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

6.4. Operating expenses, structure of operating expenses and gross profit (loss)

In 2013, the cost of sales of products, services and materials was PLN 778,330 thousand, with revenue at PLN 836,015 thousand. Thus, the Group posted gross profit of PLN 57,685 thousand (down 49.7% year on year).

The decline was attributable chiefly to:

- lower sales in 2013 (down 35.3% year on year);
- lower gross operating margin on running contracts, including negative margins on several contracts, which accounted for a relatively high share in the aggregate value of sales.

Administrative expenses totalled PLN 43,536 thousand, down PLN 10,329 thousand year on year.

In 2013, distribution costs were PLN 40,991 thousand, having increased by PLN 13,540 thousand year on year. Distribution costs were also materially affected by impairment losses on trade receivables.

After accounting for distribution costs and administrative expenses, the Group generated a loss on sales of PLN 26,842 thousand in 2013, compared with a profit of 33,205 thousand in 2012.

6.5. Other income and expenses and net finance income/cost

6.5.1. Other operating profit (loss)

In 2013, the Group recorded other operating profit of PLN 1,146 thousand (2012: loss of PLN 18,159 thousand), attributable to:

		PLN '000
1.	grants, donations and damages	1,456
2.	positive net balance of contractual penalties paid and received	610
3.	gain on disposal/liquidation of property, plant and equipment	598
4.	contributions to (co-financing) of education expenses	471
5.	bailiff costs	(579)
6.	recognition of provision for future costs	(500)
7.	organisation of the Power Engineer's Day	(380)
8.	court fees	(370)
9.	cost of scrapping	(212)
10.	positive net balance of other income and expenses	52

6.5.2. Net finance income (cost)

In 2013, the Group recorded a net finance cost of PLN 15,771 thousand (2012: a loss of PLN 17,921 thousand), attributable to:

		PLN '000
1.	valuation of long-term accruals and deferrals	8,389
2.	interest on security deposits	6,517
3.	net foreign exchange gains	287
4.	impairment of other financial assets	(10,500)
5.	impairment of other non-financial assets	(5,676)
6.	interest on financial instruments	(12,376)
7.	valuation of financial instruments	(28)
8.	negative net balance of other finance income and cost	(2,384)

In 2013, the profit (loss) before tax was also affected by valuation of receivables from entities in arrangement bankruptcy. As a result, PLN 94,205 thousand was charged to costs.

For more details on the valuation and the applied methods, see Note 6.6.

6.6. Measurement of receivables from related entities in arrangement bankruptcy

a) The declaration of ineffectiveness of taking control over ENERGOMONTAŻ-POŁUDNIE S.A., was a one-off event, exceptional in the history of the RAFAKO Group, and resulted in RAFAKO S.A. losing control of that company and in subsequent recognition of a receivable in the statement of financial position. The amount of the receivable was estimated taking into consideration expected proceeds to the Company, in the context of the arrangement proposals of PBG S.A. w upadłości układowej (in company voluntary arrangement) updated in September 2013 and providing for repayment of PLN 500 thousand and a ca. 80% reduction of the receivable in excess of PLN 500 thousand. The gross receivable of PLN 32,430,977.92 will be repaid in annual instalments over five years, starting three months after approval of the Arrangement. The Parent's Management Board estimates that the first instalment will be paid by December 31st 2014. The amount of the on-balance-sheet receivable, measured using the assumptions discussed above, is ca. PLN 27.3m, which represents ca. 17.0% of the aggregate amount of payment claims raised by RAFAKO S.A. The full amount of the receivable, i.e. PLN 160,154,889.60, was presented in the proof of the Company's claim to the bankruptcy estate of PBG.S.A. and is included in the list of claims acknowledged by the Court Supervisor (published in *Monitor Sądowy i Gospodarczy* of 4 June 2013).

b) PLN 32m cash loan advanced by the Parent to Hydrobudowa Polska S.A. (currently in liquidation bankruptcy), to finance the borrower's day-to-day operations, granted for a period of 12 months (i.e. until January 9th 2013). Hydrobudowa Polska S.A. having been declared bankrupt by liquidation, RAFAKO S.A. has raised a claim against assets of the company's bankruptcy estate. Pursuant to Art. 124.2 of the Bankruptcy and Restructuring Law, Hydrobudowa Polska S.A. having been declared bankrupt, RAFAKO S.A. is entitled to seek the return of the actually advanced loan, in accordance with the Bankruptcy and Restructuring Law. Taking into consideration the process of bankruptcy liquidation of Hydrobudowa Polska S.A., in order to seek the return of the loan amount, on September 21st 2012, the Management Board of RAFAKO S.A. filed the claim with the register of claims maintained as part of the PBG bankruptcy arrangement proceedings PBG S.A. In Q3 2013, taking into consideration the then current arrangement proposals, the fair value of the receivable was estimated based on expected proceeds to RAFAKO S.A., assuming an 80% write-down on the loan principal (for which no deferred tax asset was recognised) and the first cash inflows to the Company expected by the Company's Management Board to occur by December 31st 2014 (PBG's arrangement proposals provide for repayment of the receivable in annual instalments over five years). As at December 31st 2013, the amount receivable, measured based on the assumptions discussed above, is PLN 5.9m, which represents ca. 17.9% of the aggregate amount of the payment claims filed by RAFAKO S.A. The full amount of the receivable, i.e. PLN 32,915,787.40, was presented in the proof of the Company's claim against the bankruptcy estate of PBG.S.A. and is included in the list of claims acknowledged by the Court Supervisor (published in *Monitor Sądowy i Gospodarczy* of June 4th 2013).

For details, see Supplementary Note 43 to the consolidated financial statements of the RAFAKO Group for the twelve months ended December 31st 2013.

6.7. Income and its structure

In 2013, the Group recorded a net loss of PLN -134,648 thousand (2012: net loss of PLN -27,299 thousand).

The loss is mainly attributable to: loss on financing activities (PLN -15,771 thousand) and the effect of changes in estimates on the measurement of receivables from related entities (PLN -94,205 thousand). For details, see Supplementary Note 43 to the consolidated financial statements of the RAFAKO Group for the twelve months ended December 31st 2013.

The Group did not publish any financial forecasts or profit guidance for 2013.

The structure and change of consolidated pre-tax profit (loss) in 2013 and 2012 are presented in Appendix 4.

6.8. Margins and ROE

In 2013, the operating margin declined year on year, to -3.1% (2012: +1.2%).

As a result, the ROE was also negative, at -47.8% in 2013 (2012: +2.4%). The Group's ROA fell to -12.7% (2012: +0.8%).

The 2013 and 2012 profitability ratios are presented in Appendix 1.

6.9. Financial liquidity

In 2013, the RAFAKO Group's liquidity ratios did not change significantly year on year. The current ratio stood at 1.4, and the quick ratio was 1.0.

In 2013, the average collection period shortened by 32 days (to 58 days), while the inventory cycle lengthened by 33 days (to 123 days). The average payment period lengthened by 34 days, to 129 days. The working capital cycle (average collection period + inventory cycle – average payment period) shortened by 33 days year on year, to 52 days.

The lengthening of the inventory cycle is mainly attributable to increased costs incurred in connection with the flue gas denitrification projects.

In 2013, liabilities to the Social Security Institution (ZUS), State Treasury and employees were settled in a timely manner; delays occurred in the payment of liabilities towards suppliers.

In order to increase liquidity, on February 8th 2012, the Parent signed an agreement with Bank PKO BP S.A. Under the agreement, the Bank granted to RAFAKO S.A. a PLN 300,000 thousand overdraft facility for the financing of its day-to-day operations. This is a revolving facility, granted for 12 months. The Parent signed annexes (to the agreement) under which the maturity date was postponed until the end of March 2014 and an annex whereby the amount of overdraft facility was reduced to PLN 180m.

Changes of the facility's interest rate affected the Group's finance cost. Further, using a credit facility bearing interest at a variable rate 1M WIBOR plus margin also exposed the Group to the risk of higher interest expenses typical of such financing instruments.

In terms of financial liquidity, the need to engage substantial cash to secure contract bonds (performance bond and advance payment guarantee), provided mainly by banks, is a significant burden on the Group.

The Group is also exposed to currency risk. Changes in PLN exchange rates, especially if frequent and significant, may materially affect both profitability of contracts denominated in foreign currencies and the amount of currency translation differences on assets and liabilities denominated in foreign currencies and translated into PLN.

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

As at December 31st 2013, the Group disclosed unsettled FX forwards, which were EUR sale transactions for EUR 1,300 thousand.

Given the expected change of its Exporter position, the Group did not enter into new FX transactions for sale of foreign currencies within the limits set under the applied currency risk hedging policy.

For the objectives and rules of financial risk management, see Note 56 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

6.10. Debt

In 2013, the RAFAKO Group's liabilities towards its creditors decreased by PLN 105,545 thousand. As at December 31st 2013, total non-current and current liabilities were PLN 771,313 thousand, compared with PLN 876,858 thousand as at December 31st 2012.

As at December 31st 2013, the Group's assets not encumbered with on-balance-sheet (non-current and current) liabilities were down 31.5% year on year, to PLN 294,089 thousand (December 31st 2012: PLN 429,553 thousand).

Debt to equity ratio (including non-current and current liabilities), measuring the Group's ability to secure repayment of debt with assets, increased by 5.3 pp year on year, to 72.4%.

Debt to equity ratio does not take into consideration the Group's liabilities under bank and insurance guarantees (mainly performance bonds and advance payment guarantees) granted on the Group's instruction; such guarantees are typical for the RAFAKO Group's business and the market of power generation equipment. As at December 31st 2013, the Group's liabilities under bank and insurance guarantees were PLN 280,701 thousand.

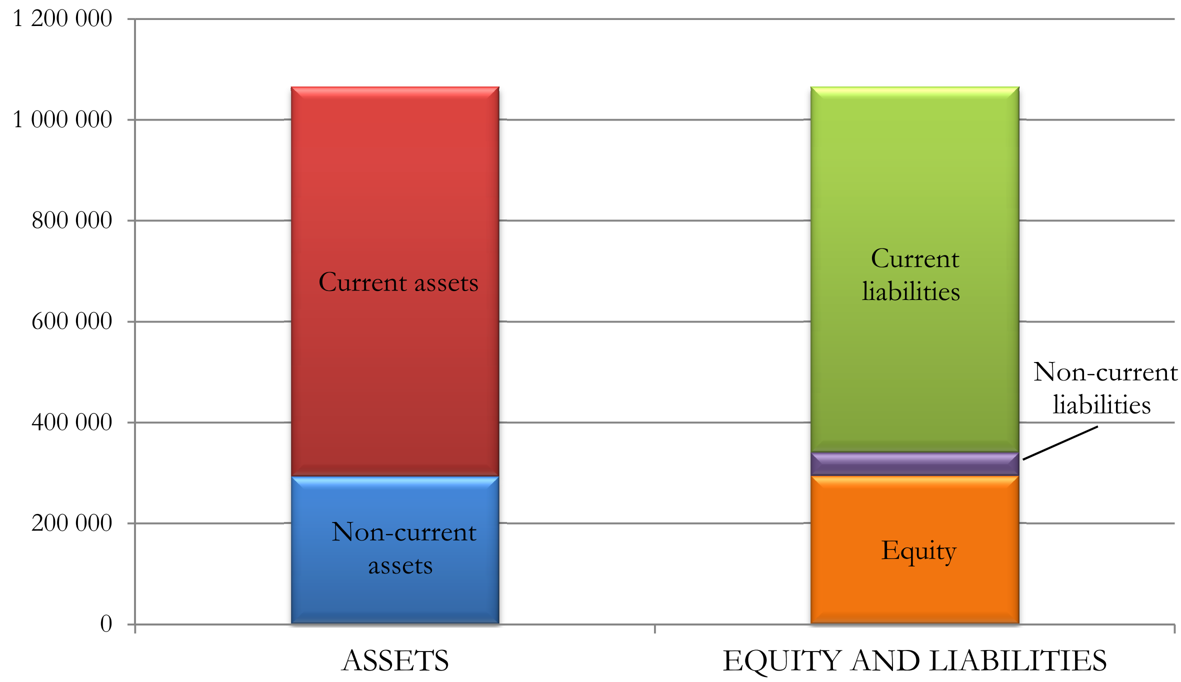
In 2013, the Group did not grant any sureties to support borrowings or guarantees of any entity.

Guarantees (mainly bid bonds and performance bonds) issued in 2013 to the Group's trading partners upon the Group's instruction by banks and insurance companies totalled PLN 65,631 thousand. In this category of liabilities, the largest item is a PLN 10m bid bond issued in Q1 2013 in connection with the Group's participation in a tender for the construction of power generating units. The largest of guarantees which expired in 2013 was a PLN 79,310 thousand advance payment guarantee related to a contract for the construction of power generating units.

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

The 2013 and 2012 liquidity and debt ratios are presented in Appendix 1.

6.11. Assets financing structure



As at December 31st 2013, total assets stood at PLN 1,065,402 thousand, down by PLN 241,009 thousand from the figure posted as at December 31st 2012. The share of equity in the financing of assets decreased by 5.5 pp relative to December 31st 2013, and was 26.6%.

The long-term capital (equity plus non-current liabilities) covered the full amount of non-current assets and 6.2% of current assets.

As at December 31st 2013, the assets financing structure was as follows:

1. non-current assets of PLN 291,968 thousand were fully financed with equity,
2. current assets and assets held for sale of PLN 773,434 thousand, were financed with:
    - long-term capital 6.2%,
    - accruals and deferred income 25.5%,
    - trade payables 26.8%,
    - borrowings 33.2%,
    - other current liabilities 8.3%.

6.12. Non-current assets

6.12.1. Structure of non-current assets

The structure of non-current assets changed as a result of execution of investment projects, sale of assets, liquidation or sale of redundant property, plant and equipment, remeasurement of assets, and changes in the deferred tax asset. As at December 31st 2013 and December 31st 2012, it was as follows:

	Dec 31 2013	*Dec 31 2012*
1. Property, plant and equipment, including:	67.8%	54.7%
- land	9.7%	7.7%
- buildings	36.8%	28.0%
- plant and equipment	19.3%	15.6%
- vehicles	1.4%	1.0%
- property, plant and equipment under construction	0.5%	2.3%
- other	0.1%	0.1%
2. Intangible assets	4.1%	3.6%
3. Trade and other receivables - non-current	1.5%	0.2%
4. Financial assets	11.2%	32.5%
5. Deferred tax asset	15.4%	9%

6.12.2. Key investments in property, plant and equipment

In 2013, the Group incurred capital expenditure on non-financial non-current assets of PLN 8,093 thousand, including:

- PLN 7,752 thousand on property, plant and equipment,
- PLN 341 thousand on intangible assets.

Capital expenditure on property, plant and equipment involved chiefly purchases of production plant and equipment, as well as expenditure on construction infrastructure. Capital expenditure on intangible assets was primarily incurred on purchase of engineering software. The expenditure was financed with internally generated funds.

In 2013, the Group did not issue any securities.

6.13. Equity amount and structure

As at December 31st 2013, the RAFAKO Group's equity was PLN 294,089 thousand, of which:

1. Share capital was PLN 139,200 thousand and comprised 69,600,000 Series A, B, C, D, E, F, G, H and I ordinary shares; in 2013, there were no changes in the Group's share capital;
2. Share premium was PLN 36,778 thousand; in 2013, there were no changes in the Group's share premium account;
3. Statutory reserve funds were PLN 252,821 thousand (a PLN 9,810 thousand increase in 2013 was attributable to allocation of part of the 2012 net profit to statutory reserve funds);
4. Retained earnings/accumulated losses were PLN (-)145,980 thousand;
5. Exchange differences on translating foreign operations were PLN (+)134 thousand;
6. Equity attributable to non-controlling interests was PLN 11,136 thousand.

In 2013, the Group companies did not acquire their own shares.

7. Key risks and threats

7.1. External and internal factors material to the Group's financial performance and development prospects

7.1.1. External factors:

- asset development and fuel diversification policies in the energy sector;
- existing regulations on the electricity market;
- activities of the Group's direct competitors;
- financial standing and market position of the Group's customers and consortium partners;
- financial standing of the Group's main shareholder;
- timeliness of payments by the employers;
- volatility of prices of materials (chiefly metallurgical products), products and order commissioning services;
- foreign exchange volatility (primarily euro exchange rates);
- banks' willingness to provide financing and guarantees for contracts performed by the Group;
- changes in market remuneration rates for jobs relevant to the Group companies' operations;
- technological progress;
- changes in tax regulations.

7.1.2. Internal factors:

- ability to capitalise on the effects of completed and planned investment projects designed to boost efficiency at the Group companies, particularly in manufacturing and management, and to increase the companies' capacity to acquire and execute orders;
- improvement of management processes at the Group companies, including management of long-term contracts and operating costs (fixed costs);
- maintaining financial liquidity of the Group companies;
- formation of large, multi-industry teams for coordination of work on comprehensive power sector facilities;
- maintaining and acquiring new highly-qualified staff for designing and production.

7.2. Key risks and threats

The RAFAKO Group has identified the following risks and threats to the Group's operations in the near future:

- risk that the provisions and impairment losses recognised for the current and completed contracts may prove insufficient;
- risk that receivables, both impaired and non-impaired, will not be paid,
- risk that cost estimates for the current contracts will change (including as a result of contracts executed for the delivery of products and services by subcontractors), which may have a positive or negative effect on the result for the period ended December 31st 2013;
- risk that provisions may need to be recognised for contractual penalties for time overruns or failure to meet guaranteed technical specifications;
- technological risks following from the implementation of complex and innovative technological processes and quality procedures, as well as manufacturing of elements from difficult, high-grade materials, and the related threat of contractual penalties payable in the event of process errors;
- risk of incurring repair, overhaul or upgrade costs during the contractual warranty period that are not covered by provisions for warranty repairs;
- risk of claims and penalties resulting from possible contract suspensions/terminations by a party;
- risk of decreased revenues resulting from the final weight-based settlement for the contracted projects;
- risk of necessity to pay disputed claims which are not covered by recognised provisions;
- risk related to the recovery of receivables under proceedings for insolvency with an arrangement option;

- risk related to extension of financing by financial institutions and provision of bank and insurance guarantees necessary for the performance of key contracts and acquiring new orders;
- risk that the scope of the Group customers' projects may be limited or the projects may be postponed due to another wave of the economic crisis and limited lending from banks;
- risk of increase in interest rates on credit and guarantee products;
- macroeconomic risks, including risk of volatile złoty exchange rate (which hinders correct estimation of profitability for long-term contracts) and changes in the tax system.

For the objectives and rules of financial risk management, including specification of the most material risks, see Note 56 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

For information on risks and opportunities related to the current contracts for construction services, see Note 14 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

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

The RAFAKO Group did not publish any forecasts for 2013.

9. Disputes, pending litigation, arbitration or administrative proceedings

For information on material disputes and litigations, see Note 42 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

10. Related-party transactions by RAFAKO or its subsidiaries

In 2013 and 2012, the Parent and its subsidiaries did not enter into any material related-party transactions on non-arm's length terms.

For a detailed list of related-party transactions in 2013, see Note 46 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

11. Sureties for loan repayment and guarantees issued by RAFAKO or its subsidiary

In 2013, the Parent and its subsidiaries did not issue any sureties for loan repayment or guarantees jointly to one entity or its subsidiary, where the aggregate value of such sureties or guarantees would represent 10% or more of the company's equity.

For details of changes in contingent receivables and liabilities, see Note 44 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

12. Human resources and workforce at the RAFAKO Group

The average workforce at the Group in the period from January to December is presented below:

	2013	*2012*
Average workforce	**2,373**	**2,643**

In 2013, the average workforce at the RAFAKO Group was 2,373 employees, 270 fewer than in 2012.

As at December 31st 2013, the Group's employees with university degree or secondary school diploma accounted for 64.9% of the personnel (against 65.7% as at December 31st 2012). The Management Board recognises the importance of acquiring new, well-educated employees. As more than 90% of posts at the Group require specialist knowledge, persons with specialist university degrees are given priority in the recruitment process. As at December 31st 2013, university graduates accounted for 37.7% of the personnel. The Group also attaches importance to continuous professional advancement , and many employees decide to enrol on part time university courses.

The age distribution of employees has changed: employees of up to 40 years of age accounted for 40.6% of the personnel, while the percentage of employees between 41 and 50 years of age slightly declined (from 25.9% as at December 31st 2012 to 23.5% as at December 31st 2013). The percentage of employees over 50 years of age increased slightly - to 35.9% (against 33.4% as at December 31st 2012). In the Management Board's opinion, the age structure of the Group's employees is correct, since it ensures organisational continuity of the individual entities of the Group. Changes in the age distribution of employees are indirectly related to the demographic tendencies and social policy in Poland. Since the candidates are expected to be better qualified, the average age of starting working life is accordingly higher. At the same time, the new pension regulations have raised the retirement age, which results in a longer working life and, consequently, a higher average age of employees.

Over the last twelve months, some changes have been observed in the workforce structure in terms of length of service. In 2013, the employees who had worked for up to 10 years accounted for a third of the Group's personnel. The employees who had worked for 11-20 years represented 13.2% of the entire personnel (against 14.2% in 2012), while the percentage of employees with over 20 years of service increased to 54.3% (against 54.0% in 2012). The Group has personnel with many years' unique professional experience.

Research & development and quality improvement projects

The Group's research & development activity over the last twelve months was aimed at taking advantage of new applications of technologically advanced materials, and developing new forms of organisation for investment projects based on state-of-the-art solutions. The key initiatives in this area rely on cooperation with a number of entities as part of projects commissioned by the National Centre for Research and Development, EIT through Knowledge & Innovation Community, or by the European Commission.

RAFAKO S.A. cooperates with science institutions, especially with the Wrocław University of Technology, Silesian University of Technology, Cracow University of Technology, AGH University of Science and Technology, Stanislaw Staszic Institute for Ferrous Metallurgy, and the Polish Institute of Welding.

Three patent applications were filed at the Polish Patent Office in the period under review, and a few other applications are being drafted.

The most significant research & development and quality improvement projects completed in 2013 include:

a. review of the suspension structure for the components of electrostatic precipitator;
b. mechanical analysis of collecting electrodes;
c. determination of the best shape of collecting electrodes for optimum distribution of flue gas stream around the electrodes;
d. analysis of operating parameters of electrostatic precipitators behind supercritical coal-fired steam generators;
e. testing various doses of organic acid in the process of flue gas desulfurisation;
f. testing the wastewater evaporation process for flue gases;
g. examination of the process of removing sulphur oxides and other flue gas contaminants in a large-laboratory system based on the wet flue gas desulfurisation technology;
h. optimisation of flame-plating parameters and conducting tests necessary to enable RAFAKO S.A. to launch a line of CMT-plated walls (made using the Cold Metal Transfer method);

13. Projects related to management and deployment of computer-based processes

RAFAKO S.A. uses ERP LN systems, communication software (Lotus Notes) as well as CAD/CAM/CAE tools for computer aided design, integrated at the level of basic elements of business (client, project, supplier). With this software package, the Company is able to perform a broad range of cross-sectional analyses and build reliable decision-support databases.

In 2013, the Parent's ERP production system was migrated to a virtual environment, improving the system's security. Also, a mailing system for mobile devices was implemented, which enhanced the speed of communication.

In 2013, there were no changes to the basic management rules at the RAFAKO Group.

The companies of the Group did not launch any employee share option schemes.

The Parent has a self-reporting branch in Turkey which prepares its financial statements in accordance with Turkish law. The functional currency of the branch is EUR. The branch was established for the purpose of executing a turn-key contract for an upgrade of two steam generators at Yenikoy Power Plant, signed in November 2007 with Elektrik Uretim A.S. of Turkey, and any future contracts on that market.

14. Other information

Statement of compliance with corporate governance principles at the RAFAKO Group in 2013 is included in Appendix 7.

For information on the amount of remuneration, awards and benefits for members of the Management and Supervisory Boards, see Note 53 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

The Parent has entered into a management contract with each member of the Management Board, which includes provisions on compensation in the event of dismissal or resignation.

A member of the Management Board who is dismissed or not appointed for another term is entitled to a one-off termination payment, equal to six months' remuneration in the case of the President or Vice-President of the Management Board, or three months' remuneration in the case of any other member of the Management Board.

Additionally, the Parent is required to pay non-compete compensation to members of the Management Board, equal to 50% of monthly remuneration and payable for twelve months following the date of dismissal in the case of the President of the Management Board, or for six months in the case of other members of the Management Board.

For information on the number of shares in RAFAKO S.A. and its related entities held by members of the Management and Supervisory Boards, see Note 51 to the consolidated financial statements of the RAFAKO Group for the 12 months ended December 31st 2013.

The Group is not aware of any agreements which may result in a change to the current shareholder structure.

15. Growth prospects for 2013

15.1. Energy policy

The energy sector plays a crucial role in ensuring an efficient economy. Given the strong interdependence between the two areas, which is partly attributable to the potential for improving competitiveness of a state's economy as a result of production of cheap electricity, individual states pay particular attention to the condition of their power sectors. This focus is reflected in various investment incentives, measures designed to improve project efficiency, and promotion of certain development strategies based on specific energy sources. Such measures are reflected in energy policies or energy sector programmes, and are provided for in separate legislation.

The selected solutions need to be effectively implemented in the legal system, as they enhance market stability and increase efficiency of investment projects by removing additional risks and uncertainties. A stable regulatory framework gives investors knowledge of the environment in which they will be implementing their projects in the near future. Lack of clear regulations is a source of a considerable risk for projects in the power sector, as it is difficult to estimate viability of a planned venture if there is no certainty as to regulations that will be in force in two or three years. This uncertainty translates into increased cost of financing for such projects, adversely affecting profits of power sector companies.

In 2014, a number of changes are expected in the legal framework. The most important documents governing the power sector that will affect the market in 2014 include: Polish Nuclear Power Programme (PNPP), small energy three-pack, draft Act on Renewable Energy Sources (RES), and the draft Gas Law.

The most intense debate concerns the RES Act, whose first draft was published by the Ministry of Economy at the end of 2011. Although several deadlines for the adoption of the Act have been announced, it is still in the drafting phase. It is expected that the RES Act, together with the entire three-pack, will most likely be adopted in 2014. The Polish Nuclear Power Programme was presented by the Ministry of Economy to the Standing Committee of the Council of Ministers back in 2013. The resolution on PNPP was adopted by the Council of Ministers on January 28th 2014. The Act specifies, among other things, the schedule for construction of two nuclear power plants and preparation of relevant regulatory and organisational framework. The beginning of 2014 should see announcement of the draft 'Energy Policy of Poland until 2050'. The current binding document is 'Energy Policy of Poland until 2030', but the forecast period will be extended as all EU documents are based on the 2050 timeframe.

Many experts believe that the new energy policy may place more emphasis on natural gas, both domestically produced (including from unconventional resources) and imported, thus reducing reliance on hard coal and lignite. Most certainly, the document will also address the development of nuclear power and RES.

In January 2014, the European Commission published its legislative proposal responding to the Green Paper on EU 2030 framework for climate and energy policies adopted on March 27th 2013. It proposed a target of CO_2 emissions reduction by 40% and an increase in the share of renewable energy to 27%.

Many industry experts believe the second energy package is highly controversial, pointing to its following shortcomings:

- the analysis of the proposed regulations was carried out for the European Union as a whole, without considering the burden to individual Member States, which made it easier to reach an agreement,
- no compensating mechanisms were provided for entities that will be forced to incur higher costs.

At the beginning of 2014, a heated debate was sparked by the backloading proposal, which involves an intervention on the CO_2 emissions trading market by withholding 900 million allowances. On February 2nd 2014, the European Parliament backed a rapid implementation of backloading, which means that it may start as soon as in Q1 2014 . The intervention is subject to the European Council's final approval. If such approval is obtained, the European Commission will be able to hold back 400 million allowances in 2014.

In late 2013, the European Parliament and the European Council adopted an amendment to EU's Emission Trading System (EU ETS) Directive, under which some auctions of CO_2 emission allowances may be suspended. More specifically, release of 900 million CO_2 emission allowances will be delayed from 2014-2016 to 2019-2020. Backloading has a positive effect on the profitability of renewable energy projects by supporting them with administrative measures, but at the same time it reduces the profitability of energy production from fossil fuels, which will lead to higher electricity prices and will undermine the competitiveness of EU electricity producers on global markets.

15.2. Asset development plans for the power sector

2013 saw increased consumption of electricity in Poland − up 0.62%, to 158 TWh, combined with a 1.66% rise in electricity production. It should be noted that the transitional economic slowdown did not bring electricity consumption down; what is more, a rise in electricity requirement is to be expected in coming years. Therefore, the power sector needs to adjust its generation capacities to ever-increasing demand. Development and upgrade of existing power generation facilities, combined with maximum utilisation of domestic energy sources, are indispensable for the achievement of Poland' energy security. In addition, new projects are needed to ensure effectiveness and efficiency of the power system.

In recent years, new projects in the power sector have been somewhat put on hold. This was due, among other factors, to the slowing economy which led to reduction of electricity prices, ongoing dispute regarding the climate and energy policy, and lack of clear strategy for the Polish power sector. It should be noted, however, that the power sector needs investments and a boom in the power construction market is coming. Projects currently in progress are delayed by about two years; unless new projects are launched, Poland could face a power generation deficit after 2017 due to decommissioning of obsolete units. It is estimated that about 1.2-1.5 GW of new power generation capacities will be put into operation every year in 2011-2020. The cost of projects in the power segment (which will include both replacement and development projects) to be carried out in the next ten to twenty years is expected at about PLN 140bn.

Among large power units currently being built, in addition to the contracts executed by RAFAKO S.A., three most advanced projects to construct power generating units should be specifically mentioned, all implemented under contracts signed in 2012: construction of a 449 MW CCGT unit at the Stalowa Wola CHP Plant (Elektrociepłownia Stalowa Wola) for Tauron/PGNiG by Abener Energia, valued at PLN 1.5bn (VAT exclusive); construction of a 1,000 MW hard coal-fired unit at the Kozienice power plant for Enea by Polimex-Mostostal in cooperation with Hitachi Power Europe, valued at more than PLN 4.8bn, and construction of a 463 MWe gas-fired unit at the Włocławek power plant for PKN Orlen by the General Electric International SA and SNC-Lavalin Polska consortium, with the value estimated at about PLN 1.1bn.

In H2 2013, other projects were also launched, which were smaller in scale and less cost-intensive. Those include a 58 MW coal-fired unit at the Tychy plant and a 75 MW coal-fired unit at the Zofiówka plant , built for Tauron and Jastrzębska Spółka Węglowa, respectively, by Energoinstal and Elektrobudowa, with the total value of approx. PLN 1.1bn, as well as a 138 MW CCGT unit at the Gorzów plant, constructed for PGE by Siemens and valued at approx. PLN 0.5bn. Small-scale projects planned for 2014 include construction of a 200-270 MW CCGT unit in Szczecin (PGE) and a 400-500 MW new gas-fired unit in Bydgoszcz (PGE).

Construction of the first phase of the 800 MW Elektrownia Północ project, implemented by Alstom for Kulczyk Investments, is soon to be launched. A 430-450 MW lignite-fired project at the Turów Power Plant (PGE), which is currently pending final decision in the public procurement procedure, is also expected to start soon.

Longer-term plans include construction of a 420-600 MW CCGT unit in Grudziądz for Energa, a 800-900 MW CCGT unit in Puławy for PGE/Grupa Azoty Puławy, and a 400-600 CCGT unit in Płock for PKN Orlen. Kompania Węglowa's plans include a 1,000 MW coal-fired unit in Wola, PGNiG will build CCGT units at the Żarań and Siekierki power plants (450 MW each), and Tauron is contemplating construction of a new 413 MW gas-fired unit at the Łagisza power plant.

The RAFAKO Group is prepared to face the challenges of the power market. The Parent currently offers the widest selection of power technologies in Europe. In addition to all environmental protection facilities, which are constantly developed and upgraded, RAFAKO S.A. has capabilities necessary to construct power units for all parameters and types of fuels. RAFAKO S.A. is one of Europe's four companies (the other being Alstom, Hitachi Power Europe and Doosan Babcock) offering the complete technology for the construction of supercritical power units. The Company's strong growth is the outcome of the growth strategy consistently implemented by the Group over the past several years.

In response to the shortage of new capacities, environmental constraints and insufficient energy sources, the Group's strategy meets halfway the expectations of the power sector clients by offering high-efficiency power facilities and environmental protection systems.

In 2014, RAFAKO S.A. will continue offering supercritical boilers, fluidised bed boilers, and heat recovery steam generators, including those combined with a gas turbine, and also diagnostics, upgrade and repairs of boilers and boiler-side equipment, as well as boiler components.

Given the need to comply with more exacting EU environmental standards, the Company should continue to increase its presence on the domestic market of environmental protection systems, where it currently offers technologies for the construction of complete flue gas desulphurisation units, industrial and municipal waste incineration systems and biomass-fired units, upgrading of boilers to reduce NOx emissions, as well as dust extraction equipment.

15.3. Operational plans

In 2014, the following events will be critical to the development and prospects for growth across the Group: signing and implementation of the contract for construction of a 800–910 MW supercritical power unit at the Jaworzno Power Plant (Elektrownia Jaworzno); implementation of the contract for construction of two power generating units for PGE's Opole Power Plant (Elektrownia Opole); implementation of a number of significant contracts in the Polish and European market, including construction of state-of-the-art boilers, flue gas desulphurisation and denitrification units, biomass-fired units, municipal waste removal and incineration systems, as well as pressurised parts of supercritical boilers.

Capital expenditure planned for 2014 will be made mainly on the upgrade of existing buildings and structures, purchase of production plant and machinery, as well as computer software and hardware. The planned investments will be financed mainly with the Company's own funds.

According to forecasts of the RAFAKO Group's performance in 2014, the Group is expected to report net profit. Those plans assume implementation of existing contracts, which will account for a significant part of the projected sales figures, as well as new contracts which the Group needs to win in 2014 to achieve the planned performance targets.

Management Board's statement

The Management Board of RAFAKO S.A., the Parent of the RAFAKO Group, hereby represents that:

1) to the their best knowledge, the financial statements for the year ended December 31st 2013, as well as comparative data for the year ended December 31st 2012, were drawn up in compliance with the applicable accounting standards and give a true, fair and clear view of the Group's assets, its financial condition and performance, and that the Directors' Report on the operations of the RAFAKO Group gives a true view of the Group's development, achievements and standing, including a description of key risks and threats;

2) the auditor of the Group's annual financial statements, being an entity qualified to audit financial statements, was appointed in compliance with the applicable laws, and the auditing firm and the auditors who conducted the audit satisfied the auditor independence criteria to deliver an unbiased and independent auditor's opinion on the audited annual financial statements, in compliance with the applicable laws and professional standards.

Signatures of Management Board members

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