Interim Condensed Consolidated Financial Statements of the Hydrotor Capital Group

for the I half of 2014

according to International Financial Reporting Standards

August 2014

CONTENTS

I. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period 01.01.- 30.06.2014

	Details	For the first half of 2014	For the period from 2013-01-01 to 2013-12-31	For the first half of 2013
Continuing operations				
Revenues from sales	4;5;6	**47 280**	**86 099**	**44 983**
Revenues from sales of products		43 749	78 933	41 120
Revenues from sales of goods and materials		3 531	7 166	3 863
Selling cost	4.5	**(36 247)**	**(67 397)**	**(34 848)**
Gross profit (loss) on sales		**11 033**	**18 702**	**10 135**
Selling costs		(1 217)	(2 498)	(1 192)
General and administrative expenses		(5 606)	(11 396)	(5 684)
Other operating income	8	1 577	3 312	1 581
Other operating expenses	8	(211)	(290)	(101)
Operating profit (loss)	7	**5 576**	**7 830**	**4 739**
Financial revenues	10	70	1 527	1 205
Financial expenses	10	(119)	(212)	(576)
Profit (loss) before tax		**5 527**	**9 145**	**5 368**
Income tax	11	(1 049)	(1 474)	(754)
Net profit (loss) from continuing operations		4 478	7 671	4 614
Discontinued operations				
Net loss from discontinued operations			(962)	(824)
Net profit (loss)		**4 478**	**6 709**	**3 790**
Other comprehensive income				
Components that will not be reclassified to profit and loss in subsequent periods				
Results on revaluation of non-current assets			(91)	(61)
			(91)	(61)
Components that may be reclassified to profit and loss in subsequent periods				
Results on revaluation of financial assets held as available for sale				
Other comprehensive income before tax			(91)	(61)
Total comprehensive income		**4 478**	**6 618**	**3 729**
Total comprehensive income attributable to:				
Parent Company shareholders		**4 473**	**6 615**	**3 704**
Minority shareholders		**5**	**3**	**25**
Profit (loss) per ordinary share (in PLN)	13	1.87	2.80	1.58

II. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Details	As at 30.06.2014	As at 31.12.2013	As at 30.06.2013
Fixed assets		**58 028**	**61 299**	**53 265**
Tangible fixed assets	15	53 478	54 773	53 265
Research and development costs	14	1 721	2 227	2 058
Other intangible assets	14	53	89	72
Financial assets available for sale	18	19	46	35
Property investments	16	2 260	3 635	2 238
Long-term prepayments	24	497	529	457
Current assets		**57 512**	**53 506**	**56 693**
Inventory	20	29 311	29 341	28 838
Trade and other receivables	22	17 625	13 948	15 890
Current tax assets	11	36	58	34
Prepayments	24	1 500	308	830
Cash and cash equivalents	23	9 003	9 056	10 654
Fixed assets classified as held for sale	21	37	795	447
TOTAL ASSETS		**115 540**	**114 805**	**114 818**

LIABILITIES				
Equity		**77 549**	**78 235**	**72 215**
Share capital	33	4 797	4 797	4 797
Supplementary capital	34	53 110	49 643	50 621
Revaluation reserve	35	10 231	11 774	10 325
Reserve capitals	36	3 039	3 039	3 039
Retained earnings	38	6 175	7 833	5 933
Equity attributable to shareholders of the Parent Company		**77 352**	**77 086**	**74 715**
Non-controlling interest		**197**	**1 149**	**500**
Total liabilities		**37 991**	**31 298**	**39 603**
Long-term liabilities		**18 700**	**20 321**	**22 186**
Deferred tax liability	28	2 666	2 414	1 990
Employee benefits liabilities	46	993	993	1 072
Long-term loans and credits	25	6 415	7 363	8 667
Long-term provisions	32	35	35	35
Subsidies	24	8 591	9 516	10 422
SHORT-TERM LIABILITIES		**19 291**	**10 977**	**17 417**
Trade and other liabilities	30	13 088	5 685	11 353
Short-term provisions		11		65
Income tax		192	10	106
Short-term loans and credits	25	2 790	2 144	2 541
Other financial liabilities				347
Employee benefits liability	46	1 167	1 103	1 123
Subsidies	32	2 043	2 035	1 882
Total Liabilities		**115 540**	**109 237**	**114 818**
Book value per 1 share (in PLN)	40	32.25	32.42	31.15

III. CONSOLIDATED STATEMENT OF CASH FLOWS

(indirect method) in PLN thousand	Notes	For the I half of 2014	For the period from 2013-01-01 to 2013-12-31	For the I half of 2013
A. CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit (loss)	13	**4 478**	**6 709**	**3 790**
Income tax expenses recognized in the profit and loss account	11	999	1 449	755
Tax paid	11	(711)	(1 630)	(774)
Financial expenses recognized in the profit and loss account		52	1 074	6
Interest paid		2	23	105
Investment income recognized in the profit and loss account		(51)	(585)	(12)
Profit on the sale or disposal of tangible assets		4	(1 191)	(342)
Profit (loss) on revaluation of investment property			16	10
Profit (loss) on disposal of business property			66	(88)
Depreciation of fixed assets		2 492	4 730	2 377
Positive/ negative exchange differences (net)		(5)	(273)	597
(Increase) / decrease in trade and other receivables		(2 193)	1 574	(2 165)
(Increase/ decrease in inventories		152	(135)	494
(Increase)/ decrease in other assets		(136)	(72)	(165)
Decrease in trade and other payables		2 157	(334)	327
Increase/ (decrease) in reserves		(20)	153	800
Increase in deferred income		(1 090)	(1 962)	(1 145)
Net cash flows from operating activities		**6 130**	**9 612**	**4 570**
B. CASH FLOWS FROM INVESTMENT ACTIVITIES				
Proceeds from disposal of tangible fixed assets		43	161	29
Interest received		65	342	15
Payments for tangible fixed assets		(5 132)	(2 941)	(752)
Payments for investment properties		16		
Net cash flows from investment activities		**(5 008)**	**(2 438)**	**(708)**
C. CASH FLOWS FROM FINANCIAL ACTIVITIES				
Dividends paid to:	12		(4 797)	
- Parent Company shareholders			(4 797)	
Proceeds from loans and borrowings		634		
Repayment of loans and borrowings	25	(987)	(3 252)	(2 159)
Loan interest paid		(69)	(151)	(86)
Net cash flows from financial activities		**(422)**	**(8 200)**	**(2 245)**
D. TOTAL NET CASH FLOWS (A.+/-B.+/-C.)		**700**	**(1 026)**	**1 617**
E. Opening cash balance		8 303	9 056	9 056
Change in cash and cash equivalents due to foreign currency translation differences			273	(19)
F. CLOSING CASH BALANCE		**9 003**	**8 303**	**10 654**
- restricted cash			61	61

IV. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserve	Reserve for collateral	Retained earnings	Net balances from previous years transferred to supplementary capital	Retained earnings attributable to minority shareholders	Total
As at 01.01.2014	**4 797**	**13 350**	**10 278**	**3 039**	**8 709**	**37 569**	**197**	**77 939**
Net profit for the period 01.01 – 30.06.2014					4 478			**4 478**
Other comprehensive income for the financial year (net)								
Total comprehensive income					**4 478**			**4 478**
Payment of dividend					(4 797)			**(4 797)**
Distribution of profits					(1 126)	1 126		
Other:								
- disposal of fixed assets			(47)		47			
- consolidation adjustments					(1 136)	1 065		**(71)**
As at 30.06.2014	**4 797**	**13 350**	**10 231**	**3 039**	**6 175**	**39 760**	**197**	**77 549**

	Share capital	Share premium	Revaluation reserve	Reserve for collateral	Retained earnings	Net balances from previous years transferred to supplementary capital	Retained earnings attributable to minority shareholders	Total
As at 01.01.2013	**4 797**	**13 350**	**10 555**	**3 039**	**8 008**	**36 293**	**1 149**	**77 191**
Net profit for the period 01.01 – 30.06.2013					3 790			**3 790**
Other comprehensive income (net)			(61)					**(61)**
Total comprehensive income			**(61)**		**3 790**			**3 729**
Payment of dividend					-4 797			**(4 797)**
Distribution of profits					-1 591	1 591		
Other:								
- transfer of capitals			(169)		169			
- adjustment to share capital							(649)	
- consolidation adjustments					354	(613)		**(259)**
As at 30.06.2013	**4 797**	**13 350**	**10 325**	**3 039**	**5 933**	**37 271**	**500**	**75 215**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1. Information about the Parent Company

1.1.1. Name and domicile

Przedsiębiorstwo Hydrauliki Siłowej (PHS) HYDROTOR S.A., with the registered office in Tuchola, 72 Chojnicka str.
The Company was set up on the basis of the notarial deed of 13-12-1991, Repertory A no. 6529/1991, in the Individual Notary Public Office No. 77 in Świecie n/Wisłą.

1.1.2. Registration

Presently, the Company is registered in the National Court Register of Companies (KRS) in the District Court in Bydgoszcz, 13th Economic Division under KRS No. 0000119782.

1.1.3. Principal business activities

Business activities of HYDROTOR S.A are related to commercial transactions including manufacturing, services and trade within the country and abroad, with specialization in hydraulics.
Principal segment of business activities include: production, repair and design of hydraulic parts and components which are used in agriculture and various types of industry branches, such as engineering industry, construction, extractive industry, energy and automotive industry.
Pursuant to the Polish Classification of Activities, the Company is classified under no. 2830Z – production of agricultural and forestry machinery, whereas according to the Warsaw Stock Exchange the Company is presented in the industrial machinery sector.

1.1.4. Duration of the Company's business

Business duration of the PHS HYDROTOR S.A. is indefinite.

1.2. The Management Board and Supervisory Board

Share ownership with the number of votes held by the Management Board and Supervisory Board is presented in the note no. 26.

1.2.1. The Management Board

Within the period from 01.01.2014 to 30.06.2014 the Company's Management Board was composed of the following members:

Wacław Kropiński – President
Janusz Czapiewski – Marketing & Development Director, Member of the Management Board.

1.2.2. The Supervisory Board

Within the period from 01.01.2014 to 30.06.2014 the Supervisory Board was composed of the following members:

1. Czesław Główczewski – Chairman
2. Mariusz Lewicki – Vice-Chairman
3. Janusz Deja – Secretary
4. Ryszard Bodziachowski - Member
5. Waldemar Stachowiak - Member
6. Mieczysław Zwoliński - Member

The Annual General Meeting of Shareholders of 28 June 2014 reelected the existing members of the Supervisory Board for a 3-year term of office. The change occurred in the performance of their duties:

1. Czesław Główczewski – Vice- Chairman
2. Mariusz Lewicki –Chairman
3. Janusz Deja – Secretary
4. Ryszard Bodziachowski - Member
5. Waldemar Stachowiak - Member
6. Mieczysław Zwoliński - Member

1.3. Share ownership structure

The share ownership as at 30.06.2014 structure is as follows:

Entity	Place of registered office	Number of shares	% of the share capital	% of voting rights
PKO FIO	Warszawa	187 800	7.80%	5.03%
Ryszard Bodziachowski with a related person	Warszawa	368 600	15.35%	9.90%
Mariusz Lewicki with a related person	Toruń	169 000	7.05%	4.55%
Wacław Kropiński	Tuchola	88 405	3.48%	11.36%
other shareholders		1 470 892	66.32%	69.16%
TOTAL		***2 2836 797***	***100%***	***100%***

* The number of shares held by the PKO FIO as given above corresponds to the number of shares registered at the Annual General Meeting of Shareholders of 28.06.2014 (on 21.08.2013 - the dividend record date the PKO FIO held 254,293 shares).

In July the balance of shares/ votes held by Mr. Mariusz Lewicki increased to 179,121, while the balance of shares/ votes held by Mr. Ryszard Bodziachowski increased to 368,650.

1.4. Functional and presentation currency

The consolidated financial statements have been prepared in PLN. PLN is a functional and presentation currency for the Capital Group. The data in the statements is shown in PLN thousand, when needed particular items are presented with greater accuracy.

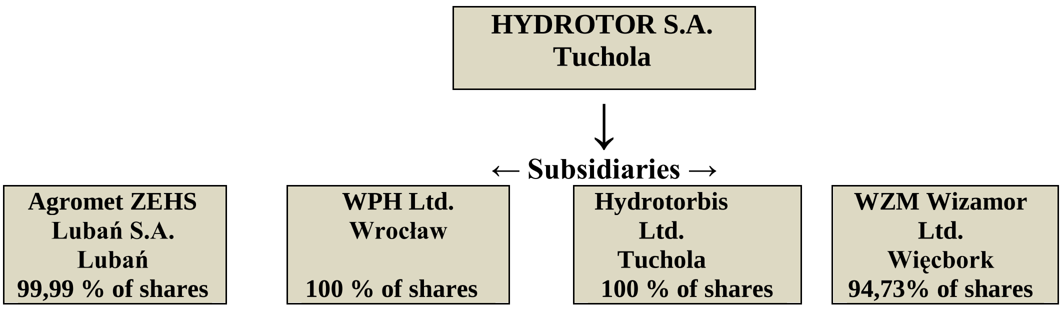
1.5. Reporting period

The financial year of the parent Company and Group companies is the calendar year.

These financial statements cover the period from 01.01.2014 to 30.06.2014 and comparable financial data for the period from 01.01.2013 to 30.06.2013.

1.6. Participation in the share capital of subsidiaries

PHS HYDROTOR participates in the share capital of five companies forming the Capital Group.



1.6.1. Agromet ZEHS Lubań S.A.

a/ domicile: Lubań

b/ core business: manufacturing of hydraulic cylinders

c/ local court: the company is entered into the National Court Register kept by the District Court for Wrocław – Fabryczna, IX Economic Division of Court Register, under KRS number 0000342909 dated 18.12.2009.

d/ accounting consolidation method: full

e/ under considerable influence since: 01.03.1998 f/ share capital held by the Parent Company/ voting rights in the stock of the Parent Company: 99.99% / 99.99%.

1.6.2. WPH Ltd., Wrocław

a/ domicile: Wrocław

b/ core business: manufacturing of hydraulic elements

c/ local court: the company is entered into the National Court Register kept by the District Court for Wrocław – Fabryczna, VI Economic Division of Court Register, under KRS number 0000082498 dated 17.01.2002.

d/ accounting consolidation method: full

e/ under considerable influence since: 15.06.2005

f/ share capital held by the Parent Company/ voting rights in the stock of the Parent Company: 100.00% / 100.00%.

1.6.3. Hydraulika Siłowa Hydrotorbis Ltd., Tuchola

a/ domicile: Tuchola

b/ core business: manufacturing of hydraulic elements

c/ local court: the company is entered into the National Court Register kept by the District Court in Bydgoszcz, XIII Economic Division of Court Register, under KRS number 0000226059 dated 11.01.2005.

d/ accounting consolidation method: full

e/ under considerable influence since: 08.11.2004

f/ share capital held by the Parent Company/ voting rights in the stock of the Parent Company: 100.00% / 100.00%.

1.6.4. WZM Wizamor Ltd., Więcbork

a/ domicile: Więcbork

b/ core business: manufacturing of connection elements high-pressure hydraulics, shock absorbers and flexible hoses

c/ local court: the company is entered into the National Court Register kept by the District Court in Bydgoszcz, XIII Economic Division of Court Register, under KRS number 0000156565 dated 28.03.2003.

d/ accounting consolidation method: full

e/ under considerable influence since: 22.06.2010

f/ share capital held by the Parent Company/ voting rights in the stock of the Parent Company: 94.73% / 94.73%.

1.7. Euro exchange rates used in translation of selected financial data

The following exchange rates we used in translation selected data:

a/ for balance sheet items – an exchange rate announced by the National Bank of Poland as at 30.06.2014 and 30.06.2013,

b/ for the items of Comprehensive Income – an exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the I half of 2014 and the I half of 2013,

c/ for cash flows items from operating activities, investing activities and financing activities, and cash and cash equivalents at the end of the period- an exchange rate calculated as the average Euro exchange rate announced by the National Bank of Poland as at 30.06.2014 and 30.06.2013.

d/ cash and cash equivalents at the beginning of the reporting period- an exchange rate calculated at the average Euro exchange rate announced by the National Bank of Poland as at 31.12.2013, and at the beginning of the comparable period, at the average Euro exchange rate as at 31.12.2012.

The exchange rates used (in PLN):

Period - date	Average exchange rate	Min. exchange rate	Max. exchange rate	The average exchange rate as at the last day of the period
30.06.2014	4.1784	4.0998	4.2375	4.1609
31.12.2013	4.2110	4.0671	4.3432	4.1472
30.06.2013	4.2140	4.0671	4.3432	4.3292
31.12.2012	4.1736	4.0465	4.5135	4.0882

1.8. Selected financial data

Key items in the balance sheet, the profit and loss account, and the cash flows statement that are included the financial statements for 2014 and the corresponding financial data for 2013, converted into EUR are as follows:

Items of the consolidate financial statements	30.06.2014		30.06.2013	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Consolidated statement of financial position - ASSETS				
Fixed assets	58 028	13 946	58 125	13 426
Current assets	57 512	13 822	56 693	13 095
Total assets	115 540	27 768	114 818	26 522
Consolidated statement of financial position – LIABILITIES				
Equity	77 549	18 638	75 215	17 374
Share capital	4 797	1 153	4 797	1 108
Liabilities and provisions for liabilities	37 991	9 130	39 603	9 148
Long-term liabilities	18 700	4 494	22 186	5 125
Short-term liabilities	19 291	4 636	17 417	4 023
Total liabilities	115 540	27 768	114 818	26 522
Consolidated statement of comprehensive income				
Net revenues from sales of products, goods and materials	47 280	11 315	44 983	10 675
Gross profit on sales	11 033	2 640	10 135	2 405
Profit on sales	4 210	1 008	3 259	773
Profit on operating activities	5 576	1 334	4 739	1 125
Gross profit	5 527	1 323	5 368	1 274
Net profit	4 478	1 072	3 790	899
Consolidated statement of cash flows				
Net cash flows from operating activities	6 130	1 473	4 570	1 084
Cash flows from investment activities	(5 008)	(1 204)	(708)	(168)
Cash flows from financial activities	(422)	(101)	2 245	(533)
Total net cash flows	700	168	1 617	384
Opening cash balance	8 303	2 002	9 056	2 215
Closing cash balance	9 003	2 164	10 654	2 461

1.9. Going concern

In light of information available to the Management Board, the Group companies have adequate resources to continue their business operations. The Management Board positively assessed the Capital Group's ability to continue as a going concern in the foreseeable future.

2. Application of International Financial Reporting Standards (IFRS)

2.1 . Statement of compliance

The financial statements has been drawn up according to International Financial Reporting Standards with consideration of their interpretations in the form as adopted by the European Commission.

2.2. The Official Standards Approved by the European Union

During preparation of the interim condensed financial statements the Group applied the same accounting standards as those described in the financial statements as at 31 December 2013, with exceptions of the standards described below.

The interim condensed financial statements for the period ended 30 June 2014 should be read along with the audited consolidated financial statements for the year ended 31 December 2013.

The following amendments to the standards issued by the International Accounting Standards Board and interpretations published by the IFRS Interpretations Committee were applied by the Group during the accounting year beginning on 01 January 2013:

IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1st January 2013 – in the EU effective for annual periods beginning on or after 01 January 2014),

IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1st January 2013 – in the EU effective for annual periods beginning on or after 01 January 2014),

IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1st January 2013 – in the EU effective for annual periods beginning on or after 01 January 2014),

IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1st January 2013– in the EU effective for annual periods beginning on or after 01 January 2014),

IAS 28 (revised in 2011) "Investments in associates and joint ventures" (effective for annual periods beginning on or after 1st January 2013 – in the EU effective for annual periods beginning on or after 01 January 2014),

Amendments to IFRS 10, IFRS 11, IFRS 12 - Transition Guidance (effective for annual periods beginning on or after 1st January 2013 - in the EU effective for annual periods beginning on or after 01 January 2014),

Amendments to IAS 32 "Financial Instruments: Presentation" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1st January 2014),

2.3. First-time adoption of accounting standards

While preparing these consolidated financial statements the Management Board of the Capital Group decided not to make early application of the standards.

2.4. Early adoption of accounting standards and interpretations

While preparing these consolidated financial statements, in relation to previous periods the Capital Group has not applied any voluntary changes in accounting principles.

3. Accounting principles applied

3.1. General data

The Parent Company of the Capital Group is PHS Hydrotor S.A.

The Capital Group's core business is production and sale of hydraulic elements.

3.2. Accounting policies

In 2013 and in the I half of 2014 the Group companies applied international accounting standards.

The consolidated financial statements of the Capital Group have been prepared in compliance with the International Financial Reporting Standards (IFRS).

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain fixed assets and financial instruments.

The principal accounting policies applied by the Group are set out below.

3.3. Basis for consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and all its subsidiary companies made up on 31 of December and 30 of June.

The Parent Company exercises control when, directly or indirectly, influences the subsidiary companies' financial and business operations with the purpose of gaining economic benefits from the activities of these companies.

All balance sheet positions and business transactions among the Group companies, including revenues, expenses, profits and losses have been eliminated in full (**see the note 48**).

Subsidiary companies undergo consolidation during the period from the date of their acquisition, that is the date on which the Parent Company obtained control, until the date on which that control terminates.

Minority interest includes ownership of shares (that are not owned by the Group) in the following companies:

* Agromet S.A., Lubań

* WZM Wizamor, Więcbork

Minority interest is displayed in the consolidated statements as a separate component of equity.

Where necessary, adjustments are made to the financial statements of the subsidiaries or associates to bring the accounting policies used in line with those used by the Parent Company.

3.4. Investments in associates

An associate is an entity over which the investor has significant influence but not control. The investor has power to participate in the financial and operating policy decisions of the associated entity.

3.5. Non-current assets held for sale

Non-current assets (and group of net assets held for sale) classified as held for sale are recognized at the carrying amount or at fair value reduced by the cost of such assets. An entity classifies a non-current asset as held-for-sale if its carrying amount will be recovered mainly through selling the asset rather than through usage. The conditions for a non-current asset or disposal group to be classified as held-for-sale is that the assets must be available for immediate sale in their present condition and its sale must be highly probable. The sale should be completed, or expected to be so, within a year from the date of the classification.

3.6. Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associated entity at the date of acquisition.

Goodwill is recognized as an asset and is tested for impairment at least once a year. Any impairment loss shall be recognised immediately in profit or loss and shall not be reversed in subsequent periods.

On the disposal of a subsidiary, associate or joint venture stake, a relevant part of the goodwill is considered in the calculation of gains or losses on the disposal.

Goodwill arising before the date of transition to IFRS was included in books of accounts according to the value determined under the previous GAAP and was tested for impairment on the date of transition to IFRS.

3.7. Sales revenue

Revenue from the sale of goods in the course of the ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, VAT and other sales-related taxes (excise duty).
Revenue on goods sold is recognized at the date of their delivery, when the ownership is transferred.

Interest income is recognized increasingly and calculated on the principal amount due, in accordance with the effective interest method rate.
Dividend income from investments is recognized when the shareholders' right to receive the payment is established.

3.8. Leases

A lease transaction is a commercial arrangement whereby the owner of an asset (the lessor) and its user (the lessee) for the right to use the asset during a specified period in return for a mutually agreed payment or a series of payments.
Lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership of the assets. Legal title may or may not eventually be transferred.
Operating lease is a lease other than a finance lease.
Tangible fixed assets used under lease agreements should be accounted for in accordance with IAS 17.
The classification of a lease (as an operating or finance lease) affects how it is reported in the accounts.

a/ Finance lease
At the commencement of the lease term, the Capital Group - the lessee recognizes finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee’s incremental borrowing rate shall be used. used. Any initial direct costs of the Group are added to the amount recognized as an asset.
Minimum finance lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The financial charge should be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred. A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period.

The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognized shall be calculated in accordance with IAS 16 and IA 38. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Financial lease payments payable within the period longer than one year (reduced by the amount of interest) are reported as long-term liabilities. Financial lease payments payable within the period shorter than one year (reduced by the amount of interest) are reported as short-term liabilities. The amount of interest is recognized in finance costs in the income statement over the lease term. To determine whether a leased asset has become impaired, the Group’s companies apply the IAS 36 Accounting Standard dealing with *impairment of assets*.

b/ Operating lease

Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Capital Group’s benefit.

3.9. Foreign currencies

Transactions carried out in a foreign currency other than Polish zloty (PLN) are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into Polish zloty using a closing rate i.e. the average rate communicated by the National Bank of Poland for a given currency prevailing at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Exchange differences on monetary items are recognized directly in profit or loss. Exchange differences on non-monetary items are recognized in equity.
Any exchange rate differences within the Group companies are translated according to the rate announced by the National Bank of Poland.

3.10. Interest expense

Borrowing costs relating to external borrowings that are directly attributable to the acquisition, construction, or production of a qualifying asset that take a substantial period of time to get ready for their intended use or sale. Borrowing costs form part of the cost of that asset until it is ready for its intended use or sale. Investment gains derived from temporary investments of borrowings that are attributable to production of a qualified asset reduce the amount of the capitalized borrowing costs.
All the other borrowing costs are recognized directly in profit and loss account in the period in which they are incurred.

3.11. Subsidies

Subsidies are used for investments projects connected with realization of specific objectives (for example: employment of people with disabilities, activation of people from the areas threatened with particularly high structural unemployment, etc.), grants are recognized as income over consecutive periods in order to match it with the corresponding costs.
Government subsidies to non-current assets are presented in the balance sheet as deferred income and are charged to profit and loss account over the useful life of the asset.

3.12. Profit on ordinary activities

Profit on ordinary activities includes restructuring costs and share of profit of associates, but excludes financial costs and income.

3.13. Taxes

Obligatory charges on the financial result are paid through: current tax (CIT) and deferred tax.
The tax currently payable is based on the taxable profits (the tax base) for the fiscal year. Taxable profit (loss) differs from net profit (loss) as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates applicable in the given fiscal year.

Deferred tax is measured under the balance sheet approach as the amount to be paid or recovered in future periods on the basis of differences between the carrying amount of an asset or liability and the corresponding tax used to calculate a tax base.

Deferred tax assets arise from all taxable temporary differences, while a deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that affects neither accounting profit not taxable profit or loss.

Deferred tax assets are recognized for deductible temporary differences arising from investments in subsidiaries, associates, branches and joint ventures, unless the Group is able to the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

The carrying amount of deferred tax assets should be reviewed at the each balance sheet date, and if the expected future taxable profits will not be sufficient to realize the asset or part thereof, it is off-written.
Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied at the moment when the asset is realized. Deferred tax is recognized on the balance sheet, unless related to items directly recognized in equity, – then it is also recognized in equity.

3.14. Tangible fixed assets

Property, plant and equipment used for the production, supply of goods and services, or for administrative purposes, is recognized on the balance sheet at the revalued amount equal to the fair value of an item of property, plant and equipment, determined from the evidence based on the market that offers valuation, and done by a professionally qualified independent expert (as of the date of its valuation), in later periods - reduced by depreciation and losses from the impairment of value.
The revaluation is made with sufficient regularity to ensure that the carrying amount, at any time, does not differ significantly from that which could be determined using the fair value at the balance sheet date.

Depreciation of revalued property and buildings is recognized in the profit and loss account. When the revalued property and building are sold or their use is terminated, the revaluation surplus is transferred directly from revaluation reserve to retained earnings.

Tangible fixed assets under construction for the production, rental or administrative purposes are recognized in the balance sheet at cost less accumulated depreciation and any recognized impairment loss.

The cost originally incurred to acquire or construct an item of property is increased by legal and accounting fees, and for certain assets, by borrowing costs capitalized in accordance with the Group's accounting policies. Depreciation begins on the day when the asset is placed in service, in accordance with the principles of accounting for tangible fixed assets.

Property, plant and equipment is recorded at historical cost, less accumulated depreciation and impairment losses.

Apart from lands and the assets under construction, all tangible fixed assets are depreciated over the useful life of the asset, using the straight-line depreciation method, at the following annual depreciation rates:

- Buildings and premises 2,5% - 4,0%
- Machinery and equipment 6,0% - 33,0%
- Vehicles 12,5% - 33,0%
- Other tangible fixed assets 10,0% - 25,0%

The assets held under finance leases are depreciated over their useful life, respectively as own assets, but not longer than the term of a lease.

Profit or loss on sales/ liquidation or abandonment of tangible fixed assets is defined as the difference between the sale proceeds and the net asset value, and is recognized in the profit and loss account.

3.15. Investment property

An investment property is initially measured at purchase price or manufacturing cost, including transaction costs. Subsequent to the initial recognition, items of the investment property are carried at a revalued amount.

3.16. Intangible fixed assets – research and development costs

Intangible fixed asset is an identifiable nonmonetary asset from which future economic benefits are expected.

An intangible asset should be measured initially at cost. After initial recognition (at subsequent balance sheet dates) intangible assets should be carried at cost less any amortization and impairment losses.

In accordance with the amortization plans of the companies in the Group, straight line amortization is used to amortize the intangible assets.

The Group's intangible assets mainly consist of the computer software and research and development costs. Development costs are capitalized only, when:

- specific project is implemented (for example: the software or new procedures),
- it is probable that the future economic benefits that are attributable to the asset will flow to the entity,
- the project- related cost can be measured reliably.

Development costs are amortized using straight-line method over their useful life.

When it is impossible to recognize the asset whether purchased or self-created, then the development costs are recognized in profit or loss in the period in which they were incurred.

3.17. Patents and trademarks

Patents and trademarks are recognized on the balance sheet at the acquisition price less accumulated amortization. Amortization is provided using the straight-line method over their useful life.

3.18. Impairment

The Capital Group reviews the net value of fixed assets at each balance sheet date in order to determine whether there are indications of possible impairment. Following the identification of any indication of impairment, the company makes a formal estimate of the recoverable amount of the given asset to determine a write-off. If this asset does not generates cash flows that are largely independent of cash flows generated by other assets, the analysis is made for the group of assets that generate cash flows and to which the given asset belongs.
Intangible fixed assets that have indefinite useful life are tested for impairment annually, and additionally, when there are indications of possible impairment.

The recoverable amount is defined as the higher of the 'fair value less costs to sell and its value in use. The last one corresponds to the amount of expected future cash flows that are discounted using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount is lower than the net carrying amount the assets (or the group of assets), the carrying amount should be reduced to its recoverable amount. The impairment loss is recognized as an expense in the income statement, unless it relates to a revalued asset (any impairment loss of a revalued asset shall be treated as a revaluation decrease).

When the impairment loss is reversed, the carrying amount of the assets (or the group of assets) should be increased to its new recoverable amount. The recoverable amount shall not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years.
A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation reserve.

3.19. Inventory

Inventory is reported on the balance sheet at the amount paid to obtain (purchase) the merchandise, or at the production cost that should not be higher than the net sale price. Inventory costs include the cost of direct materials, and where appropriate, the direct salary costs and a reasonable proportion of indirect costs. Inventory of goods and raw materials are valuated using the weighted average cost method.

The net sale price represents the estimated selling price less the estimated costs to complete production and get the product into a condition necessary to complete the sale (selling and marketing expenses, etc.).

3.20. Financial instruments

The Capital Group defines a financial instrument as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity, provided that the contract concluded between two or more parties generates economic results.

The Group classifies financial instruments in the following manner:

1. Financial assets measured at fair value through profit or loss, including:

a/ financial assets held for trading,

b/ financial assets designated as being held at fair value through profit or loss:

- designated voluntarily by the Group upon initial recognition,
- designated because they contain embedded derivatives that need to be separately recorded, but whose fair value cannot be measured reliably,

2. Investments held to maturity – non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Group has the positive intention and ability to hold to maturity.

3. Loans and receivables: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

4. Available-for-sale financial assets (AFS) are any non-derivative financial that is designated as available for sale and do not meet the definition of: (a) loans and receivables, (b) investments held to maturity, (c) financial assets measured at fair value through profit or loss.

5. Financial liabilities held at fair value through profit and loss:

   a/ financial liabilities held for trading;
   b/ financial liabilities
   - designated voluntarily by the Group upon initial recognition,
   - designated because they contain embedded derivatives that need to be separately recorded, but whose fair value cannot be measured reliably,

6. Other financial liabilities (liabilities measured at amortized cost).

3.21. Trade and other receivables

Trade and other receivables are non-interest bearing, they are evaluated in the accounting books at nominal value corrected by adequate revaluation write-downs for doubtful receivables.

3.22. Investment in securities

In the case that market convention predicts delivery of security in the specified time after transaction has been performed, the investment in securities is recognized in the accounting books. They are deleted from the accounting books on the purchase / sale transaction day. Investment in securities is initially estimated as per purchase price corrected by transaction costs.

Investment in securities is classified as directed to turnover or available for sale and evaluated for balance day at their fair value. In the case that securities were classified as directed to turnover, the profit and loss arising from change in the fair value are recognized in the profit and loss account in a given period. In the case that assets are available for sale, the profit and loss arising from the change of the fair value are directly recognized in the capital until the asset is sold or impaired. As such cumulated profit or loss previously recognized in the capital is transferred to the profit and loss account of a given period.

3.23. Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified depending on their economic content arising from the concluded contracts. Equity instrument is any contract that gives the right to participate in the Group's assets decreased by all liabilities.

3.24. Bank loans and credits

Bank loans and credits (including current account credit) are entered in the accounting books as per value of gained proceeds decreased by direct costs of gaining them. Financial costs along with commission payable during repayment or redemption and direct costs of taking up credits, are recognized in the profit and loss account by means of memorial method. They increase the book value of the instrument with inclusion of repayments in a given period.

3.25. Trade liabilities

Trade liabilities are non-interest bearing, they are recognized on the balance sheet at a nominal value.

3.26. Derivatives and hedge accounting

In the course of its business activities, the Capital Group is subject to foreign currency exchange risks due to exchange rates and interest rates. In order to manage costly exposure to those risks, the Group may use forward contracts and interest rate swaps.

The Capital Group does not use derivatives for speculative purposes.

Valuation is done taking into consideration the exchange rate applicable at the balance sheet date.

3.27. Provisions

A provision is a liability of uncertain timing or amount. A provision should be recognized when:

a/ The Group has a present obligation (legal or constructive) as a result of a past event,
b/ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c/ a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate. When it not probable that an outflow of resources embodying economic benefits will be required to settle the obligation (contingent liability) the provision shall be reversed.

Each provision should be used only for expenditures for which it was originally recognized.

The HYDROTOR Capital Group recognizes provisions for:
- employee benefits (retirement provision, jubilee bonuses, provision for unused leave),
- provision for losses from business transactions in progress.

4. Sales revenues

Sales revenues reported by the Capital Group:

Sales revenues from continuing operations	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Sales of products	43 749	78 933	41 120
Sales of goods and materials	3 531	7 166	3 863
Total	**47 280**	**86 099**	**44 983**
Other operating revenues	1 577	3 312	1 581
Financial revenues	70	1 527	1 205
(The total amount includes all the revenues defined by IAS 18)	**48 927**	**90 938**	**47 769**

5. Business segmentation

5.1. Branch segments

For business management purposes, the Parent Company has introduced some changes in the manner of presenting its branch segments on the basis of products and the customers' business character:

For business management purposes, the entity has been divided into the following operating segments:

- Hydraulic products – pumps, directional block valves, control valves and others
- Other products
- Repair – service activities
- Large part machining services
- Other services
- Goods and materials

These segments are the basis for business segment reporting, although, due to the large variety of products the Parent Company does not prepare separate financial information, it strives to make more information available.

Revenue and results per segment in the I half of 2014	Hydraulic products				Other products	Repair services	Large part machining services	Other services	Goods and materials	Total amount
	pumps	directional block valves, control valves	cylinders	other						
Revenues from sale of products, goods and materials	11 236	3 216	20 641	282	5 427	1 492	987	468	3 531	**47 280**
Costs of products, goods and materials sold	(8 622)	(2 425)	(15 498)	(173)	(4 417)	(1 197)	(1 158)	(320)	(2 437)	**(36 247)**
Gross profit (loss) on sales	**2 614**	**791**	**5 143**	**109**	**1 010**	**295**	**(171)**	**148**	**1 094**	**11 033**
Selling costs	(295)	(83)	(540)	(8)	(141)	(14)	(50)	(11)	(75)	**(1 217)**
Administrative expenses	(1 360)	(391)	(2 499)	(34)	(658)	(172)	(127)	(56)	(309)	**(5 606)**
Profit (loss) on sales	**959**	**317**	**2 104**	**67**	**211**	**109**	**(348)**	**81**	**710**	**4 210**
The result on other operating activity							813			1 366
The result on financial activity							(51)			**(49)**
Gross profit (loss) on ordinary activities										5 527
Income tax										(1 049)
Other decrease										
Profit (loss) from continuing operations										**4 478**
Profit (loss) from discontinued operations										
Net profit (loss)										**4 478**

Revenue and results per segment in the I half of 2013	Hydraulic products				Other products	Repair services	Large part machining services	Other services	Goods and materials	Total amount
	pumps	directional block valves, control valves	cylinders	other						
Revenues from sale of products, goods and materials	10 661	3 286	18 638	759	5 554	1338	514	370	3 863	**44 983**
Costs of products, goods and materials sold	(8 022)	(2 434)	(14 399)	(619)	(4 045)	(1 043)	(982)	(249)	(3 055)	**(34 848)**
Gross profit (loss) on sales	**2 639**	**852**	**4 239**	**140**	**1 509**	**295**	**(468)**	**121**	**808**	**10 135**
Selling costs	(295)	(98)	(508)	(21)	(153)	(36)	(32)	(10)	(39)	**(1 192)**
Administrative expenses	(1 434)	(442)	(2 507)	(102)	(747)	(179)	(66)	(50)	(157)	**(5 684)**
Profit (loss) on sales	**910**	**312**	**1 224**	**17**	**609**	**80**	**(566)**	**61**	**612**	**3 259**
The result on other operating activity										1 480
The result on financial activity										629
Gross profit (loss) on ordinary activities										**5 368**
Income tax										(754)
Profit (loss) from continuing operations										**4 614**
Profit (loss) from discontinued operations										(824)
Net profit (loss)										**3 790**

5.2. Geographic segments

The Group carries on its business activities on the territory of Poland and sells its products to member countries of the European Union (WDT) and countries outside the European Union.

The table below contains information about markets, with the division into a domestic market (on the territory of Poland) and foreign markets - irrespective of the country of origin of the products or services sold:

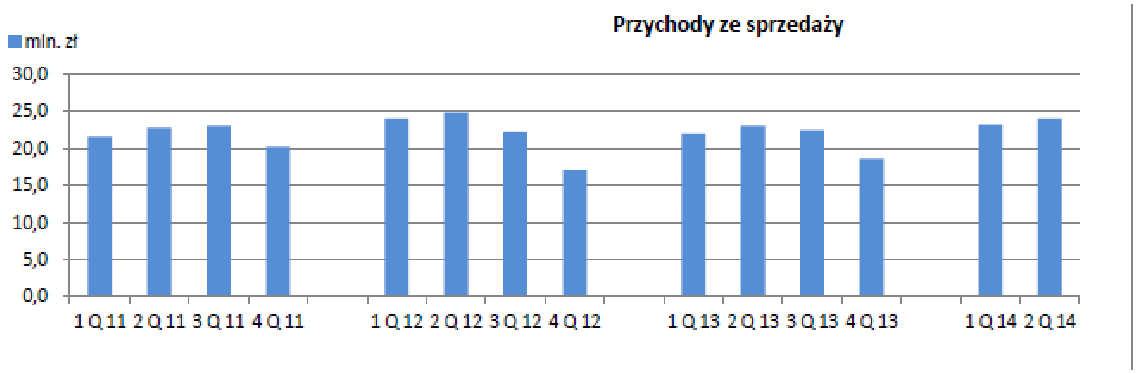
Sales revenues - territorial structure	For the period ended 30/06/2014		For the year 2013		For the period ended 30/06/2013	
	Poland	WDT + EXPORT	Poland	WDT + EXPORT	Poland	WDT + EXPORT
Revenues from sale of products, goods and materials	27 296	19 984	50 218	35 881	26 602	18 381
Costs of products, goods and materials sold	(21 437)	(14 790)	(38 198)	(29 199)	(20 611)	(14 237)
Gross profit (loss) on sales	**5 859**	**5 194**	**12 020**	**6 682**	**5 991**	**4 144**
Selling costs	(683)	(534)	(1 407)	(1 091)	(683)	(509)
Administrative expenses	(3 071)	(2 435)	(6 393)	(5 003)	(3 239)	(2 445)
Profit (loss) on sales	**2 105**	**2 225**	**4 220**	**588**	**2 069**	**1 190**

Sale outside the country was carried out mainly to countries of the European Union. In the I half of 2014 and 2013 the biggest customers were:

Export revenues	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Sales revenue	**19 984**	**35 891**	**18 381**
Countries of the EU	**19 238**	**33 962**	**16 448**
Germany	12 361	20 940	10 481
France	1 073	2 678	1 636
Italy	3 057	6 591	708
Netherlands	1 776	2 464	123
Sweden			
Slovakia	208	631	328
Other countries of the EU	763	658	3 172
Other countries outside the EU	**746**	**1 929**	**1 933**

6. Seasonality and cyclicality

The range of products offered for sale by the Group is seasonal. It is influenced not only by the financial market situation, by also by the weather conditions. In the second and third quarter of the year the Group usually reaches the highest revenue.



7. Generic costs and results from operating activities

Profit from operating activities	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Revenue from principal operations	47 280	86 099	44 983
Gain on disposal of non-financial fixed assets	10	34	4
Subsidies, co-financing	1 244	2 632	1 236
Reversed provision	12	17	
Other operating revenue	321	629	341
Manufacturing cost of products for internal purposes	363	1 227	247
Change in the balance of products	(1 602)	(788)	(71)
Depreciation of fixed assets	(2 487)	(4 730)	(2 377)
Consumption of materials and energy	(17 959)	(34 948)	(18 158)
External services	(1 807)	(3 654)	(1 815)
Taxes and charges	(691)	(1 121)	(655)
Employment costs (see note no. 9)	(15 861)	(30 554)	(14 982)
Other costs by type	(220)	(692)	(271)
Other operating activities	(2 816)	(6 031)	(3 251)
Value of goods and materials sold	(211)	(290)	(101)
Profit on operating activities	**5 576**	**7 830**	**4 739**

8. Other operating income and costs

Other operating income	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Income from selling a property	42	34	22
Subsidies	1 244	2 632	1 236
Gain on liquidation		8	7
Release of provision for bad debts	14	168	5
External services	12	43	21
Utilities (electricity, telephone, water, etc.)	153	267	127
Other income	154	160	216
	1 620	**3 312**	**1 634**

Other operating costs	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Cost of selling a property	(44)	(4)	(24)
Grants	(1)	(6)	(2)
Revaluation of non-financial assets	(38)	(91)	(5)
External services	(10)	(23)	(10)
Other costs	(161)	(166)	(113)
	(254)	**(290)**	**(154)**

9. Employment costs

Information about the average employment (including the management staff) is provided in the table below:

Employment	Number of employees in the I half of 2014	Number of employees in 2013	Number of employees in the I half of 2013
Production employees	617	586	594
Office employees	174	167	171
Employees on parental leave			
	791	**753**	**765**

Employment costs	Number of employees in the I half of 2014	Number of employees in 2013	Number of employees in the I half of 2013
Salaries	(12 740)	(24 989)	(12 036)
Social security contributions	(2 422)	(4 721)	(2 302)
Other employee benefits	(699)	(844)	(644)
	(15 861)	**(30 554)**	**(14 982)**

10. Financial income and expenses

Financial income	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Interest earned	68	591	195
Interest earned on loans			13
Gain on currency exchange rates	65		190
Deduction of liabilities		900	900
Gain on currency exchange rates, reversal of provisions			130
Other income		36	
	133	**1 527**	**1 428**

Financial expenses	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Interest paid on loans and credits	(66)	(146)	(87)
Other interest expense	(2)	(4)	(1)
Revaluation of financial obligations			(10)
Intermediation costs		(27)	
Loss on currency exchange rates	(114)	(13)	(690)
Other financial expenses		(8)	
Total borrowing costs	(182)	(198)	(788)
Less: the initial fixed asset capitalization amount			
Loss on derivative instruments		(14)	(11)
Loss on interest rate swaps, reclassified from equity profits			
Total financial expenses	**(182)**	**(212)**	**(799)**

11. Income tax

The current portion of the income tax was calculated at the rate of 19% (in 2012: 19%) of the tax base.

Income tax structure	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Current income tax	797	1 035	722
Deferred tax	22	439	32
Total	**1 049**	**1 474**	**754**

Income tax	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Income tax on legal entities – current charge	797	1 035	722
Deferred income tax (note no. 24)	252	439	32
including: tax arising from reversal of temporary differences	252	439	32
Income tax disclosed on the profit and loss account	1 049	1 474	741
Income tax paid	711	1 497	773
Current income tax assets	36	471	34
Current income tax liabilities	192	10	106

Effective tax rate	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Total revenues	48 927	90 938	47 769
Total expenses	(43 400)	(81 793)	(42 401)
Profit before tax	5 527	9 145	5 368
Non- taxable income	(987)	(2 362)	(152)
Non- deductible expenses	(87)	(1 175)	407
Taxable income	4 453	5 608	5 623
Income deductions	(256)	(164)	(149)
Gross income	4 197	5 444	5 474
Income tax rate of 19%	797	1 034	1 040
Income tax for prior periods			
Total income tax	797	1 034	1 040
Effective tax rate %	17.9	18.4	18.5

12. Dividend

DIVIDEND	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
The amounts paid to the entity's stockholders during the fiscal year:		4 797	
Dividends for the previous fiscal year in PLN		4 797	
Dividend per share in PLN		2.00	
Prepaid dividend for the current fiscal year			
		4 797	
Final dividend for the previous fiscal year	4 797	4 797	4 797
Dividend per share (PLN 0.00)	2.00	2.00	2.00
Dividend paid to minority shareholders			

The General Meeting of Shareholders of PHS HYDROTOR S.A. resolved to pay dividend for the fiscal year 2013 to the Parent Company shareholders in the amount of PLN 2.00 per share.

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13. Earnings per share

Continuing and discontinued operations

The calculation of basic earnings per share and diluted earnings per share are based on the following information:

Earnings	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
The net income for the given accounting period used to calculate earnings per share to be distributed among shareholders	4 478	6 618	3 742
Profits earned (losses incurred) by minority shareholders	5		25
Profit shown for the purpose of calculating diluted earnings per share	**4 473**	**6 618**	**3 717**
Number of shares issued	**For the period ended 30/06/2014**	**For the period ended 31/12/2013**	**For the period ended 30/06/2013**
The weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2 398 300	2 398 300	2 398 300
The effects of dilutive potential ordinary shares:			
- share options	-	-	-
- convertible bonds	-	-	-
The weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2 398 300**	**2 398 300**	**2 398 300**

Continuing operations	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Net profit for the accounting period attributable to shareholders	4 473	6 615	3 717
Excluded loss from discontinued operations	-	-	-
Net profit from continuing operations used to calculate earnings per share, excluding the result from discontinued operations	4 473	6 615	3 717
The effects of dilutive ordinary shares:	-	-	-
Net profit from continuing operations used to calculate diluted earnings per share, excluding the result from discontinued operations	4 473	6 615	3 717
Profit from continuing operations per ordinary share (PLN, 0,00)	**1.87**	**2.76**	**1.55**

Denominator used in the formula is the same as for the purposes of calculating earnings per share and diluted earnings per share for continuing and discontinued operations.

All the shares issued by the Parent Company (Issuer) are equally entitled to receive dividend.

14. Other intangible assets

	Development expenses	Other intangible assets	Total
Gross value	2 517	991	3 508
as at January 01, 2013			
Increase			
Decrease			
As at June 30, 2013	**2 517**	**991**	**3 508**
As at January 01, 2014	**2 518**	**973**	**3 491**
Increase		5	5
Decrease			
As at June 30, 2014	**2 518**	**978**	**3 496**
Amortization			
as at January 01, 2013	**(290)**	**(903)**	**(1 193)**
Amortization for the I half of 2013	(169)	(16)	(185)
Decrease			
As at June 30, 2013	**(459)**	**(919)**	**(1 378)**
As at January 01, 2014	**(628)**	**(916)**	**(1 544)**
Amortization for the I half of 2014	(169)	(9)	(178)
Other deductions			
Decrease			
As at June 30, 2014	**(797)**	**(925)**	**(1 722)**
Net book value			
As at January 01, 2013	2 227	88	2 315
As at June 30, 2013	2 058	72	2 130
as at January 01, 2014	1 890	57	1 947
as at June 30, 2014	1 721	53	1 774

The development expenses incurred by the Group are amortized over a period of 5 years.
Patents and trademarks are amortized over the expected useful life. Average amortization period is 5 years.
Computer software is amortized over the expected useful life, average amortization period is 3-5 years.

15. Tangible fixed assets

	land (including the right of perpetual usufruct)	buildings, premises, structures	Machinery and equipment	Vehicles	Other fixed assets	Fixed asset invest-ments	Total fixed assets
Fixed assets (PLN thousand) - Gross value							
As at January 01, 2013	**3 572**	**18 363**	**51 150**	**1 003**	**4 801**	**19**	**78 908**
Increase			343	64	338	9	754
Decrease			(496)	(16)	(9)		(521)
As at June 30, 2013	**3 572**	**18 363**	**50 997**	**1 051**	**5 130**	**28**	**79 141**
As at January 01, 2014	**3 572**	**18 722**	**51 773**	**1 119**	**5 245**	**17**	**80 448**
Increase		160	2 669	64	358	8	3 259
Decrease			(461)	(154)	(2)	(4)	(621)
As at June 30, 2014	**3 572**	**18 882**	**53 981**	**1 0291**	**5 601**	**21**	**83 086**
Depreciation and impairment							
As at January 01, 2013		**3 277**	**19 152**	**646**	**1 060**		**24 135**
Depreciation for the I half of 2013		273	1 716	37	186		2 192
Decrease due to liquidation or sale			(433)	(10)	(8)		(451)
As at June 30, 2013		**3 550**	**20 435**	**673**	**1 218**		**25 876**
As at January 01, 2014		**3 840**	**21 959**	**652**	**1 401**		**27 852**
Depreciation for the I half of 2014		281	1 812	46	172		2 311
Decrease due to liquidation or sale			(438)	(117)			(555)
As at June 30, 2014		**4 121**	**23 333**	**581**	**1 573**		**29 608**
Net value							
As at January 01, 2013	**3 577**	**15 086**	**31 998**	**357**	**3 741**	**19**	**54 773**
As at June 30, 2013	**3 572**	**14 813**	**30 562**	**378**	**3 912**	**28**	**53 265**
As at January 01, 2014	**3 572**	**14 882**	**29 814**	**467**	**3 844**	**17**	**52 596**
As at June 30, 2014	**3 572**	**14 761**	**30 648**	**448**	**4 028**	**21**	**53 478**

Tangible fixed assets	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Gross value	83 086	80 448	79 141
Depreciation	(29 608)	(27 852)	(25 876)
	53 478	**52 596**	**53 265**
Fixed assets			
- Own land (including the right of perpetual usufruct)	3 572	3 572	3 572
- Buildings, premises and structures	14 761	14 882	14 813
- Machinery and equipment	30 648	29 814	30 562
- Vehicles	448	467	378
- Other fixed assets	4 028	3 844	3 912
Fixed asset investments	21	17	28
Tangible fixed assets	**53 478**	**52 596**	**53 265**

Fixed assets - balance sheet structure	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Own fixed assets	53 478	52 596	53 265
Assets used under agreements, including lease			
Total balance sheet assets	**53 478**	**52 596**	**53 265**

As at the balance sheet date the Capital Group's fixed assets amounted to PLN 20,616 thousand (2013: PLN 22,257) constituted collateral for credits, loans and budgetary commitments.
The Parent Company PHS Hydrotor S.A. was carrying out investments co-financed by the PARP. The company used an investment credit to finance its investment project. In compliance with the credit agreement, basic equipment associated with the investment serves as collateral for the credit.

16. Property investments

Property investments	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
a/ land (including the right of perpetual usufruct)	1 052	1 052	892
b/ buildings, premises and structures	1 208	1 216	1 346
Total property investments	**2 260**	**2 268**	**2 238**

Property investments include:

- Property of the Defka Ltd., in liquidation, Dzierżoniów, including land, buildings and structures
- Property of the WZM Wizamor, Więcbork, including land, buildings and structures.

17. Subsidiaries

Name of the subsidiary companies	Registered office	Percentage of shares held	Percentage of votes	Method of consolidation
AGROMET ZEHS S.A.,	Lubań	99,99%	99,99%	full
Hydraulika Siłowa HYDROTORBIS Ltd	Tuchola	100,00%	100,00%	full
WPH Ltd.,	Wrocław	100,00%	100,00%	full
WZM WIZAMOR Ltd.	Więcbork	95,47%	95,47%	full

In the I half of 2014, all the subsidiary companies were consolidated using the full method.
Neither of the companies in the Group owns a majority stock of any other company in the Capital Group.

18. Available-for-sale Financial Assets

The Group owns the following financial assets available for sale:

- Wytwórnia Pomp Hydraulicznych , Wrocław - shares of Fabryka Maszyn i Urządzeń FAMAK S.A., 5 Fabryczna str., 46-200 Kluczbork. The number of shares held: 4,165 pcs. at PLN 10.00 per share. The shares were taken over for debts. The value of these shares has been written down to PLN 20.8 thousand. After the revaluation the shares' value amounts to PLN 4.2 thousand.
- Agromet ZEHS S.A., Lubań - shares in the Hydraulika Siłowa Agromet Ltd., disclosed in the nominal price of PLN 12.6 thousand – the company neither carries out operating activities nor is included in the consolidation,
- WZM Wizamor Ltd., Więcbork – shares in the Bank Spółdzielczy in Więcbork worth PLN 2.00 thousand.

The Group estimates that the shares owned by the companies of the Group were valued at fair value. Total value of the shares held by the Group amounts to PLN 19 thousand.

19. Goodwill

As at the balance sheet date the value of goodwill is not specified.

20. Inventory

	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Materials	9 191	8 054	8 372
Production in progress	10 048	10 373	10 102
Finished products	9 200	10 311	9 548
Goods	871	732	816
	29 310	**29 470**	**28 838**

	Gross value	As at 30/06/2014 - adjustment	Net value
Materials	9 322	131	9 191
Production in progress	10 200	152	10 048
Finished products	9 641	441	9 200
Goods	891	20	871
Total:	**30 054**	**744**	**29 310**

21. Non-current assets held for sale

The Group carried out a review of its assets in terms of their fair value and usefulness in future business.

As a result of this review, the fixed assets that were no longer useful were made available for sale.

Non-current assets held for sale	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
At the beginning of the year	37	795	795
Increases			
Decreases		(758)	(348)
At the end of the year	**37**	**37**	**447**

22. Trade and other receivables

Trade and other receivables	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Trade receivables	15 024	10 919	15 096
Receivables on account of taxes, subsidies, customs, social insurances and other benefits	571	1 326	477
Advances for deliveries	1		
Advances for fixed assets	1 969	505	250
Receivables claimed at court	3	9	16
Other receivables	58	4	51
Total receivables	**17 626**	**12 763**	**15 890**

Intra-Group receivables and liabilities have been eliminated in full.

Past due receivables	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Not past due trade receivables	11 977	7 877	11 488
- Up to 3 months	11 977	7 877	11 488
Past due trade receivables	4 680	4 656	5 211
Total trade receivables – gross value	16 657	12 533	16 699
Allowance for bad debts	(1 633)	(1 914)	(1 603)
Trade receivables – net value	15 024	10 919	15 096

Past due receivables	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Past due receivables – gross value	4 680	4 656	5 211
- Up to 3 months	3 362	3 861	3 357
- More than 3-6 months	674	445	70
- More than 6 months to 1 year	374	77	167
- More than 1 year	270	273	1 617

Receivables- currency structure	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Total receivables:	**17 626**	**12 763**	**15 890**
a/ in Polish currency	11 781	8 068	10 539
b/ in foreign currency (converted into PLN)	5 845	4 695	5 351
- Euro (converted into PLN)	5 845	4 533	5 066
- USD (converted into PLN)		162	285
- Other currencies (converted into PLN)			

Average credit period offered by the Group to its customers is 30 days, within the period of 30 days from the invoice date the Group does not charge penalty interest, after that period penalty interest of 11.5% - 13.5% is charged on the outstanding debt. The amount of the interest charged is up to the decision of the companies of the Group.

The value of accounts receivable deemed to be uncollectible and written off was estimated at PLN 1,633 thousand (in 2013: PLN 1 603 thousand).

The amounts of the deductions were determined on the basis of past experience of the Group.

The Management Board believes that the net book value of accounts receivable approximates to their fair value.
Due to insignificant effects of discounts, the value of accounts receivable was calculated with consideration of amounts due.

23. Cash and cash equivalents

Cash	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Cash on hand	114	63	54
Current account	933	509	745
Bank deposits	6 174	6 912	9 077
In foreign currencies	1 782	819	778
Total	**9 003**	**8 303**	**10 654**
including restricted cash		**61**	**61**

Cash- currency structure	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Total, including:	**9 003**	**8 303**	**10 654**
a/ cash in Polish currency	7 221	6 367	9 876
b/ cash in foreign currency(converted into PLN)	1 782	1 939	778
- in EUR (converted into PLN)	1 742	1 932	778
- in USD (converted into PLN)	40	4	

Cash in bank and cash equivalents comprise of cash on hand and bank deposits.

24. Prepayments and accruals

Prepayments - assets	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Prepayment for VAT, input VAT	90	63	
Prepayment for the Social Fund	266		235
Taxes: prepayment for property tax	103		104
Insurance costs	53	116	43
Costs of the OPIE investment project (up to 1 year)	641	529	601
Costs of the OPIE investment project (more than 1 year)	779	602	
Interest on loans and bank deposits	1	11	183
Other prepayments	64	42	121
Short-term prepayments	**1 997**	**1 3637**	**1 287**

The costs related to realization of the project: “Elaboration and implementation of innovative technologies used during highly effective precision machining processes and measurement technologies used for measurement of large-sized machine parts” – (measure 1.4-4.1) are the main item. The costs include the expenditure which was not previously scheduled but was related to the investment project.

Other costs incurred by the Group were related to press subscription, insurance policies.

Accruals- liabilities	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Long-term investments- grants	**10 634**	**11 551**	**12 304**
Grants – advanced grants to fund the OPIE project	10 021	10 961	11 901
Grants linked to purchase of fixed assets,	613	590	403
including short-term assets	2 042	2 035	1 882

The funds granted from the Polish Agency for Enterprise Development to fund the investment projects are the principal item. The investments projects have been realized by:

***** The PHS HYDROTOR S.A. – refunding of costs incurred in connection with the investment project: “Elaboration and implementation of innovative technologies used during highly effective precision machining processes and measurement technologies used for measurement of large-sized machine parts” – measure 1.4-4.1. As at the balance sheet date the amount of unsettled funding amounted to PLN 9,012 thousand (in 2013: PLN 10,638 thousand).

* The AGROMET ZEHS Lubań S.A.- has been performing the agreement signed with the Polish Agency for Enterprise Development on co-financing the investment project under the Operational Programme Innovative Economy, concerning the implementation of a new technology for the production of hydraulic cylinders. The investment is carried out during the period 2009-2013 . The total cost of the project is estimated at PLN 8,877 thousand, including co-financing of PLN 3,551 thousand (40% of eligible expenses). As at the balance sheet date the expenditure amounted to PLN 7,077 thousand, out of which PLN 2,168 thousand was spent in the I half of 2014. There is still the amount of PLN 1,800 thousand to be spent.

25. Loans and credits

Details	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Current account credits	910	275	346
Long-term investment credits	8 295	9 232	10 862
Total financial liabilities	**9 205**	**9 507**	**11 208**
Lease liabilities			
Total financial liabilities	**9 205**	**9 507**	**11 208**

Details	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Current account loans	910	275	346
Bank credits	8 295	9 232	10 862
	9 205	**9 507**	**11 208**
<u>Loans broken down by maturity:</u>			
Repayable on demand or within a year	2 818	2 144	2 604
Repayment period of more than 12 months to 2 years	1 880	1 923	2 220
Within the period 3 – 5 years	4 507	3 734	6 384
More than 5 years		1 706	
Less: The amounts due within 12 months (included in current liabilities)	2 818	2 144	2 541
The amounts due within the period longer than 12 months	6 387	7 363	8 604

Investment loans – 30.06.2014	<u>Currency</u>	<u>Limit</u>	<u>The amount used</u>	<u>Converted in PLN</u>
PHS Hydrotor S.A.	EUR	3 000	1 987	10 774
WZM Wizamor Ltd.	PLN	473	27	27
				10 801
to be paid during the period of one year				1 907

Loans in current account – 30.06.2014	Limit	The amount used	Converted in PLN
ZEHS Agromet S.A.	4 500	571	3 929
WZM Wizamor Ltd.	500	339	161
WPH Ltd.	500		500
	5 500	**910**	**4 590**

The Group has two main bank loans:

1. The investment loan of EUR 3,000 thousand intended to cover expenditures related to the investment project co-financed by the European funds paid by the Polish Agency for Enterprise Development. The loan is available until November 02, 2018. The market interest rate on the loan is based on WIBOR 1M + the lending bank's margin of 0.9 percent. The loan is secured by a registered pledge on the Company's current assets – inventory up to the amount not lower than PLN 4.470 thousand. After completion of the investment project, coverage of the pledge will be extended on the purchased portal machines, including a measuring machine with assignment of the insurance policy. During the project realization the Company spent the amount of EUR 2,700 thousand.
2. The investment loan of PLN 473.3 thousand granted for the period ended November 30, 2014. The market interest rate on the loan is based on WIBOR 1M + the lending bank's margin of 2 percent. The loan is secured by transfer of the ownership of machinery and inventory.
3. The current account loan of PLN 4,500 thousand granted for the period ended February 10, 2015. The market interest rate on the loan is based on WIBOR 1M + the lending bank's margin of 1.1 percent.. The loan is secured by an assignment of receivables (90% of the value of the receivable), not less than PLN 2,400 per quarter.
4. The current account loan of PLN 500 thousand granted for the period ended November 25, 2014. The market interest rate on the loan is based on WIBOR 1M + the lending bank's margin of 3.15 percent. The loan is secured by mortgage of real estate at the value of PLN 850 thousand.
5. The current account loan of PLN 500 thousand. According to the repayment schedule the loan is to be repaid by December 10, 2014. The market interest rate on the loan is based on WIBOR 1M + the lending bank's margin of 1.4 percent. The loan is secured by mortgage of real estate.

As at June 30, 2014 the Group had still available the amount of PLN 4,590 thousand.
Due to a slight discount effects, valuation of the loans was made with a consideration of the outstanding payment amounts.

26. Convertible bonds

The Capital Group has not issued convertible bonds.

27. Financial derivatives

In the I half of 2014 the Group neither entered into forward contracts nor any other contracts.

Interest rate swap contracts

So far, the Group has not used interest rate swaps to manage the risk from fluctuations in interest rates on the loans taken out by the Company.

28. Deferred tax

Changes in the Company's deferred tax recognized in the current and past accounting periods are as follows:

Deferred income tax assets.	Reflected on the balance sheet	Reflected in the equity	Total
As at January 01, 2013	**608**		**608**
- provisions for employee benefits	**247**		**247**
- employee benefit obligations, Social Security	**102**		**102**
- write-downs of receivables	**174**		**174**
- other	**85**		**85**
Increases	231		231
- provisions for employee benefits			
- employee benefit obligations, Social Security	5		5
- write-downs of investments in subsidiaries	224		224
- other	2		2
Decreases			
As at June 30, 2013	**839**		**839**
- provisions for employee benefits	**247**		**247**
- employee benefit obligations, Social Security	**107**		**107**
- write-downs of receivables	**174**		**174**
- write-downs of investments in subsidiaries	**224**		**224**
- other	**87**		**87**
As at January 01, 2014	**654**		**654**
- provisions for employee benefits	**225**		**225**
- employee benefit obligations, Social Security	**118**		**118**
- write-downs of inventory, receivables	**174**		**174**
- adjustment of costs - failure to pay	**38**		**38**
- other	**99**		**99**
Increases	33		33
- provisions for employee benefits			
- employee benefit obligations, Social Security	6		6
- adjustment of costs – failure to pay	24		24
- other	3		3
Decreases	(51)		(51)
- provisions for employee benefits	(1)		(1)
- employee benefit obligations, Social Security	(1)		(1)
- adjustment of costs – failure to pay	(2)		(2)
- other	(47)		(47)
As at June 30, 2014	**636**		**636**
- provisions for employee benefits	**224**		**224**
- employee benefit obligations, Social Security	**123**		**123**
- write-downs of inventory, receivables	**174**		**174**
- adjustment of costs – failure to pay	**60**		**60**
- other	**55**		**55**

Deferred income tax provision	Recognized in the financial result	Recognized in equity	Total
As at January 01, 2013	**2 630**		**2 630**
- difference between carrying amount and tax base	**2 502**		**2 502**
- tools and instruments	**120**		**120**
- investment allowances	**2**		**2**
- bank interest	**5**		**5**
- exchange rate differences	**1**		**1**
- other			
Increases	252		252
- difference between carrying amount and tax base	205		205
- tools and instruments	13		
- bank interest	31		
- other	3		3
Decreases	(53)		(53)
- difference between carrying amount and tax base	(53)		(53)
As at June 30, 2013	**2 829**		**2 829**
- difference between carrying amount and tax base	**2 654**		**2 654**
- tools and instruments	**133**		**133**
- investment allowances	**2**		**2**
- bank interest	**36**		**36**
- exchange rate differences	**1**		**1**
- other	**3**		**3**
As at January 01, 2014	**3 068**		**3 068**
- difference between carrying amount and tax base	**2 916**		**2 916**
- tools and instruments	**114**		**114**
- investment allowances	**32**		**32**
- bank interest	**2**		**2**
- other	**4**		**4**
Increases	240		240
- difference between carrying amount and tax base	208		208
- tools and instruments	32		32
Decreases	(5)		(5)
- difference between carrying amount and tax base	(1)		(1)
- tools and instruments	(1)		(1)
- investment allowances	(2)		(2)
- bank interest	(2)		
As at June 30, 2014	**3 302**		**3 302**
- difference between carrying amount and tax base	**3 123**		**3 123**
- tools and instruments	**145**		**145**
- investment allowances	**30**		**30**
- bank interest			
- other	**4**		**4**

The Financial Statements contains accounting for deferred tax, reflecting the difference between deferred tax liabilities and deferred tax assets.

29. Operating lease liabilities

Current amount of minimum lease installments	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Operating lease liabilities to be paid:			
during one year			16
during 2-5 years			
During a period longer than 5 years			
Liabilities reduced by future interest			
Current value of future liabilities			16

In 2013, only one company of the Group - the Wizamor Ltd., Więcbork had lease obligations.

Its obligations represent commitments for the purchase of manufacturing machinery & equipment. These obligations will be settled during the nearest 12 months.

The interest rate is fixed and determined at the inception of the lease. The lease payment schedules are fixed in advance, the Group has not entered in any agreements on contingent payments by installments.

All lease liabilities are denominated in Polish zloty (PLN).

The fair value of lease liabilities is not significantly different from their book value.

The Group's obligations under the lease to the lessor are secured by repossession of the leased assets.

30. Trade and other liabilities

Trade and other liabilities comprise:
- trade payables
- advance payments for deliveries
- VAT and social insurance liabilities
- other

Average maturity of trade payables is 30 days.

Trade and other liabilities	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Trade payables	5 541	3 317	3 638
Advances for deliveries	10	28	61
Budget obligations (VAT, Social Security)	2 013	1 756	2 127
Dividend	4 797		4 797
Other liabilities	665	526	730
Total	13 026	5 627	11 353

Maturity of liabilities	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Total:	**5 541**	**3 317**	**3 638**
1. Timely payments	4 230	3 083	3 224
2. Overdue payments	**1 311**	**234**	**414**
- up to 3 months	937	217	372
- more than 3 months to 6 months	340		4
- more than 6 months to 1 year	24		1
- more than 1 year	10	17	37

Liabilities denominated in foreign currency	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Trade liabilities in:			
EUR (thousands)	37	51	38
USD (thousands)			
Total amount of trade payables translated into PLN (thousand)	**155**	**209**	**164**

The Management Board of the Group believes that the book value of the financial liabilities approximates to their fair value. Due to the insignificant discount effects valuation of financial liabilities was made with consideration of required payments .

31. Other financial liabilities

Obligations arose out of the purchase of shares in the WPH Wroclaw Company. The conditions of the purchase contract have not been fulfilled yet, and therefore they have not been paid for. On 30.06.2014 these liabilities were recorded in the income section of the balance sheet of the Group.

32. Provisions

Provisions for future liabilities (in PLN thousand)	Provisions for future liabilities	Other	Total provisions
As at January 01, 2013	**35**	**-**	**35**
Change in provisions – increase (+), used (-)			
As at June 30, 2013	**35**	**-**	**35**
As at January 01, 2014	35		**35**
Change in provisions – increase (+), used (-)			
As at June 30, 2014	-	-	-
Provisions held up to 1 year	-		-
Provisions held for more than 1 year			35

Provisions for future liabilities represents the Management's estimates of the Group's probable obligations arising from previously signed agreements and/or court proceedings.

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33. Share capital

	Share capital (PLN 2.00 nominal value)	Preference registered shares	Ordinary bearer shares	Total
	- number of shares	371 030	2 027 270	2 398 300
As at January 01, 2013	- nominal value per share	2.00	2.00	2.00
	- value of shares issued (in PLN thousand)	742	4 055	**4 797**
Changes in 2013 – conversion of shares		(41 740)	41 740	
	- number of shares	329 290	2 069 010	2 398 300
As at June 30, 2013	- nominal value per share	2.00	2.00	2.00
	- value of shares issued (in PLN thousand)	659	4 138	**4 797**
	- number of shares	329 290	2 069 010	2 398 300
As at January 01, 2014	- nominal value per share	2.00	2.00	2.00
	- value of shares issued (in PLN thousand)	659	4 138	**4 797**
Changes in 2013 – conversion of shares				
	- number of shares	329 290	2 069 010	2 398 300
	- nominal value per share	2.00	2.00	2.00
As at June 30, 2014	- value of shares issued (in PLN thousand)	659	4 138	**4 797**

Total number of shares and votes giving the right to participate in the AGM.

	As at 30/04/2014	%	For the period ended 31/12/2013	%	For the period ended 31/12/2012	%
The number of preference shares	329 290	13.7%	329 290	13.7%	371 030	15.5%
The number of ordinary shares	2 069 010	86.3%	2 069 010	86.3%	2 027 270	84.5%
Total number of shares	**2 398 300**	100.0%	**2 398 300**	100.0%	**2 398 300**	100.0%
The number of voting rights attached to preference shares	1 646 450	44.3%	1 646 450	44.3%	1 855 150	47,8%
The number of voting rights attached to ordinary shares	2 069 010	55.7%	2 069 010	55.7%	2 027 270	52.2%
Total number of voting rights at the General Meeting	**3 715 460**	100.0%	**3 715 460**	100.0%	**3 882 420**	100,0%

34. Supplementary capital

Supplementary capital	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
As at January 01	50 919	49 643	49 643
From disposal of shares at above their par value	13 350	13 350	13 350
Changes due to distribution of earnings	1 126	1 591	1 591
From revaluation reserve		2	
Reclassification of consolidation adjustments	1 065	(317)	(613)
As at the end of the period	**53 110**	**50 919**	**50 621**

Reclassification of consolidation adjustments is related to the settlement of the dividends received by the parent company from the earnings generated by subsidiaries.

35. Revaluation reserve

Revaluation reserve	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
As at January 01	10 278	10 555	10 555
Increase in the fair market value of assets			
As at January 01	10 278	10 555	10 555
Recognition of deferred tax liability arising from revaluation of land and buildings		17	
Fixed asset revaluation		(11)	14
Decrease on disposal of available-for-sale financial assets	(47)	(283)	(244)
Revaluation reserve at the end of the period	10 231	10 278	10 325

The Group revised the useful life of its machines and equipment. The assets which have lost their value in use were valued and classified as held for sale.

The value of the fixed assets classified as held for sale amount to PLN 37 thousand (in 2013: PLN 447 thousand).

36. Reserve capitals

	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
As at January 01	**3 039**	**3 039**	**3 039**
Recognition of equity component from distribution of earnings	1 698	1 698	1 698
Profit earmarked for purchase of own shares with the purpose of their redemption	1 341	1 341	1 341
At the end of the period	**3 039**	**3 039**	**3 039**

37. Minority interest

	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
As at January 01	**197**	**1 149**	**1 149**
Changes:			
Share in profit (loss) for the period		(908)	(126)
Share adjustments		(18)	
Shares of stock in the newly acquired company			
Dividend paid		(26)	
Minority interest at the end of the period	**197**	**197**	**500**

Accounting for minority interest:

* Shares of the WZM WIZAMOR Ltd., Więcbork, acquired on June 22, 2010. The equity owned by this company has been divided into the equity attributable to the HYDROTOR Capital Group (94.73%) and the equity attributable to minority shareholders (5.23%).

* Shares of the AGROMET ZEHS S.A., Lubań – minority shareholders hold 0.01% of the equity/ votes. In 2010 a small percentage of the company's equity was sold to its employees.

A 57.05% decrease compared with the previous year was due to liquidation of the Defka Ltd. from Dzierżoniów,

38. Retained earnings

Retained earnings	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
As at January 01	**8 709**	**8 008**	**8 008**
- write-offs for the supplementary capital	(1 126)	(1 591)	(1 591)
- dividend paid to equity holders	(4 797)	(4 797)	(4 797)
- settlement to fixed assets	47	229	192
- consolidation adjustments	(1 136)	151	313
Net profit for the period	4 478	6 054	3 803
As at the end of the period	**6 175**	**7 833**	**5 928**

39. Financial instruments

39.1 Financial assets

Classes of financial instruments	**Categories of financial instruments**				
As at June 30, 2014	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Financial assets held to maturity**	**Available-for-sale financial assets**	**Total**
Unlisted shares				19	**19**
Trade receivables		17 62			**17 626**
Disposal of non-financial fixed assets		37			**37**
Cash and cash equivalents		9 003			**9 003**
		26 666		**19**	**26 685**
As at June 30, 2013					
Unlisted shares				35	**35**
Trade receivables		15 890			**15 890**
Disposal of non-financial fixed assets		447			**447**
Cash and cash equivalents		10 654			**10 654**
		26 991		**35**	**27 026**

39.2 Financial liabilities

Classes of financial instruments	**Categories of financial instruments – financial liabilities**				
As at June 30, 2013	**Financial liabilities at fair value through profit or loss**	**Financial liabilities measured at amortized cost**	**Financial instruments-hedge accounting**	**Excluded from the IAS 39**	**Total**
Credits		11 208			11 208
Loans		300			300
Trade liabilities		11 278			11 278
Embedded derivatives and hedging instruments		47			47
		22 833			**22 833**
As at June 30, 2014					
Credits		9 205			**9 205**
Trade liabilities		13 026			**13 026**
		22 231			**22 231**

40. Book value per share

	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Equity capital	77 549	77 939	75 713
Minority interest	(197)	(197)	(525)
Equity capital attributable to shareholders of the Parent Company	77 352	77 742	75 188
Number of shares	2 398 300	2 398 300	2 398 300
Book value per share (in PLN)	32.33	32.50	31.57
Book value per share attributable to shareholders of the parent company (PLN 0.00)	32.25	32.42	31.35

41. Explanatory notes to the cash flow statement

Cash and cash equivalents (recognized in the balance sheet of the Group as one item) comprise cash at bank and other highly liquid investments with a maturity of three months.

42. Adjustment of errors

Adjustment of prior period accounting errors	Prior adjustments 30-06-2013	Adjustments	After adjustments 30-06-2013
Statement of financial position LIABILITIES			
Revaluation reserve	11 144	(819)	10 325
Retained earnings	5 612	321	5 933
Total equity	**75 713**	(498)	**75 215**
Provision for deferred income tax	1 492	498	1 990
Long-term liabilities	**21 688**	498	**22 186**
Total liabilities	**114 818**		**114 818**
Statement of comprehensive income			
Profit (loss) before tax	**5 368**		**5 368**
Income tax	(741)	(13)	(754)
Net profit (loss)	**3 803**	(13)	**3 790**
Statement of cash flows			
Net profit (loss)	**3 803**	(13)	**3 790**
Cost of income tax recognized in the profit and loss account	(741)	(13)	**(754)**
Statement of changes in equity			
Opening balance of equity (OB)	**78 235**	(1 044)	**77 191**
Reserve capital for revaluation of tangible fixed assets- opening balance (OB)	11 774	(1 219)	10 555
Reserve capital for revaluation of tangible fixed assets- closing balance (CB)	11 144	(819)	10 325
Retained earnings – opening balance (OB)	7 833	175	8 008
Retained earnings- closing balance (CB)	5 612	321	5 933
Total equity – closing balance (CB)	**75 713**	(498)	**75 215**

The adjustments apply to the previous periods, prior to 2013 (they are included in the consolidated annual report for 2013) as well as to the financial statements for the I half of 2013.

The data presented in the financial statements at the beginning of 2013 as well as at 30 June 2013, in order to ensure comparability have been presented after the adjustments.

43. Risks

43.1. Risks associated with strategic objectives

Due to the fact that the Capital Group's business activity is exposed to the influence of many unforeseeable external factors (such as: applicable law, the relationship between supply and demand for the Capital Group's products and services, dynamic technological development) it is at the risk of not achieving all of its planned strategic goals and objectives both at home and abroad.

Future growth in profits and returns will depend to a substantial extent on the Capital Group's ability to effectively implement its long-term operational strategy.

If the Capital Group's operations prove to be inaccurate as a result of poor assessment of its environment or failure to adapt to changing conditions of this environment, they may have a negative impact on its business performance, asset situation and financial standing.

In order to mitigate the risk, the Management Board monitors and controls all the factors which may negatively affect the Capital Group's business, and if necessary, appropriate decisions and measures will be taken.

43.2. Competitiveness risks

Hydraulic components and services belong to the global market. Many firms from different countries, for example from Poland, Italy, Germany, the former Soviet republics and China constitute the Group's direct brand competition.

European firms offer their products and services at comparable price levels. However, firms from eastern markets offer substantially lower prices.

In the future, the competitive firms may cause that the companies of the Group will not be able to sustain the prices and thus will be forced to reduce them, consequently, the Group's profit margins will be lower, it will have to spend more money on improving the quality of the products and services, which may lead to the profitability decline.

The Group does not influence decisions of the rival firms, however it strives to minimize competitiveness risks, thanks to its highly qualified staff and high quality products and services, the Group keeps strengthening its market position.

43.3. Foreign exchange risk

The Group sells many of its products and services to the countries of Western Europe. In 2013 and the first half of 2014 over 40% of transactions between the Group companies and their customers were made in euros (EUR), lower % in USD and PLN.
All the transaction-related expenses are incurred in the national currency (PLN), therefore, the Group is exposed to the risk associated with fluctuations in exchange rates and thus, it may not achieve the planned earnings. Appreciation of the zloty (PLN) against the EUR/USD and small chances of shifting the burden of higher costs due to exchange rate changes to customers will cause the decline in the Group's revenue proportionally to the decline in EUR/PLN exchange rate.
The Group uses derivative financial instruments (forward contracts) to minimize or eliminate the foreign exchange risks.

Since 2011 the Group has been using the investment credit in euro currency (EUR), any exchange rate differences arising out of the credit valuation are recognized in the income account, a substantial change in the exchange rate- decline in the value of PLN may have impact on the financial performance.

In order to mitigate the effects of exchange rate differences, the Group cooperates with different financial institutions.

43.4. Interest rate risk

Due to the fact that the value of nominal liabilities of the Group is lower than the value of the assets generating interest income, the Group believes that a decline in interest rates has an unfavorable impact. In order to reduce that risk, the Group performs analysis of historical interest rate trends. If downward trends appear, the Group is ready to conclude transactions aimed to eliminate that risk.

43.5. Credit risk

Credit risk mainly arises from receivables from deferred payment sales. Credit risk is monitored on an ongoing basis. The Group analyses payment deadlines, amounts of sales, payment forms and financial standing of each one of its core customers. On the basis of the analysis performed appropriate credit limits are granted.

43.6. Liquidity risk

In order to reduce liquidity risk the Group monitors its actual and projected cash flows. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities, simultaneously maintaining adequate cash balances. The Group uses professional services offered by the banks which extended it lines of credits. External financing is continuously monitored. The Group's objective is to ensure a sufficient level of funds needed for realization of its business operations.

43.7. Credit risk

Main financial assets held by the Group include: cash at bank and in hand, trade and other receivables, and investment securities – associated with the greatest credit risk which the Group is exposed to, in relation to its financial assets.

The credit risk arises principally from trade receivables. The amount of account receivables is presented on the balance sheet at their net realizable value, which is equal to the gross amount of receivables less an estimated allowance for uncollectible. The allowance for doubtful accounts is determined primarily on the basis of past collection experience and general economic conditions.

The credit risk which is associated with liquid cash assets and derivatives is limited because banks participate in transactions, and as evaluated by international ranking agencies, banks provide high quality credits.

Last year, the company did not observe negative trends when it comes to collectability of receivables. In some cases, when counterparties failed to pay at maturity, the Group established conditions under which debts would be settled.

The accounts receivable that were deemed uncollectible were written off.

Concentration of credit risk in the Group is relatively small because credit exposure is limited by a large number of customers .

44. Sensitivity analysis

Risk sensitivity analysis carried out by the Group applies to:

***** Exchange rate risks inherent in foreign currency transactions

***** Credit risk

In order to establish a reasonable range of changes that may occur in individual risk factors, the Group considered the market volatility for one-year period. The volatility is based on the predictions of future changes in price and risk factors. It is estimated and quoted by banks, brokers and other financial institutions operating in the financial market.

Exchange rate risks inherent in foreign currency transactions

The Group sells many of its products and services to the countries of Western Europe. In 2013 and in the I half of 2014, about 40% of transactions between the Group and its customers is carried out in euros (EUR), lower % in USD. Fluctuations (increase/decrease) in euro exchange rates compared to the average exchange rates may cause increase/decrease in revenue by about PLN 1,900 to 2,000 thousand with the similar level of foreign sales.

Credit risk

Main financial assets held by the Group include: cash at bank and in hand, trade and other receivables, and investment securities – associated with the greatest credit risk which the Group is exposed to, in relation to its financial assets.

The credit risk arises principally from trade receivables. The amount of account receivables is presented on the balance sheet at their net realizable value, which is equal to the gross amount of receivables less an estimated allowance for uncollectible. The allowance for doubtful accounts is determined primarily on the basis of past collection experience and general economic conditions.

The credit risk which is associated with liquid cash assets and derivatives is limited because banks participate in transactions, and as evaluated by international ranking agencies, banks provide high quality credits.

Concentration of credit risk in the Group is relatively small because credit exposure is limited by a large number of customers.

Due to fluctuations in foreign exchange rates and changes in interest rates, the loans taken out by the Group may result in higher operating expenses and affect the Group's financial performance during the financial year:

***** foreign exchange risk – the investment loan was denominated in euros (EUR) thus a 5% increase/ decrease in euro exchange rates may affect the annual cost of the loan which may fluctuate around the amount of PLN 100 thousand.

***** Interest rate risk – the loans denominated in PLN bear an interest rate based on WIBOR, while the loans denominated in euros bear an interest rate based on EURIBOR. When compared to previous years, current interest rates are considerably low. However, if they are raised by 1% the costs related to the loans would be higher by about PLN 160-200 thousand, including the amount of PLN 100 thousand when compared to the loans denominated in EUR.

45. Contingent assets and liabilities

As at the balance sheet date the Company recognized the following contingent assets and liabilities:

	For the period ended 30/06/2014	**For the period ended 31/12/2013**	**For the period ended 30/06/2013**
Forward contract to sell a currency			2 130
Loan repayment guarantees	114	114	114
Bills of exchange	13 450	12 153	12 161
Registered pledge	18 407	18 407	18 407
Transfer of ownership of machinery and equipment	609	609	609
Mortgage on property	1 600	3 850	3 850
Declaration on submission to enforcement	61	61	61
Tuchola District Office - blocked account funds			61

The amount of PLN 13 450 thousand is held to secure resources for eventual return of funds from the Polish Agency for Enterprise Development granted for realization of the investment project.

The registered pledge was established to secure obligations arising from the investment loan of PLN 18,407 thousand granted by the Bank BPH S.A.

Mortgage on the property is used to secure the working capital loan granted to the subsidiary company WPH Ltd., Wrocław and the WZM Wizamor, Więcbork.

Loan repayment guarantee for the amount of PLN 114 thousand was granted to secure repayment of the loan taken out by the subsidiary company.

46. Employee benefit programs

The Capital Group companies do not participate in the employee benefit programs.

The Group creates provisions for employee benefits for the following purposes:
- retirement bonuses
- long-service bonuses
- unused annual leave

Employee benefit obligations include:

Employee benefits	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Long-term provisions for retirement bonuses	993	993	1 072
Short-term provisions for retirement bonuses	179	186	166
Payroll obligations			957
Other			
	1 172	2 096	2 195

Last value of employee benefits and the present value of employee future benefits was determined by companies of the Capital Group on 31.12.2013. The present value of employee benefit obligations, the current and future employment costs have been determined by the use of Projected Unit Credit Method.

Provisions for future employee benefit obligations	Short-time provisions	Long-term provisions	Total
As at 01.01, 2013.	**166**	**1 072**	**1 238**
- increases			
- decreases			
As at 30.06.2013	**166**	**1 072**	**1 238**
As at 01.01. 2014	186	993	1 179
- increases			
- decreases	(7)		(7)
As at 30.06.2014	**179**	**993**	**1 172**

47. Events after the balance sheet date

As at the balance sheet date there were no events affecting the consolidated financial statements.

48. Transactions with related parties

48.1.

As at 30 June 2014, the following shareholders of the parent company held at least 5% of the total number of voting rights at a General Meeting of Shareholders:

Entity	Registered office	Number of shares	% of share capital	% of total number of voting rights
PKO FIO	Warszawa	187 000	7.80	5.03
Bodziachowski Ryszard with a closely related person	Warszawa	368 000	15.35	9.90
Kropiński Wacław	Tuchola	88 405	3.48	11.36
Lewicki Mariusz with a closely related person		169 000	7.05	4.55

*/ The number of shares of the PKO FIO corresponds to the number of shares registered at the GM on 28.06-2014 (as at a dividend record date 21-08-2013 the number of shares amounted to 254 293).

The Issuer's capital stock owned by Members of the Board of Executive Directors and the Supervisory Board within the period from 16-05-2014 to 29-08-2014- changes in the data submitted in the period after the I quarter of 2014:

The Management Board	Number of	As at 15-05-2014	Purchase	Disposal	As at 30-06-2014	As at 28-08-2014
Mr. Wacław Kropiński	shares	88 405	-	-	88 405	88 405
- President	votes	422 025	-	-	422 025	422 025
Mr. Janusz Czapiewski	shares	3 412	-	-	3 412	3 412
- Vice-President	votes	3 412	-	-	3 412	3 412

The Supervisory Board	Number of	As at 15-05-2014	Changes during the period Purchase	Disposal	As at 30-06-2014	As at 28-08-2014
Mr. Mariusz Lewicki with a closely related party - Chairman	shares	165 400	3 600	-	169 000	179 121
	votes	165 400	3 600	-	169 000	179 121
Mr. Czesław Główczewski with a closely related party - Vice-Chairman	shares	11 220	-	-	11 220	11 220
	votes	48 100	-	-	48 100	48 100
Mr. Janusz Deja - Secretary	shares	1 850	-	-	1 850	1 850
	votes	5 850	-	-	5 850	5 850
Mr. Ryszard Bodziachowski with a closely related party - Member	shares	363 200	4 800	-	368 000	368 650
	votes	363 200	4 800	-	368 000	368 650
Mr. Waldemar Stachowiak - Member	shares	-	-	-	-	-
	votes	-	-	-	-	-
Mr. Mieczysław Zwoliński - Member	shares	7 800	-	-	7 800	7 800
	votes	26 500	-	-	26 500	26 500

48.2. Transactions between the Parent Company and its subsidiary entities

Intra-Group transactions between the Parent Company and its subsidiaries were eliminated on consolidation.

There were no transactions between the Group and its affiliates.

Intra-Group transactions between the Parent Company and its subsidiaries:

Adjustments in the profit and loss account	Hydrotor S.A. Tuchola	Agromet ZEHS S.A. Lubań	HS Hydrotorbis Tuchola	Wizamor Ltd. Więcbork	WPH Ltd. Wrocław
Sales revenue achieved by the Group	9 472	298	8 072	100	36
Dividends (paid to Hydrotor)		2 034	300		300
Results attributable to minority shareholders				5	
Balance-sheet adjustments					
Share ownership		17 340	1 000	1 350	4 653
Loans					
Trade receivables from subsidiaries		1 720	478	389	120
Mutual accounts (subsidiaries)		1	892	44	5

The scope of transactions among the companies in the Group, not including the Parent Company, was limited. These transactions were included in the consolidated financial statements for the I half of 2014.

Sales prices of products, goods, materials and services provided to related parties are based on the standard price list.

Since the year 2005 the dominant entity has been supplying production materials to the Group entities. The Company charges up to 5% margin for the supplies.

The goods are purchased at the current market prices reduced by the amount of a discount based on quantity ordered and the Group's relations.

As at the balance sheet date mutual accounts were not protected, they will be settled by cash. There were no payment guarantees made or received. The account receivables from related parties which are deemed to be uncollectible are not written down.

Remuneration of members of the Management Board and the Supervisory Board

Remuneration of members of the Management Board and the Supervisory Board, as below, has been presented according to the requirements of IAS 24 *Related Party Disclosures.*

In the I half of 2014, the total value of remuneration paid to the CEO (including the basic salary) was as follows:

Remuneration and award wages paid by PHS Hydrotor S.A. (in PLN thousand)	For the period ended 30/06/2014	For the period ended 31/12/2013	For the period ended 30/06/2013
Member of the Management Board			
Wacław Kropiński, Janusz Czapiewski	230	440	204
Members of the Supervisory Board			
Czesław Główczewski, Janusz Deja, Mariusz Lewicki, Mieczysław Zwoliński, Waldemar Stachowiak, Ryszard Bodziachowski	157	330	147

According to the resolution No.17/VI/2011, since 23-06-2014 remuneration of a member of the Supervisory Board is determined at PLN 1.750 per month.

Transactions made by members of the Management Board and the Supervisory Board

As at 30.06.2014, there were no outstanding loans provided to members of the Management Board. Loans from the Company Residential Fund granted to members of the Supervisory Board amounted to PLN 9.0 thousand.

There are no other outstanding loans, credits, guarantees and other financial obligations to the Company.

49. Contract to audit financial statements

The PHS Hydrotor Company has signed a contract for auditing its financial statements with KORPEX-AUDYTOR– Limited partnership, with the registered office in Bydgoszcz.

In accordance with the requirements of the contract the Auditor shall perform an audit of separate and consolidated and consolidated financial statements, and review the interim financial statements and consolidated financial statements.

According to the contract:

* For auditing and reviewing non-consolidated financial statement the auditor will be paid remuneration in the amount of PLN 14.000 + VAT,
* For auditing and reviewing consolidated financial statement the auditor will be paid remuneration in the amount of PLN 11.000 + VAT

49. Approval of the financial statements

The consolidated financial statements were approved by the Management Board of the Company on 22 August 2014.

Signed by:

Marek Kozłowski	Wacław Kropiński	Janusz Czapiewski
Chief Accountant	President	Vice-President

Tuchola, 28.08.2014