Annual Financial Statements of the HYDROTOR S.A Company

for the year 2010

prepared in accordance with International Financial Reporting Standards

April 2011

CONTENTS

FINANCIAL STATEMENT OF COMPREHENSIVE INCOME

Profit and loss account

For the period from January 01, 2010 to December 31, 2010

Profit and loss account (in PLN thousand)	Note	For the year 2010 from 2010-01-01 to 2010-12-31	For the year 2009 from 2009-01-01 to 2009-12-31
Operating activities			
Revenues from sales of products		28 881	27 085
Revenues from sales of goods and materials		20 631	16 209
Revenues from sales		**49 512**	**43 294**
Cost of goods sold		**(41 811)**	**(36 086)**
Gross profit (loss) on sales		**7 701**	**7 208**
Other operating income		990	818
Selling costs		(718)	(607)
General and administrative expenses		(3 674)	(3 335)
Other operating expenses		(576)	(526)
Restructuring costs		-	-
Operating profit (loss)		**3 723**	**3 558**
Financial revenues		1 358	3 037
Financial expenses		(43)	(88)
Profit (loss) before tax		**5 038**	**6 507**
Income tax		(743)	(754)
Net profit (loss) from continuing operations		4 295	5 753
Discontinued operations		-	-
Net profit (loss) from discontinued operations		-	-
Net profit (loss)		**4 295**	**5 753**
Profit (loss) per share (in PLN)		1,79	2,40

Annual Financial Report of the HYDROTOR S.A. Company for the year 2010 in PLN thousand

Statement of Financial Position

As of December 31, 2010

ASSETS	Note	At the end of 2010 as of December 31, 2010	At the end of 2009 as of December 31, 2009	At the beginning of 2009 - as of January 31, 2009
Fixed assets				
Tangible fixed assets		12 603	11 158	12 572
Other intangible assets		159	30	1
Long-term investments		26 308	24 960	24 960
Total fixed assets		**39 070**	**36 148**	**37 533**
Current assets				
Inventory		12 802	12 452	12 587
Trade and other receivables		7 144	5 163	7 172
Current income tax assets		54	23	-
Prepayments and accruals		319	102	100
Cash and cash equivalents		7 550	11 176	7 133
Non-current assets classified as held for sale		39	62	106
Total current assets		**27 908**	**28 978**	**27 098**
TOTAL ASSETS		**66 978**	**65 126**	**64 631**

LIABILITIES				
EQUITY		**62 293**	**60 517**	**59 018**
Share capital		4 797	4 797	4 797
Supplementary capital		43 707	40 946	35 685
Revaluation reserve		6 388	5 998	5 980
Reserve capitals		3 039	3 039	3 039
Retained earnings		4 362	5 737	9 517
LONG-TERM LIABILITIES		**1 613**	**1 536**	**1 563**
Provision for deferred income tax		844	807	778
Employee benefits liability		590	605	632
Long-term provision		20	20	20
Deferred income		159	104	133
SHORT-TERM LIABILITIES		**3 072**	**3 073**	**4 050**
Trade and other liabilities		1 836	1 852	1 779
Income tax				562
Liabilities associated with acquisition of shares		900	900	900
Financial liabilities				372
Employee benefit liabilities		273	284	377
Deferred income		63	37	60
Total Liabilities		**66 978**	**65 126**	**64 631**
Book value per 1 share (in PLN)		25,97	25,23	24,64

Off-balance sheet items

Forward contracts	800	-	3 132
Guarantees	1 164	1 000	1 000
Promissory notes	12 153	-	-

Statement of Cash Flows

For the period from January 01, 2010 to December 31, 2010

Cash flow statement (indirect method) in PLN thousand	For the year 2010 from 2010-01-01 to 2010-12-31	For the year 2009 from 2009-01-01 to 2009-12-31
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit (loss)	**4 295**	**5 753**
Income tax expenses recognized in the profit and loss account	747	754
Investment income included in the profit and loss account	(369)	(472)
Profit on the sale or disposal of tangible assets	(3)	(1)
Dividends from subsidiaries	(986)	(2 550)
Depreciation of fixed assets	1 146	1 466
Positive/ negative foreign currency translation differences	(31)	72
(Increase) / decrease in trade and other receivables	(2 012)	2 009
(Increase)/ decrease in inventories	(327)	178
Decrease in trade and other receivables	(64)	(500)
Increase/ (decrease) in reserves	(36)	70
Increase in deferred income	(128)	(54)
Income tax paid	(801)	(1 228)
Net cash flows from operating activities	**1 565**	**5 497**
B. Investment activities		
Costs attributable to the acquisition of financial assets	(1 350)	
Interest received	368	466
Dividends from subsidiaries and related parties	986	2 550
Repayments/ payments of loans by related parties	(135)	286
Payments for tangible fixed assets	(2 033)	(55)
Proceeds from disposal of tangible fixed assets	3	1
Payments for intangible assets	(139)	(34)
Net cash flows from investment activities	**(2 300)**	**(3 214)**
C. Cash flows from financial activities		
- Dividends paid to:	(2 998)	4 317
- Parent entity's shareholders	(2 998)	4 317
Net cash flows from financial activities	**(2 998)**	**(4 317)**
D. Total net cash flows (A.+/-B.+/-C.)	**(3 733)**	**4 394**
Cash and cash equivalents at the beginning of the period	11 176	6 854
Change in cash and cash equivalents due to foreign currency translation differences	(31)	(72)
E. Cash and cash equivalents at the end of the period	**7 412**	**11 176**

Annual Financial Report of the HYDROTOR S.A. Company for the year 2010 in PLN thousand

Statement of Changes in Equity

For the period from January 01, 2010 to December 31, 2010

	For the year 2010 from 2010-01-01 to 2010-12-31	For the year 2009 from 2009-01-01 to 2009-12-31
Equity at the beginning of the period (BO)	**60 517**	**59 018**
Changes in accounting policies		
Equity at the beginning of the period (BO), after reconciliation with comparable data	**60 517**	**59 018**
A. Share capital at the beginning of the period	4 797	
1. Changes in share capital		
2. Share capital at the end of the period	**4 797**	
B. Supplementary capital at the beginning of the period	**40 946**	
1. Changes in supplementary capital due to:	2 761	
- distribution of profits (more than statutory minimum)	2 755	
- capital revaluation	6	
2. Supplementary capital at the end of the period	**43 707**	
C. Revaluation reserve at the beginning of the period (BO)	5 998	
1. Changes in revaluation reserve	390	
- release of provisions for deferred income tax on revaluation of fixed assets	65	
- revaluation of fixed assets	443	
- disposal of fixed assets	(118)	
2. Revaluation reserve at the end of the period	**6 388**	
D. Other reserves at the beginning of the period (BO)	3 039	3 039
1. Changes in other reserves		
2. Other reserves at the end of the period	**3 039**	**3 039**
E. Profit (loss) from previous years at the beginning of the period (BO)	**5 736**	**9 517**
Changes in accounting policies		
1. Profit from previous years at the beginning of the period, after reconciliation with comparable data	5 736	9 517
2. Changes in earnings from previous periods	(5 669)	(9 533)
- write-off to supplementary capital	(2 755)	(5 241)
- changes in accounting policies		
- payment of dividends to shareholders	(2 998)	(4 317)
- valuation/ liquidation of fixed assets	84	25
3. Profit (loss) from previous years at the end of the period (BZ)	**67**	**(16)**
F. Net result for the current period	**4 295**	5 753
- net profit	4 295	5 753
- net loss	-	-
Equity at the end of the period (BZ)	**62 293**	**60 517**
Equity after proposed distribution of earnings (covering the loss)	61 094	58 519

NOTES TO THE FINANCIAL STATEMENTS

1. General information

1.1. Information about the Company

1.1.1. Name and seat

Przesiębiorstwo Hydrauliki Siłowej 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 Act 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 Statistical Classification of Economic 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 01.01.2010 to 31.12.2010 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

The Supervisory Board is composed of five persons.
Since 01.01.2010 the Supervisory Board has been composed of the following members:

1. Czesław Główczewski – Chairman
2. Mariusz Lewicki – Vice-Chairman
3. Janusz Deja – Secretary
4. Tomasz Bukowski – Member (resigned on 04.12.2010)
5. Waldemar Stachowiak – Member (since 04.12.2010)
6. Mieczysław Zwoliński – Member

Since the election of a new member until the end of 2010 the composition of the Supervisory Board remained unchanged.

1.3. Share ownership structure

The share ownership as at 31.12.2011 structure is as follows:

Entity	Place of registered office	Number of shares	% of the share capital	% of voting rights
PKO FIO	Warszawa	290 012	12,09	7,47
Ryszard Bodziachowski with a closely related person	Warszawa	305 000	12,72	7,86
FORTIS FIO		185 983	7,75	4,79
Wacław Kropiński	Tuchola	88 405	3,69	10,87
Other shareholders		1 528 900	63,75	69,01
TOTAL		**2 398 300**	**100%**	**100%**

1.4. Functional and presentation currency

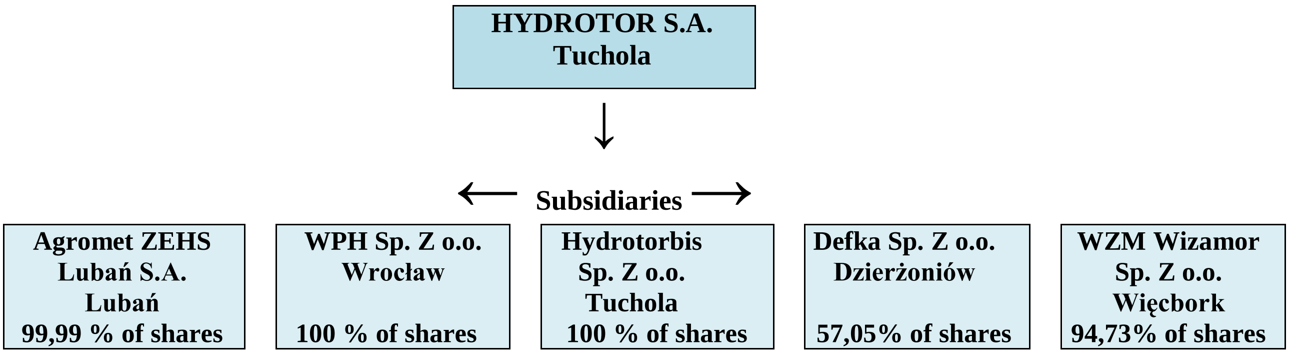
The financial statements have been prepared in PLN. PLN is a functional and presentation currency for the Capital Group. The data in the statements is shown in PLN thousand, when needed particular items are presented with greater accuracy.

1.5. Reporting period

The financial year of the parent Company and Group companies is the calendar year.
The financial statements cover the period from 01.01.2010 to 31.12.2010 and comparable financial data of the period from 01.01.2009 to 31.12.2009..

1.6. Participation in the share capital of subsidiaries

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



1.7. Euro exchange rates used in translation 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 31.12.2010 and 31.12.2009,

b/ for profit and loss account items – 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 2010 and 2009,

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 31.12.2010 and 31.12.2009,

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 31.12.2009, and at the beginning of comparable period – the average Euro exchange rate as at 31.12.2008.

The exchange rates used in currency translation (in PLN):

Period - date	Average exchange rate in the period	Min. exchange rate in the period	Max. exchange rate in the period	The average exchange rate at the last day of the period
31.12.2010	4,0044	3,8356	4,1770	3, 9603
31.12.2009	4,3406	3,9170	4,8999	4,1082
31.12.2008	3,5321	3,2026	4,1848	4,1724

1.8. Selected financial data

Key items in the balance sheet, the profit and loss account, and the cash flow statement that are included the financial statements for 2011 and the corresponding financial data for 2010, converted into EUR are as follows:

Item of the financial statements	2010		2009	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
BALANCE SHEET ASSETS				
Fixed assets	39 070	9 865	36 148	8 799
Current assets	27 908	7 047	28 978	7 054
Total assets	66 978	16 912	65 126	15 853
BALANCE SHEET LIABILITIES				
Equity	62 293	15 729	60 517	14 731
Share capital	4 797	1 211	4 797	1 168
Liabilities and provisions for liabilities	4 685	1 183	4 609	1 122
Long-term liabilities	1 613	407	1 536	374
Short-term liabilities	3 072	776	3 073	748
Total liabilities	66 978	16 912	65 126	15 853
PROFIT AND LOSS ACCOUNT				
Net revenues from sales of products, goods and materials	49 512	12 364	43 294	9 974
Gross profit on sales	7 701	1 923	7 208	1 661
Profit on sales	3 309	826	3 266	752
Profit on operating activities	3 723	930	3 558	820
Gross profit	5 038	1 258	6 507	1 499
Net profit	4 295	1 073	5 753	1 325
CASH FLOWS				
Net cash flows from operating activities	1 565	395	5 497	1 338
Cash flows from investment activities	(2 300)	(581)	3 214	782
Cash flows from financial activities	(2 998)	(757)	(4 317)	(1 051)
Total net cash flows	(3 733)	(943)	4 394	1 070
Opening cash balance	11 176	2 720	6 854	1 643
Closing cash balance	7 412	1 872	11 176	2 720

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. Standards and interpretations effective from January 01, 2010

Since January 01, 2010 the following Standards and Interpretations have been applied by the Company:

- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Eligible Hedged Items (Amendment to IAS 39 Financial Instruments: Recognition and Measurement
- Amendments to IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IAS 27 Consolidated and Separate Financial Statements
- Revised IFRS 1 First-time Adoption of International Financial Reporting Standards (the revised version has an improved structure)
- Revised IFRS 1 First-time Adoption of International Financial Reporting Standards (amendment applies to entities involved oil and natural gas activities)
- Improvements to International Financial Reporting Standards 2009

As of the publication date of these financial statements all of the above amendments to standards and interpretations have been approved for use by the European Union. The Company believes that the application of most of the amendments would have no impact on the financial statements of the Company or the impact would be negligible. The International Accounting Standards Board published a number of new accounting standards and interpretations that are not yet effective, some of them have been approved for use by the European Union.

2.3. Standards and interpretations approved for use in the European Union

1/ Amendments to the International Financial Reporting Standards 2010:

- **Changes in accounting policies**: the amendments to International Financial Reporting Standards include 11 changes and 1 interpretation.
- **Impact on these financial statements**: The adoption of the amendments is not expected to have a material impact on the Company's financial statements.
- **Effective date**: January 01, 2011 – except for amendments to IFRS 3 Business Combinations, - transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS, measurement of non-controlling interests, un-replaced and voluntarily replaced share-based payment awards, IAS 27 Consolidated and Separate Financial Statements - transition requirements for amendments made as a result of IAS 27 to IAS 21, IAS 28 and IAS 31- to be effective on July 01, 2010.

2/ Amendments to IFRS 1 - Limited exemption from comparative IFRS 7 disclosures for first-time adopters

- **Changes in accounting policies:** The amendments provide a limited exemption from comparative IFRS 7 disclosures for first-time adopters. The relief applies to disclosures related to first-time adopters with a first reporting period beginning earlier than 1 January 2010.
- **Impact on these financial statements**: the amendments to IFRS 1 do not apply to the Company's financial statements.
- **Effective date**: July 01, 2010. In accordance with the Commission Regulation No. 574/2010 all entities shall apply the amendments to IFRS 1 and IFRS 7 not later than from the commencement date of its first financial year starting after 30 June 2010.

3/ Revised IAS 24 - Related Party Disclosures

- **Changes in accounting policies:** the amendments provide an exemption from the disclosure of transactions with related parties, outstanding balances, including contingent liabilities with: (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised standard also amends the definitions of a related party which resulted in new relations being included in the definition such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.
- **Impact on these financial statements:** the revised IAS 24 does not apply to the financial statements of the Company, because it is not controlled by a state. Additionally, it is not expected that the revised definition of related parties will include new relationships that would have to be disclosed in the financial statements.
- **Effective date:** January 01, 2011. In accordance with the Commission Regulation No. 632/2010 all entities shall apply the amendments not later than from the commencement date of its first financial year starting after 31 December 2011.

4/ Amendments to IAS 32 - Classification of rights issues.

- **Changes in accounting policies:** The amendment requires that rights, options and warrants issued to acquire a fixed number of entity's own equity instruments for a fixed amount of any currency are classified as equity instruments if the entity offers the rights options or warrants pro rata to all of its existing owners of the same class of entity's non-derivative equity instruments.
- **Impact on these financial statements**: the revised IAS 32 does not apply to the financial statements of the Company due to the fact, that the Company did not issue such instruments at any time in the past.
- **Effective date:** February 01, 2010. In accordance with the Commission Regulation No. 1293/2009 all entities shall apply the amendments not later than from the commencement date of its first financial year starting after 31 January 2010.

5/ Amendments to IFRIC 14 - Prepayments of a Minimum Funding Requirements

- **Changes in accounting policies:** Amended IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirement According to the amendments, the entity is required to recognize certain prepayments as an asset, on the basis that the entity has future economic benefits, from the prepayment in the form of reduced cash outflows in future years in which minimum funding requirements payments would otherwise be required.
- **Impact on these financial statements:** the revised IFRIC 14 does not apply to the financial statements of the Company due to the fact, that the Company does not have any defined benefit plans with minimum funding requirements.
- **Effective date**: January 01, 2011. In accordance with the Commission Regulation No. 633/2010 all entities shall apply the amendments not later than from the commencement date of its first financial year starting after 31 December 2011.

6/ Amendments to IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

- **Changes in accounting policies**: Interpretation clarifies that the equity instruments issued to a creditor of an entity to extinguish all or part of a financial liability, in form of 'debt for equity swaps' are considered paid in accordance with IAS 39.41. The initial recognition of equity instruments issued to extinguish a financial liability is at the fair value of the equity instrument issued, unless that fair value cannot be reliably measured, in which the equity instrument shall be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the initial measurement amount of equity instruments issued should be recognised in profit or loss of the current period.
- **Impact on these financial statements:** In the current period the Company did not issue equity instruments to cover its financial liabilities. For the same reason the above interpretation will not have a significant influence on the comparative data disclosed in the financial statements for the year ended 31 December 2010. Since the interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the interpretation will have.

- Effective date: July 01, 2010**.** In accordance with the Commission Regulation No. 622/2010 all entities shall apply the amendments not later than from the commencement date of its first financial year starting after 30 June 2010.

2.4. Standards and interpretations pending approval

1/ Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Changes in accounting policies: The amendment adds an exemption that may be applied at the date of transition to IFRSs by entities operating in hyperinflationary economies. This exemption allows the entity to measure all assets and liabilities held before the functional currency normalization date at fair value and use that fair value as a deemed cost of those assets and liabilities in the opening IFRS statement of financial position.
- Impact on these financial statements: these amendments are not expected to have a significant impact on the Company's financial statements.
- Effective date: July 01, 2011.

2/ Amendments to IFRS 7 Disclosures – Transfers of financial assets

- Changes in accounting policies: The amendment requires disclosures to help users of financial statement:

- to understand the relationship between transferred financial assets that are not derecognized from the financial
- statements in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.

- Impact on these financial statements: The Company does not expect that the amendments to IFRS 7 will have a significant impact on its financial statements due to specifics of the company and the type of its financial assets.
- Effective date: July 01, 2011.

3/ New standard and amendments to IFRS 9 Financial instruments

- Changes in accounting policies: New standard replaces guidance in IAS 39 Financial Instruments: Recognition and Measurement about classification and measurement of financial assets. The standard eliminates existing IAS 39 categories: held for maturity, available for sale and loans and receivables.
At the initial recognition, financial assets will be classified as:

- financial assets measured at amortized cost, or
- financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met: assets are kept within the business model, which is aimed to hold the financial asset to collect the contractual cash flows; the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, shall be presented in other comprehensive income, with only the remaining amount of the total gain or loss included in profit or loss of current period. If the requirements would create or enlarge an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss of the current period. The amounts presented in other comprehensive income are not subsequently reclassified to profit or loss.
- Impact on these financial statements: It is expected that the amendments to the Standard, when initially applied, will have a significant impact on future financial statements and comparative data, since they will be required to be retrospectively applied. Until the amendments are not initially applied, the Company is unable to perform a reliable analysis of the impact of the standard on the Company's financial statements.
- Effective date: January 01, 2013.

4/ Amendments to IFRS 9 Financial instruments (introduced in 2010)

- Changes in accounting policies: Amendments to IFRS9 introduced in 2010 to replace its existing standard, IAS 39, Financial Instruments**-** Recognition and Measurement. The IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of liabilities from IAS 39. It retains the fair value option in IAS 39 under which an entity may designate a financial liability on initial recognition as measured at fair value through profit or loss if certain eligibility criteria are met. However, IFRS 9 (2010) requires generally a split presentation of changes in the fair value of designated liabilities. The portion of the fair value changes that is attributable to changes in the liability's credit risk is recognised directly in other comprehensive income. The remainder is recognised in profit or loss. The amount presented in other comprehensive income is never reclassified to profit or loss. contains two exceptions from this split presentation. If the accounting treatment of the effects of changes in the liability's credit risk creates or enlarges an accounting mismatch in profit or loss, then all fair value changes are recognised in profit or loss. Furthermore, all gains and losses on loan commitments and financial guarantee contracts that are designated as at fair value through profit or loss are recognised in profit or loss by the issuer. The IFRS 9 (2010) eliminates the exception from fair value measurement contained in IAS 39 for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be measured reliably.

- Impact on these financial statements: It is expected that the amendments to the Standard, when initially applied, will have a significant impact on future financial statements and comparative data, since they will be required to be retrospectively applied. Until the amendments are not initially applied, the Company is unable to perform a reliable analysis of the impact of the standard on the Company's financial statements. The Company has not taken a decision regarding the date of application of the standard.

- Effective date: January 01, 2013.

5/ Amendments to IAS 12 Income taxes - Deferred tax: Recovery of Underlying Assets

- Changes in accounting policies: Amendments introduced in 2010 provide the exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using fair value model in IAS 40 by introducing a rebuttable presumption that that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

- Impact on these financial statements: The Company does no expect that the amendments will have a significant impact on the Company's financial statements, as it will not affect the Company's accounting policy. The rules of measurement deferred income tax asset and deferred income liability on investment property measured using the fair value model in IAS 40 do not change.

- Effective date: January 01, 2012.

2.5. Early application of standards and interpretations

Drawing up these financial statements the Management Board has not opted for early application of the standards and interpretations which have already been published and approved for use by the European Union, but will be effective for annual financial periods beginning after January 01, 2010.

In the present accounting period these changes in accounting standards have had no impact on the reported financial results and the equity value.

As at the reporting date, the Company has not yet completed the process of assessing the impact of the new and amended standards (that will be effective for annual periods beginning after January 01, 2010) on the separate financial statements for the period in which they are applied.

2.6. Voluntary changes in accounting principles

Drawing up these financial statements, in relation to previous periods the Company has not applied any voluntary changes in accounting principles.

3. Accounting policies

3.1. Basis of preparation

These financial statements have been prepared on the assumption that the Company will continue its business activities in the foreseeable future. As at the date of approval of these financial statements no facts or circumstances have been identified that might pose a threat to the continuation of the Company's business activities.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain fixed assets and financial instruments. The Company's principal accounting policies are set out below.

3.2. Accounting policies

National accounting standards had been applied by the PHS Hydrotor S.A. Company by 2005. Since 2006 financial statements of the PHS HYDROTOR S.A are prepared in accordance with the International Financial Reporting Standards (IFRS).
These financial statements have been prepared under the historical cost convention, except for the revaluation of certain fixed assets and financial instruments. The Company's principal accounting policies are set out below.

3.3. Fixed assets held for sale

Fixed 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 fixed 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 fixed 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.

3.4. 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).
The revenue on the sale of goods is to be recognized when the seller has transferred the ownership of the goods.
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.

3.5. 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 PHS HYDROTR S.A. Company- 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 HYDROTOR S.A. benefit.

3.6. 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.

3.7. 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.

3.8. 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.

3.9. Profit on ordinary activities

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

3.10. Tax

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.

3.11. 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.

3.12. 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.

3.13. 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.

3.14. Impairment

PHS HYDROTOR S.A. 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.

3.15. 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.).

3.16. Financial instruments

Financial assets and liabilities are recognized on the entity's balance sheet when it enters into a binding agreement.

3.17. 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.

3.18. 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.

3.19. 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.

3.20. 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.

3.21. Trade liabilities

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

3.22. Derivatives and hedge accounting

In the course of its business activities, the PHS HYDROTOR S.A company is subject to foreign currency exchange risks due to exchange rates and interest rates. In order to manage costly exposure to those risks, the entity may use forward contracts and interest rate swaps.

The PHS.HYDROTOR S.A. does not use derivatives for speculative purposes.

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

3.23. Provisions

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

a/ an entity 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.

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

4. Sales revenue

Sales revenue reported by the PHS HYDROTOR S.A.:

Sales revenue from continuing operations	For the year ended 31/12/2010	For the year ended 31/12/2009
Sales of products	24 181	22 383
Services	4 699	4 702
Sales of goods	10 938	8 164
Sales of materials	9 694	8 045
Total	**49 512**	**43 294**
Other operating revenues	990	818
Financial revenues	1 358	3 036
(The total amount includes all the revenues defined by IAS 18)	**51 860**	**47 148**

5. Business segmentation –branch and geographic segments

5.1. Branch segments

For business management purposes, the entity has been divided into the following operating segments:
- cooperation – production for final producers
- repair – service activities
- spare parts – production of goods for commerce
- production services
- goods and materials

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

Revenue in 2009	**Cooperation**	**Repair**	**Spare parts**	**Production services**	**Goods and materials**	**Total amount**
Revenues from sale of products, goods and materials	8 046	4 943	9 394	4 702	16 209	**43 294**
Costs of sales of products, goods and materials and	(5 780)	(4 153)	(7 205)	(3 922)	(15 026)	**(36 086)**
Gross profit (loss) on sales	**2 266**	**790**	**2 189**	**780**	**1 183**	**7 208**
Selling costs	(161)	(95)	(211)	(59)	(81)	**(607)**
Administrative expenses	(935)	(553)	(1 229)	(165)	(453)	**(3 335)**
Profit (loss) on sales	**1 170**	**142**	**749**	**556**	**649**	**3 266**
The result on other operating activity						292
The result on financial activity						2 949
Gross profit (loss) on economic activity						**6 507**
Income tax						(754)
Net profit (loss)						**5 753**

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Revenue in 2010	Cooperation	Repair	Spare parts	Production services	Goods and materials	Total amount
Revenues from sale of products, goods and materials	9 822	4 770	9 589	4 699	20 632	**49 512**
Costs of sales of products, goods and materials	(7 560)	(3 623)	(7 045)	(4 105)	(19 478)	**(41 811)**
Gross profit (loss) on sales	**2 262**	**1 147**	**2 544**	**594**	**1 154**	**7 701**
Selling costs	(273)	(78)	(258)	(41)	(68)	**(718)**
Administrative expenses	(1 212)	(463)	(1 387)	(263)	(349)	**(3 674)**
Profit (loss) on sales	**777**	**606**	**899**	**290**	**737**	**3 309**
The result from other operating activity						414
The result from financial activity						1 315
Gross profit (loss) on business activity						**5 038**
Income tax						(743)
Net profit (loss)						**4 295**

5.2. Geographic segments

The PHS. HYDROTOR S.A. carries on its business activity 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 31/12/2010			For the period ended 31/12/2009		
	Poland	WDT	Export	Poland	WDT	Export
Revenues from sale of products, goods and materials	38 662	10 452	398	33 937	9 115	242
Costs of sales of products, goods and materials	(32 406)	(9 072)	(333)	(27 742)	(8 159)	(185)
Gross profit (loss) on sales	**6 256**	**1 380**	**65**	**6 195**	**956**	**57**
Selling costs	(556)	(156)	(6)	(409)	(189)	(9)
Administrative expenses	(2 848)	(797)	(29)	(2 691)	(628)	(16)
Profit (loss) on sales	**2 852**	**427**	**30**	**3 095**	**139**	**32**

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6. Profit on operating activities

Profit on operating activities	For the period ended 31/12/2010	For the period ended 31/12/2009
Revenue from principal operations	49 512	43 294
Gain on disposal of non-financial fixed assets	3	1
Subsidies, co-financing	332	277
Reversed provision	4	65
Other operating revenues	651	475
Manufacturing cost of products for internal purposes	510	542
Change in the balance of products	(2 732)	(1 980)
Depreciation of fixed assets	(1 146)	(1 466)
Consumption of materials and energy	(8 838)	(7 789)
External services	(5 460)	(5 190)
Taxes and charges	(336)	(317)
Employment costs	(8 737)	(8 437)
Other costs by type	(345)	(357)
Value of goods and materials sold	(19 695)	(15 560)
Profit on operating activities	**3 723**	**3 558**

7. Employment costs

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

Employment	**Number of employees in 2010**	**Number of employees in 2009**
Production employees	146	150
Office employees	62	63
Employees on parental leave		
	208	**213**

Employment costs	**For the period ended 31/12/2010**	**For the period ended 31/12/2009**
Salaries	(7 190)	(6 941)
Post-employment benefits	(30)	(22)
Employment termination payments	(6)	(9)
Social security contributions	(1 231)	(1 188)
Other employee benefits	(280)	(277)
	(8 737)	**(8 437)**

Annual Financial Report of the HYDROTOR S.A. Company for the year 2010 in PLN thousand

8. Financial income and expenses

Financial income	For the period ended 31/12/2010	For the period ended 31/12/2009
Interest earned	370	480
Interest earned on loans	2	6
Dividend income	986	2 550
Gain on a sale of shares	1	
Gain on currency exchange rates	74	91
	1 433	**3 127**

Financial expenses	For the period ended 31/12/2010	For the period ended 31/12/2009
Interest paid on loans and credits	-	(3)
Expenses related to the sale of shares	(1)	-
Loss on currency exchange rates	(96)	(73)
Total borrowing costs	**(97)**	**(76)**
Loss from derivatives trading	(21)	(103)
	(118)	**(179)**

Financial income and expenses are presented in a manner that takes into account the positive and negative exchange rate differences.

The financial output resulting from forward foreign exchange contracts, concluded to hedge sales revenue, is presented in the statement of financial activity.

In 2009 the Company did not conclude forward contracts.

In 2010 the Company concluded 11 forward contracts valued at EUR 750 thousand, from which the amount of EUR 550 thousand was settled in the year 2010(and the amount of EUR 200 thousand to be settled within the period from January 27 to April 28, 2011).

9. Income tax

Income tax	For the period ended 31/12/2010	For the period ended 31/12/2009
Corporate income tax- current charge	747	643
Deferred income tax (note no. 19) associated with the reversal of temporary differences	(4)	111
Income tax expense recognized in the profit and loss statement	743	754
Income tax paid	801	1 228
Current income tax assets	54	23
Current income tax liabilities	-	-

The current portion of the income tax was calculated at the rate of 19% (2009: 19%) of the tax base.

	For the period ended 31/12/2010	For the period ended 31/12/2009
Total income	51 964	47 274
Total expense	(46 926)	(40 767)
Pre-tax profit	5 038	6 507
Non-taxable income	(1 007)	(2 682)
Non-deductible expenses	(100)	(441)
Taxable income	3 931	3 384
deductions from income	-	
Income tax	3 931	3 384
Income tax rate of 19%	747	643
Income tax for previous periods	-	-
Total income tax	747	643
Effective tax rate %	19	19

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Apart from the amount of tax recognized in the profit and loss statement, a deferred tax for revaluation of fixed assets and the value of land buildings which are not classified as investment property, in the amount of PLN 65 thousand (2009: PLN 81 thousand) (see the note no. 23), is directly recognized in the entity's equity.

10. Dividends

Dividends	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 31/12/2008
The amounts paid to the entity's stockholders during the year:	2 998	4 317	5 036
Dividends for the previous fiscal year	2 998	4 317	5 036
in PLN and gross per share (0,00)	1,25	1,80	2,10
	2 998	4 317	5 036
proposed / final dividend for the year in	1 199	2 398	4 317
PLN and gross per share (0,00)	0,50	1,00	1,80

In 2010 the company received dividend of PLN 750 thousand from its subsidiary the Agromet ZEHS S.A., Lubań (in 2008: PLN 2.150 thousand), the dividend was associated with a distribution of the subsidiary's profit for the year 2009.

In 20 10 the Hydrotorbis company paid the dividend in the amount of PLN 236 thousand (2009: PLN 400 thousand), the dividend was associated with a distribution of the subsidiary's profit for the year 2009..

11. 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 31/12/2010	For the period ended 31/12/2009	For the period ended 31/12/2008
The net income for the given accounting period used to calculate earnings per share to be distributed among shareholders	4 295	5 753	9 558
The effects of dilutive ordinary shares	-	-	-
Interest on convertible bonds (after tax)	-	-	-
Profit shown for the purpose of calculating diluted earnings per share	**4 295**	**5 753**	**9 558**

Number of shares issued	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 31/12/2008
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 of ordinary shares:			
- on shares	-	-	-
- on 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**

Annual Financial Report of the HYDROTOR S.A. Company for the year 2010 in PLN thousand

Continuing operations	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 31/12/2008
Net profit for the accounting period attributable to shareholders	4 295	5 753	9 558
Excluded loss from discontinued operations	-	-	-
Net profit from continuing operations used to calculate earnings per share, excluding the result from discontinued operations	4 295	5 753	9 558
The effects of dilutive ordinary shares:	-	-	
Net profit from continuing operations used to calculate diluted earnings per share, excluding the result from discontinued operations	4 295	5 753	9 558
Profit from continuing operations per ordinary share (PLN, 0,00)	**1,79**	**2,40**	**3,99**

12. Other intangible assets

	Development expenses	Patents and trademarks	Total
Gross value			
as of January 01, 2009	-	69	**69**
Increases	-	34	**34**
Decreases	-	-	-
As of December 31, 2009		**103**	**103**
Increases due to acquisition of related entities	-	139	**139**
As at December 31, 2010	-	**242**	**242**
Amortization			
as of January 01, 2010	-	68	**68**
Amortization for the year 2009	-	5	**5**
As of December 31, 2009	-	73	**73**
Amortization for the year 2010	-	10	**10**
As of December 31, 2011	-	**83**	**83**
Net book value as of December 31, 2009	-	30	**30**
Net book value as of December 31, 2010	-	159	**159**

The development expenses incurred by the Hydrotor S.A. are amortized over a period of 5 years. Patents and trademarks are amortized over the expected useful life, average amortization period is 3-5 years.

Computer software is amortized over the expected useful life, average amortization period is 3-5 years.

13. Tangible fixed assets

Fixed assets (PLN thousand) Gross value	land (including the right of perpetual usufruct)	buildings, premises, structures	Machinery and equipment	Vehicles	Other fixed assets	Investments in fixed assets	Total fixed assets
Opening balance or valuation							
As of January 01, 2009	**891**	**4 296**	**14 196**	**641**	**840**		**20 864**
Increase due to acquisition, modernization			48		7	1	
Decrease due to liquidation or sale			(20)	(10)	(3)		
As of December 31, 2009	**891**	**4 296**	**14 224**	**631**	**844**	**1**	**20 887**
Increase due to acquisition, modernization	116	216	1 296		250	201	2 079
Increases - update	400	83	62	2	8		555
Decrease due to liquidation or sale			(104)				(104)
As of December 31, 2010	**1 407**	**4 595**	**15 478**	**633**	**1 102**	**202**	**23 417**

Fixed assets (PLN thousand) Gross value Depreciation, net value	land (including the right of perpetual usufruct)	buildings, premises, structures	Machinery and equipment	Vehicles	Other fixed assets	Investments in fixed assets	Total fixed assets
Accumulated depreciation and impairment							
As of January 01, 2009		**728**	**6 767**	**328**	**469**		**8 292**
Amortization for the year 2009		138	1 204	54	65		1 461
Decrease due to liquidation or sale			(19)	(2)	(3)		(24)
As of December 31, 2009		**866**	**7 952**	**380**	**531**		**9 729**
Amortization for the year 2010		138	913	37	60		1 148
Decrease due to liquidation or sale			(63)				(63)
As of December 31, 2010		**1 004**	**8 802**	**417**	**591**		**10 814**
Net value							
As of January 01, 2009	**891**	**3 568**	**7 429**	**313**	**371**		**12 572**
As of December 31, 2009	**891**	**3 430**	**6 272**	**251**	**313**	**1**	**11 158**
As of December 31, 2010	**1 407**	**3 591**	**6 676**	**216**	**511**	**202**	**12 603**

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Tangible fixed assets	As of 31/12/2010	As of 31/12/2009	As of01/01/2008
Own land (including the right of perpetual usufruct)	1 407	891	891
Buildings, premises and structures	3 591	3 430	3 569
Machinery and equipment	6 676	6 272	7 428
Vehicles	216	251	313
Other fixed assets	511	313	371
Fixed assets under construction	202	1	
Tangible fixed assets	**12 603**	**11 158**	**12 572**

Fixed assets - balance sheet structure	As of 31/12/2010	As of 31/12/2009	As of 01/01/2008
Own fixed assets	12 603	11 158	12 572
Total balance sheet assets	**12 603**	**11 158**	**12 572**

The PHS Hydrotor S.A. does not use assets under an operational lease.

Off balance sheet assets	As of 31/12/2011	As of 31/12/2010	As of 01/01/2010
Used under lease or rental agreements , including:	644	742	742
the value of the land held under perpetual usufruct	644	742	742
Total off balance sheet assets	**644**	**742**	**742**

14. Long-term investments

Long-term investments made by the Company are related to the acquisition of shares in subsidiary companies. In 2011 no changes in long-term investments were reported.
Investments made in the previous periods:

- In 2010 the Company acquired shares in Więcborskie Zakłady Metalowe WIZAMOR Ltd. The Company acquired 436,76 shares (94,73%). The total cost of the shares acquired by the Company amounted to PLN 1,350 thousand. At the same time the company disposed of part of the shares in its subsidiary the AGROMET ZEHS S.A. Lubań worth PLN 1 thousand.
- In 2009, due to transformation of the AGROMET ZEHS, Lubań from the limited liability company into the joint stock company, there was conversion of its shares.
- In 2008 share participation in the subsidiary Hydraulika Siłowa HYDROTORBIS increased from 100 shares to 2000 shares of PLN 500,00 per each share.
- In 2007 the Company purchased 57,05% of shares in DEFKA Dzierżoniów at the total value of PLN 1,566 thousand.

The number of shares	As of 31/12/2010	As of 31/12/2009	As of 01/01/2008
a/ **At the beginning of the period**	**24 960**	**24 960**	**24 010**
- shares in limited liability companies	7 219	24 960	24 010
- shares in joint stock companies	17 741	-	-
b/ increases (due to)	1 350	-	950
- shares in limited liability companies	1 350	-	950
- shares in joint stock companies		-	-
c/ **conversion**	1 350	-	950
- shares in limited liability companies	1 350	(1 741)	950
- shares in joint stock companies	-	17 741	-
d/ decreases (due to)	(1)	-	-
- sale of shares	(1)	-	-
e/ **At the end of the period**	**26 309**	**24 960**	**24 960**
- shares in limited liability companies	8 569	7 219	24 960
- shares in joint stock companies	17 740	17 741	-

Annual Financial Report of the HYDROTOR S.A. Company for the year 2010 in PLN thousand

Company name of the subsidiary	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	94,73%	94,73%	full
DEFKA Ltd. in liquidation	Dzierżoniów	57,05%	67,21%	full

Shares in subsidiaries and associates	**Registered office**	**Business activity**	**Relationship**	**Method of consoldation**	**Date of obtaining control**	**Value of shares /per purchase price/**	**Book value of shares**
AGROMET ZEHS S.A.,	Lubań	Production of fluid power components	Subsidiary company	full	01.03.1998	17 740	17 740
Hydraulika Siłowa HYDROTORBIS Ltd	Tuchola		Subsidiary company	full	08.11.2004	1 000	1 000
WPH Ltd.,	Wrocław		Subsidiary company	full	15.06.2005	4 653	4 653
WZM WIZAMOR Ltd.	Więcbork		Subsidiary company	full	22.06.2010	1 350	1 350
DEFKA Ltd.	Dzierżoniów	foundry	Subsidiary company	full	06.07.2007	1 566	1 566

Shares in subsidiaries and associates	Percentage of the equity capital held	Share in total number of votes	Equity capital of the entity	Share capital	Supplementary capital	Revaluation reserve	Retained earnings
AGROMET ZEHS S.A.,	99,99 %	99,99 %	18 570	5 085	10 672	1 996	927
Hydraulika Siłowa HYDROTORBIS Ltd	100,00%	100,00%	1 691	1 000	488	87	115
WPH Ltd.,	100,00%	100,00%	7 934	9 455		2 465	(3 983)
WZM WIZAMOR Ltd.	94,73%	94,73%	1 639	230	1 451		(42)
DEFKA Ltd.	57,05%	67,21%	3 162	3 067		3 856	(3 761)

Shares in subsidiaries and associates	Liabilities and provisions for liabilities	Long-term liabilities	Receivables	Long-term receivables	Total assets	Sales revenue	Dividends for the previous fiscal year
AGROMET ZEHS S.A.,	8 810	495	6 186		27 380	25 840	750
Hydraulika Siłowa HYDROTORBIS Ltd	2 085	113	494		3 776	12 983	236
WPH Ltd.,	3 869	419	1 110		11 806	7 054	
WZM WIZAMOR Ltd.	2 101	413	830		3 740	5 492	
DEFKA Ltd.	5 611	908	198		8 773	4 090	

15. Available-for-sale Financial Assets

	For the period ended 31/12/201	**For the period ended 31/12/2009**	**For the period ended 31/12/2008**
a/ at the beginning of the period	-	-	15
- shares	-	-	15
b/ increases (due to)	-	-	-
c/ decreases (due to)	-	-	15
- sale of shares	-	-	15
d/ at the end of the period	-	-	-
- shares	-	-	-

Annual Financial Report of the HYDROTOR S.A. Company for the year 2010 in PLN thousand

16 . Inventory

	As of 31/12/2010	As of 31/12/2009	As of 01/01/2008
Materials	3 683	3 203	2 962
Production in progress	3 991	4 179	3 888
Finished products	3 901	4 842	5 204
Goods	1 227	228	532
	12 802	**12 452**	**12 586**

As at the balance sheet date inventories of the PHS HYDROTOR S.A. were not pledged as collateral on loans and credits.
At the end of 2010 the Company did not make inventory write downs. As at the balance sheet date the residual book value of inventories that were written down amounts PLN 51 thousand.

17. Assets held for sale

In the 4th quarter of the 2010 the Company's assets were reviewed in order to determine their fair values and their value for the business.

18. Other financial assets

18.1. Trade and other receivables

Trade and other receivables	As of 31/12/2010	As of 31/12/2009	As of 01/01/2008
Receivables from related parties	4 754	3 180	4 317
Receivables from other than related parties	2 039	1 846	2 664
Receivables on account of taxes, subsidies, customs, social insurances and other benefits	349	134	174
Other receivables	2	2	17
Total receivables	**7 144**	**5 162**	**7 172**

On the balance sheet of the company – in the category "other receivables" budgeting loans from the Social Fund, provided to cover residential needs were not included.

Receivables for overpaid income tax were not included either.

18.2. Gross trade receivables

Gross trade receivables	As of 31/12/2010	As of 31/12/2009	As of 01/01/2008
Due receivables (unexpired)	**4 143**	**940**	**1 988**
- Up to 3 months	4 143	940	1 988
Past due receivables	2 847	4 287	5 253
Write-offs to receivables	(197)	(201)	(260)
Net trade receivables	**6 793**	**5 026**	**6 981**

Gross trade receivables	As of 31/12/2010	As of 31/12/2009	As of 01/01/2008
Past due receivables	**2 847**	**4 287**	**5 253**
- Up to 1 month	962	1 339	1 766
- Above 1- 3 months	680	1 150	1 802
- Above 3- 6 months	261	549	1 034
- Above 6 months – 1 year	120	496	117
- Above 1 year	824	753	534

Annual Financial Report of the HYDROTOR S.A. Company for the year 2010 in PLN thousand

18.3. Receivables – currency structure

Receivables- currency structure	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 01/01/2008
Total receivables in:	**7 144**	**5 162**	**7 172**
a/ Polish currency	6 455	4 498	6 439
b/ in foreign currency (converted into PLN)	689	664	733
- Euro (converted into PLN)	689	662	702
- USD (converted into PLN)		2	31

Advance payments for the purchase were excluded from the balance. Average credit period offered by the Company to its customers is 30 days, in some cases , on the basis of agreements concluded - 90days.

Within the period of 30 days from the issue date of the invoice the HYDROTOR S.A. Company does not charge penalty interest, after that period penalty interest of 11,5% is charged on the outstanding debt.

The estimated value of accounts receivable deemed to be uncollectible and written off is PLN 197 thousand, (2009: PLN 201 thousand).

In 2010 the Company released provision for bad debts in the amount of PLN 21 thousand.

Simultaneously, the company wrote down the amount of PLN 4 thousand (2009: PLN 1 thousand) from the account receivables which were previously deemed to be uncollectible.

The amounts of the deductions have been determined based past experience of the Company.

The Management Board believes that the net book value of accounts receivable approximates to their fair value

18.4. Short-term investments

Short-term investments	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 01/01/2008
Short-term investments	7 550	11 175	7 133
Loans provided	135		279
Valuation of forward contracts	3		
Cash	7 412	11 175	6 854

In September 2010 the Company provided a loan to its subsidiary – the Defka Ltd., Dzierżoniów, in the amount of PLN 135 thousand. The loan repayment is expected in 2011.

In short-term investments valuation of forward contracts is included.

Cash statement does not include the Social Security funds, that are kept in a separate account.

18.5. Cash – currency structure

Cash- currency structure	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 01/01/2008
Total, including:	7 412	11 175	6 854
a/ cash in Polish currency	6 158	10 289	4 882
b/ cash in foreign currency(converted into PLN)	1 254	886	1 972
- in EUR (converted into PLN)	1 243	886	1 928
- in USD (converted into PLN)	11	-	44

Cash in bank and cash equivalents comprise of cash on hand and deposit accounts.

18.6. Credit risk

The main financial assets owned by the Company consists of: cash on hand and in bank accounts, trade and other receivables and investment securities which represent the Company's maximum exposure to credit risk in relation to financial assets.

The main credit risk is primarily attributable to its trade accounts receivable. The trade accounts receivables in net are shown in the balance (after being reduced by allowance for doubtful accounts). The deduction is determined by the Company's Management on the basis of past experience and assessment of the current economic situation.

Credit risk associated with liquid funds and derivatives is limited, because banks represent a party to transactions. According to the assessment made by international rating agencies they offer a high credit quality.

Concentration of credit risk in the company is relatively low due to the distribution of credit exposure to the large number of customers.

19. Prepayments and accruals

Prepayments and accruals- assets	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 01/01/2008
Short-term investments	**319**	**102**	**100**
Interest on loans, bank deposits	16	65	35
VAT accounting in relation to future accounting periods	44	10	8
Settlement of VAT on exports			32
Insurance costs	27	21	18
Magazine subscriptions	5	1	1
Advertising costs	5	5	6
costs of the investment project OPIE – I phase	222	-	-

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 parts for large-sized machines" – (measure 1.4 – phase of research) are the main item. The expenditures as above were incurred to perform both the works scheduled and the works that are not scheduled but related to the investment project.

20. Loans and credits

In 2010 (as of December 31, 2010) the Company did not take out any loans and credits.

21. Convertible bonds

The Company has not issued convertible bonds.

22. Financial derivatives

22.1. Currency derivatives

In the year 2010 the Company entered into 11 foreign currency forward contracts valued at EUR 750 thousand. The contracts were economic hedges for expected proceeds from the sale of products, mainly the products intended to be sold in the European Union countries.

Assuming the sale of currencies at the settlement date of the contracts, the company incurred loss of PLN 25 thousand.

As at the balance sheet date valuation of the contracts concluded is as follows:

Forward contract Bank	Contract date	Currency in thousands	Denomination	Forward exchange rate	Contract value	Settlement date	Valuation as of 31.12.2010	Profit/ loss
Millenium Bank	24.11.2010	EUR	50	3,9880	199,40	27.01.2011	198,4	1,0
Millenium Bank	24.11.2010	EUR	50	3,9955	199,80	28.02.2011	198,9	0,8
Millenium Bank	24.11.2010	EUR	50	4,0025	200,10	28.03.2011	199,4	0,7
Millenium Bank	24.11.2010	EUR	50	4,0095	200,50	28.04.2011	199,9	0,6
			200,00		799,80		796,6	3,2

22.1. Interest rate swap contracts

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

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23. Deferred tax

Deferred income tax is recorded on the Company's balance sheet as deferred income tax provision and deferred income tax assets.

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 of January 01, 2009	**263**		**263**
Provisions for employee benefits	**142**		**142**
Employee benefit obligations, Social Security	**121**		**121**
Increases	29		29
Employee benefit obligations, Social Security	29		29
Decreases	(135)		(135)
Provisions for employee benefits	(8)		(8)
Employee benefit obligations, Social Security	(127)		(127)
As of December 31, 2009	**157**		**157**
Provisions for employee benefits	**134**		**134**
Employee benefit obligations, Social Security	**23**		**23**
Increases	22		22
Employee benefit obligations, Social Security	22		22
Decreases	(27)		(27)
Provisions for employee benefits	(5)		(5)
Employee benefit obligations, Social Security	(22)		(22)
As of December 31, 2010	**152**		**152**
Provisions for employee benefits	**129**		**129**
Employee benefit obligations, Social Security	**23**		**23**

23.2. Deferred income tax provision

Deferred income tax provision	**Recognized in the financial result**	**Recognized in equity**	**Total**
As of January 01, 2009	**10**	**1 031**	**1 041**
- revaluation of assets		**1 031**	**1 031**
- investment allowances	**3**		**3**
- bank interest rate	**7**		**7**
Increases	**12**		**12**
- interest on bank deposits	12		12
Decreases	**(7)**	**(81)**	**(88)**
- tax depreciation		(81)	**(81)**
- interest on bank deposits, loans	(7)		**(7)**
As of December 31, 2009	**15**	**950**	**965**
- revaluation of assets		**950**	**950**
- investment allowances	**3**		**3**
- bank interest	**12**		**12**
Increases	**3**	**105**	**108**
- tax depreciation		105	**105**
- interest on bank deposits, loans	3		**3**
Decreases	**(12)**	**(65)**	**(77)**
- investment allowances		(65)	**(65)**
- interest on bank deposits, loans	(12)		**(12)**
- interest on bank deposits, loans	(3)		**(3)**

As of December 31, 2010	**6**	**990**	**996**
- revaluation of assets		**990**	**990**
- investment allowances	**3**		**3**
- interest on bank loans	**3**		**3**

24. Trade and other payables

Trade payables and other liabilities comprise:
- trade payables
- VAT and social insurance liabilities
- others

Trade payables	For the period ended 31.12/2010	For the period ended 31.12.2009	For the period ended 31.12.2008
trade payables	1 254	1 349	1 185
VAT and social insurance liabilities	413	391	484
Other liabilities	170	112	110
Total	**1 837**	**1 852**	**1 779**

Payables denominated in foreign currency	For the period ended 31.12/2010	For the period ended 31.12.2009	For the period ended 31.12.2008
Trade payables in:			
EUR (thousands)	24	3	69
USD (thousands)	4		
Total amount of trade payables translated into PLN (thousand)	**105**	**12**	**295**

The Management Board of the Company believes that the book value of the financial liabilities approximates to their fair value.

25. Provisions

Provisions for future liabilities (in PLN thousand)	**Provisions for future liabilities**	**Others**	**Total provisions**
As of January 01, 2009	480	-	**480**
Change in provisions – increase (+), used (-)	(460)	-	**(460)**
As of December 31, 2009	20	-	**20**
Change in provisions – increase (+), used (-)	-	-	**-**
As of December 31, 2010	20	-	**20**
Provisions held up to 1 year	-	-	**-**
Provisions held for over 1 year	-	-	**20**
			20

Provisions for future liabilities represents the Management's estimates of the Company's probable obligations arising from previously signed agreements.
As at the reporting date the amount of the provision was PLN 20thousand.

26. Share capital

The Company's share capital amounts to PLN 4.797 thousand and consists of 2.398.300 shares, each of PLN 2,00 nominal value. All the shares are fully paid up.

	Share capital (PLN 2.00 nominal value)	Preference registered shares	Ordinary bearer shares	Total
As of January 01, 2009	- number of shares	411 630	1 986 670	2 398 300
	- nominal value per share	2,00	2,00	2,00
	- value of shares issued (in PLN thousand)	823	3 973	4 797
As of December 31, 2019	- number of shares	371 030	2 027 270	2 398 300
	- nominal value per share	2,00	2,00	2,00

	- value of shares issued (in PLN thousand)	742	4 055	4 797
Changes in 2010 – conversion of shares		-	-	-
As of December 31, 2010	- number of shares	**371 030**	**2 027 270**	**2 398 300**
	- nominal value per share	2,00	2,00	2,00
	- value of shares issued (in PLN thousand)	742	4 055	4 797

In 2010 preference registered shares were converted into ordinary bearer shares. The conversion of 40.600 shares was made in December 2010.

On the basis of information available in the Company as of December 31, 2010, the following shareholders held at least 5% of the total number of voting rights at the General Meeting:

Entity	Registered office	Number of shares	Number of voting rights	% of share capital	% of total number of voting rights
PKO FIO	Warszawa	290 012	290 012	12,09%	7,47%
Bodziachowski Ryszard with a closely related person	Warszawa	305 000	305 000	12,72%	7,86%
Kropiński Wacław	Tuchola	88 405	422 025	3,69%	10,87%

As at the reporting date the Company had no information about changes in the number of shares held.

27. Supplementary capital

Supplementary capital	**For the period ended 31/12/2010**	**For the period ended 31/12/2009**	**For the period ended 31/12/2008**
As of January 01	40 946	35 685	33 179
From the sale of shares at above their par value	13 350	13 350	13 350
Changes due to distribution of earnings	2 755	5 241	2 480
Other changes	6	20	26
As of December 31	**43 707**	**40 946**	**35 685**

In the year 1997 the proceeds from the sale of shares at above their par value (the proceeds from the new C-Series share issue) were transferred to the supplementary capital.

28. Revaluation reserve

Revaluation reserve	**For the period ended 31/12/2010**	**For the period ended 31/12/2009**	**For the period ended 31/12/2008**
As of January 01	5 998	5 980	5 871
Increase in the fair market value of assets			
As of January 01	5 998	5 980	5 871
Recognition of deferred tax liability arising from revaluation of land and buildings	64	76	61
Restoration of fixed asset values	450		102
Liquidation of fixed assets – transfer to the supplementary capital	(6)		
Decrease on disposal of available-for-sale financial assets	(118)	(58)	(54)
Reserve at the end of the period, arising from:	**6 388**	**5 998**	**5 980**
- revaluation of fixed assets in the year 1995	342	348	368
- revaluation of fixed assets at their fair value	6 046	5 650	5 612

29. Other reserve capitals

	For the period ended 31/12/2010	**For the period ended 31/12/2009**	**For the period ended 31/12/2008**
As of 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**

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30. Retained earnings

Retained earnings	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 31/12/2008
As of January 01	5 737	9 517	7 516
Dividend to shareholders	(2 998)	(4 317)	(5 036)
Deductions for capitals	(2 755)	(5 241)	(2 480)
Liquidation of fixed assets	83	25	
Covering of losses resulting from adjustments			(41)
Profit / loss of previous years	67	(16)	(41)
Net profit for the period	4 295	5 753	9 558
Profit/ loss from previous years	67	(16)	(41)
As at the end of the period	**4 362**	**5 737**	**9 517**

In the Company's balance sheet the current year's financial result and the corresponding figures for previous years are presented in the separate positions.

The loss from previous fiscal years is reduced by the disposal of fixed assets whose value has been restored to their fair value.

31. Book value per share

Calculation of the book value per share	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 31/12/2008
Equity capital	62 293	60 517	59 018
Number of shares	2 398 300	2 398 300	2 398 300
Book value per share	25,97	25,23	24,61

32. Employee benefit programs

The Hydrotor Company does not participate in the employee benefit programs.

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

The Company makes contributions to the fund of social benefits.

Employee benefit obligations include:

Employee benefits	For the period ended 31/12/2010	For the period ended 31/12/2009	For the period ended 31/12/2008
Long-term provisions for retirement bonuses	590	605	632
Short-term provisions for retirement bonuses	88	101	114
Payroll obligations	184	183	263
	862	889	1 009

The last valuation of employee benefits and the present value of employee benefit obligations was determined on 31.12.2010. 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 of January 01, 2009	114	632	746
- increases	13	-	13
- decreases	(26)	(27)	(53)
As of 31.12.2009	101	605	706
- increases	-	-	
- decreases	(13)	(15)	(28)
As of 31.12.2010	88	590	678

The amount of provisions of PLN 28 thousand (2009:- PLN40 thousand) which is recognized in the profit and loss has been deducted by the cost of products sold and the general and administrative cost. Actuarial gains and losses have been recognized in the profit and loss account.

33. Events after the balance sheet date

As of the report date there were no events affecting the financial statements.

34. Contract to audit financial statements

The PHS Hydrotor Company has signed a contract for auditing its financial statements with AUDYT I RACHUNKOWOŚĆ "UZR-CBR" Ltd., with the registered office in Kraków.

In accordance with the requirements of the contract the Auditor shall perform an audit of the Company's non-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 21.850,00 + VAT,

* For auditing and reviewing consolidated financial statement the auditor will be paid remuneration in the amount of PLN 12.065 + VAT

35. Transactions with related parties

Transactions between the Hydrotor S.A. Company and its subsidiary entities are excluded from the financial statements.

Transactions concluded between the Hydrotor S.A. and its subsidiaries:

In the year 2010 the Hydrotor S.A. Company (to related entities):
1. sold products, services, goods and materials at the amount of PLN 15 659 thousand,
2. paid utility bills for the amount of PLN 456 thousand (other operating revenue),
3. charged interest on the loans granted - in the amount of PLN 2 thousand,
4. received dividend as part of the profit for the year 2009 in the amount of PLN 986 thousand

Transactions concluded between the Hydrotor S.A. and its associates:
1 purchased products, services and materials at the amount of PLN 13,241 thousand
2 incurred operational costs at the amount of PLN 131 thousand.

Since the year 2005 the dominant entity has been supplying production materials to the Group entities. The Company charges 0-2% 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 of 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 year 2010, the total value of remuneration paid to the CEO (including the basic salary) was:

Specification	Remuneration and award wages paid by PHS Hydrotor S.A. (in PLN thousand)
<u>Members of the Management Board</u>	
Wacław Kropiński	198
Janusz Czapiewski	139
<u>Members of the Supervisory Board</u>	
Waldemar Stachowiak	8

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Tomasz Bukowski	22
Janusz Deja	73
Czesław Główczewski	61
Mariusz Lewicki	24
Mieczysław Zwoliński	69

According to the resolution No.8/VI/2008, since July of 2008 remuneration of a member of the Supervisory Board is set at 1.5 times the minimum wage.

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

As of 31.12.2010, the value of outstanding loans, provided to members of the Management Board and the Supervisory Board was PLN 1.2 thousand.

There are no other outstanding loans, credits, guarantees and other commitments.

36. Approval of the financial statements

The Financial statement was approved by the Management Board of the Company on April 29, 2011.

Signed by:

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

Tuchola, 29.04.2011