Annual Financial Statements of the HYDROTOR S.A Company

for the year 2011

prepared in accordance with International Financial Reporting Standards

April 2012

CONTENTS

FINANCIAL STATEMENT OF COMPREHENSIVE INCOME

Profit and loss account

For the period from January 01, 2011 to December 31, 2011

Profit and loss account (in PLN thousand)	Note	For the year 2011 from 2011-01-01 to 2011-12-31	For the year 2010 from 2010-01-01 to 2010-12-31
Operating activities			
Revenues from sales of products	4, 5	30 880	28 881
Revenues from sales of goods and materials	4, 5	26 841	20 631
Revenues from sales	4, 5	**57 721**	**49 512**
Cost of goods sold	4, 5	**(48 439)**	**(41 811)**
Gross profit (loss) on sales		**9 282**	**7 701**
Other operating income		1 188	990
Selling costs		(810)	(718)
General and administrative expenses		(4 238)	(3 674)
Other operating expenses		(686)	(576)
Restructuring costs		-	-
Operating profit (loss)	6	**4 736**	**3 723**
Financial revenues	8	402	1 358
Financial expenses	8	(117)	(43)
Profit (loss) before tax		**5 021**	**5 038**
Income tax	9	(828)	(743)
Net profit (loss) from continuing operations		4 193	4 295
Discontinued operations		-	-
Net profit (loss) from discontinued operations		-	-
Net profit (loss)		**4 193**	**4 295**
Profit (loss) per share (in PLN)	11	1,75	1,79

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

Statement of Financial Position

As of December 31, 2011

ASSETS	Note	At the end of 2011 as of December 31, 2011	At the end of 2010 as of December 31, 2010	At the beginning of 2010 - as of January 31, 2010
Fixed assets				
Tangible fixed assets	13	12 641	12 603	11 158
Other intangible assets	12	1 949	159	30
Long-term investments	14	26 308	26 308	24 960
Total fixed assets		**40 898**	**39 070**	**36 148**
Current assets				
Inventory	16	12 294	12 802	12 452
Trade and other receivables	18	18 542	7 144	5 163
Current income tax assets	9	161	54	23
Prepayments and accruals	19	2 041	319	102
Cash and cash equivalents	18	10 486	7 550	11 176
Non-current assets classified as held for sale	17	15	39	62
Total current assets		**43 539**	**27 908**	**28 978**
TOTAL ASSETS		**84 437**	**66 978**	**65 126**

LIABILITIES				
EQUITY		**64 143**	**62 293**	**60 517**
Share capital	26	4 797	4 797	4 797
Supplementary capital	27	45 963	43 707	40 946
Revaluation reserve	28	6 054	6 388	5 998
Reserve capitals	29	3 039	3 039	3 039
Retained earnings	30	4 266	4 362	5 737
LONG-TERM LIABILITIES		**15 087**	**1 613**	**1 536**
Provision for deferred income tax	23	752	844	807
Employee benefits liability	32	610	590	605
Long-term loans and credits	20	5 053	-	-
Long-term provision	25	20	20	20
Deferred income	19	8 652	159	104
SHORT-TERM LIABILITIES		**5 029**	**3 072**	**3 073**
Trade and other liabilities	24	3 784	1 836	1 852
Current tax liabilities				
Liabilities associated with acquisition of shares		900	900	900
Financial liabilities		41		
Employee benefit liabilities	32	346	273	284
Deferred income	19	60	63	37
Total Liabilities		**84 437**	**66 978**	**65 126**
Book value per 1 share (in PLN)	31	26,78	25,97	25,23

Off-balance sheet items

Forward contracts	845	800	
Guarantees	1 164	1 000	1 000
Promissory notes	12 153	12 153	
Others	122		

Statement of Cash Flows

For the period from January 01, 2011 to December 31, 2011

Cash flow statement (indirect method) in PLN thousand	**For the year 2011 from 2011-01-01 to 2011-12-31**	**For the year 2010 from 2010-01-01 to 2010-12-31**
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit (loss)	**4 193**	**4 295**
Income tax expenses recognized in the profit and loss account	836	747
Income tax paid	(997)	(801)
Investment income included in the profit and loss account	(126)	(369)
Profit on the sale or disposal of tangible assets	(44)	(3)
Dividends from subsidiaries	(203)	(986)
Depreciation of fixed assets	1 249	1 146
Positive/ negative foreign currency translation differences	(39)	(31)
(Increase) / decrease in trade and other receivables	(2 866)	(2 012)
(Increase)/ decrease in inventories	518	(327)
Decrease in trade and other receivables	3 118	(64)
Increase/ (decrease) in reserves	(15)	(36)
Increase in deferred income	8 537	(128)
Net cash flows from operating activities	**14 161**	**1 565**
B. Cash flows from investment activities		
Proceeds from disposal of tangible fixed assets	44	3
Interest received	129	368
Dividends from subsidiaries and related parties	203	986
Repayments/ payments of loans by related parties	(438)	(135)
Payments for tangible fixed assets	(12 878)	(2 033)
Payments for intangible assets		(139)
Development expenses paid	(1 772)	
Costs attributable to the acquisition of financial assets		(1 350)
Net cash flows from investment activities	**(14 712)**	**(2 300)**
C. Cash flows from financial activities		
- Long-term loans and credits	5 053	
- Dividends paid to:	(2 039)	(2 998)
- Parent entity's shareholders	(2 039)	(2 998)
Net cash flows from financial activities	**3 014**	**(2 998)**
D. Total net cash flows (A.+/-B.+/-C.)	**2 463**	**(3 733)**
Cash and cash equivalents at the beginning of the period	7 412	11 176
Change in cash and cash equivalents due to foreign currency translation differences	38	(31)
E. Cash and cash equivalents at the end of the period	**9 913**	**7 412**

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

Statement of Changes in Equity

For the period from January 01, 2011 to December 31, 2011

	For the year 2011 from 2011-01-01 to 2011-12-31	For the year 2010 from 2010-01-01 to 2010-12-31
Equity at the beginning of the period (BO)	**62 693**	**60 517**
Changes in accounting policies and the correction of fundamental errors		
Equity at the beginning of the period (BO), after reconciliation with comparable data	**62 693**	**60 517**
A. Share capital at the beginning of the period	4 797	4 797
1. Changes in share capital		
2. Share capital at the end of the period	**4 797**	**4 797**
B. Supplementary capital at the beginning of the period	**43 707**	**40 946**
1. Changes in supplementary capital due to:	2 256	2 761
- distribution of profits (more than statutory minimum)	2 256	2 755
- capital revaluation		6
2. Supplementary capital at the end of the period	**45 963**	**43 707**
C. Revaluation reserve at the beginning of the period (BO)	6 388	5 998
1. Changes in revaluation reserve	(334)	390
- release of provisions for deferred income tax on revaluation of fixed assets	21	65
- revaluation of fixed assets		443
- disposal of fixed assets	(355)	(118)
2. Revaluation reserve at the end of the period	**6 054**	**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)	**4 362**	**5 736**
Changes in accounting policies and the correction of fundamental errors		
1. Profit from previous years at the beginning of the period, after reconciliation with comparable data	4 362	5 736
2. Changes in earnings from previous periods	(4 189)	(5 669)
- write-off to supplementary capital	(2 256)	(2 755)
- changes in accounting policies		
- payment of dividends to shareholders	(2 039)	(2 998)
- acquisition of shares of subsidiary		
- valuation/ liquidation of fixed assets	106	84
3. Profit (loss) from previous years at the end of the period (BZ)	**173**	**67**
F. Net result for the current period	**4 193**	**4 295**
- net profit (loss)	4 193	4 295
Equity at the end of the period (BZ)	**64 219**	**62 293**
Equity after proposed distribution of earnings (covering the loss)		61 094

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 01.01.2011 to 31.12.2011 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

Until 18.06.2011the Supervisory Board was composed of five persons.
Within the period from 01.01.2011 to 18.06.2011 the Supervisory Board was composed of the following members:

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

On 18.06.2011 the General Meeting of Shareholders established 6-person composition of the Supervisory Board. Until the end of 2011 the composition of the Supervisory Board was as follows:

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

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	Number of votes	% of the share capital	% of voting rights
PKO FIO	Warszawa	356 051	356 051	14,85	9,17
Ryszard Bodziachowski with a closely related person	Warszawa	329 980	331 800	13,86	8,55
Wacław Kropiński	Tuchola	88 405	422 025	3,69	10,87
Other shareholders		1 623 864	2 772 544	67,6	71,41
TOTAL		**2 398 300**	**3 882 420**	**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 01.01.2011 to 31.12.2011 and comparable financial data of the period from 01.01.2010 to 31.12.2010.

1.6. Participation in the share capital of subsidiaries

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

HYDROTOR S.A.
Tuchola

↓

← **Subsidiaries** →

Agromet ZEHS Lubań S.A. Lubań	WPH Sp. Z o.o. Wrocław	Hydrotorbis Sp. Z o.o. Tuchola	Defka Sp. Z o.o. Dzierżoniów	WZM Wizamor Sp. Z o.o. Więcbork
99,99 % of shares	**100 % of shares**	**100 % of shares**	**57,05% of shares**	**94,73% of shares**

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 31.12.2011and 31.12.2010.

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 2011 and 2010

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 31.12.2011 and 31.12.2010.

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 31.12.2010, and at the beginning of comparable period – the average Euro exchange rate as at 31.12.2009.

The exchange rates used (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
31.12.2011	4,1401	3,8403	4,5642	4,4168
31.12.2010	4,0044	3,8356	4,1770	3,9603
31.12.2009	4,3406	3,9170	4,8999	4,1082

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	2011		2010	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
BALANCE SHEET ASSETS				
Fixed assets	40 898	9 260	39 070	9 865
Current assets	43 539	9 858	27 908	7 047
Total assets	84 437	19 117	66 978	16 912
BALANCE SHEET LIABILITIES				
Equity	64 219	14 540	62 293	15 729
Share capital	4 797	1 086	4 797	1 211
Liabilities and provisions for liabilities	20 218	4 578	4 685	1 183
Long-term liabilities	15 087	3 416	1 613	407
Short-term liabilities	5 131	1 162	3 072	776
Total liabilities	84 437	19 117	66 978	16 912
PROFIT AND LOSS ACCOUNT				
Net revenues from sales of products, goods and materials	57 721	13 942	49 512	12 364
Gross profit on sales	9 282	2 242	7 701	1 923
Profit on sales	4 234	1 023	3 309	826
Profit on operating activities	4 736	1 144	3 723	930
Gross profit	5 021	1 213	5 038	1 258
Net profit	4 193	1 013	4 295	1 073
CASH FLOWS				
Net cash flows from operating activities	14 161	3 206	1 565	395
Cash flows from investment activities	(14 712)	(3 331)	(2 300)	(581)
Cash flows from financial activities	3 014	682	(2 998)	(757)
Total net cash flows	2 463	558	(3 733)	(943)
Opening cash balance	7 412	1 872	11 176	2 720
Closing cash balance	9 913	2 244	7 412	1 872

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

The International Financial Reporting Standards (IFRS) in the form adopted in the European Union do not differ significantly from the standards issued by the International Accounting Standards Board (IASB), with the exception of the interpretations which as at December 31, 2011 have not yet been approved.

(i) IFRS 9 "Financial instruments" (the effective date of IFRS 9 to annual periods beginning on or after January 1, 2013) was issued by the International Accounting Standards Board (IASB) on November 12, 2009. On September 28, 2010 the IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities, and carrying over from IAS 39 the requirements for de-recognition of financial assets and financial liabilities. The standard divides all financial assets that are currently in the scope of IAS 39 into two classifications - those measured at amortized cost and those measured at fair value. The IFRS 9 approach is based on the assessment how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The revised standard requires the application of a single method for recognizing impairment losses, replacing the IAS 39 rules. The new requirements on the accounting for financial liabilities address the problem of financial instability arising from the issuer's management strategies regarding measurement of its own liabilities at fair value. For most liabilities, the IASB decided to retain the measurement at amortized cost, amending only the provisions that address the issue of own credit risk. In the scope of the new requirements the entity who chooses to measure its liabilities at fair value recognizes the change in the fair value that is attributable to changes in the credit risk of the liability in other comprehensive income, and not in the result.

The Management Board expects that the IFRS 9 will be applicable to financial statements for the annual reporting period beginning on January 1, 2013, and that the IFRS 9 will have an impact on the assets and financial statements. A detailed analysis of the impact of the new standard on the Company's financial statements has not been completed yet and it is impossible at present to make a reliable estimate of the impact of this standard on the amounts reported in the financial statements.

(ii) IFRS 13 "Fair value measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. However, the IFRS 13 does not establish requirements for the issue which items should be measured or disclosed at fair value.

The Management Board expects that the IFRS 13 will be applicable to financial statements for the annual reporting period beginning on January 1, 2013, and that the IFRS 13 will have an impact on the amounts reported in the Company's financial statements and on increased disclosure.

(iii) Amendments to IAS 1 "Presentation of financial statements" require companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

The amendments to IAS 1 will be applicable for annual reporting periods beginning on July 1, 2012. Presentation of items of other comprehensive income will be appropriately converted in future reporting periods.

(IV) Amendments to IAS 12 "Income taxes" – deferred tax: requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale.

The amendments to IAS 12 are applicable for annual reporting periods beginning on January 1, 2012. The Management Board of the Group expects that application of these standards will have an impact on calculation of deferred tax in future reporting periods in relation to investment property, in which the carrying amount will be recovered through sale. A detailed analysis of the impact of the new and modified standards on the Company's financial statements has not been completed yet and it is impossible at present to make a reliable estimate of the impact of this standard on the amounts reported in the financial statements.

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

(V) Amendments to IAS 19 "Employee benefits" improve the accounting for post-employment employee benefits by:

1/ Elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (the corridor approach) thus helping to improve the comparability and transparency of the reported data.

2/ Improved presentation of changes in assets and liabilities of the balance sheet that are the effect of defined employee benefits, including the required presentation of changes resulting from revaluation in other comprehensive income, thus distinguishing these changes from the changes resulting from regular business operations of an entity.

3/Improvement of disclosure requirements that will better show the characteristics of defined benefit plans and the risks arising from those plans.

The amendments to IAS 19 will be applicable for annual reporting periods beginning on January 1, 2013, retrospective application, with very few exceptions, is required. The Management Board expects that the amendments to IAS 19 will be applicable in the financial statements for the annual period beginning on January 1, 2013 and that the adoption of the amendments may affect the reported value of the defined employee benefit obligation. A detailed analysis of the impact of the new and modified standards on the Company's financial statements has not been completed yet and it is impossible at present to make a reliable estimate of the impact of this standard on the amounts reported in the financial statements.

Still, apart from the regulations adopted by the European Union, some rules of hedge accounting for a portfolio of assets and financial liabilities have not been approved for use in the European Union.

It is estimated that application of hedge accounting for a portfolio of assets or financial liabilities in accordance with the guidance in IAS 39 "Financial instruments: recognition and measurement" would not have a significant impact on the financial statements if the European Union approved it for use on the balance sheet date.

2.3. First-time Adoption of International Financial Reporting Standards

The newly issued or revised IFRSs that have an impact on the amounts reported in the current year (and/or previous years)

The newly issued and revised IFRSs which only impact presentation and disclosures in the financial statements:

Amendments to IAS 1 "Presentation of Financial Statements" (as amendments do IFRS2010)	The amendments to IAS 1 Presentation of Financial Statements require companies preparing financial statements in accordance with IFRSs to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. These amendments have been applied retrospectively. The information contained in the financial statements has been modified in order to reflect the above amendments.
Amendments to IAS 24 (2009) " Related Party Disclosures"	In a significant change from the existing IAS 24, the revised standard provides a partial exemption from related party disclosures by 'state-controlled' entities. Previously, such an entity that is controlled, jointly controlled or significantly influenced by state was required to disclose any transactions with other entities controlled or significantly influenced by the same state. The modified standard still requires disclosure of information that is important for financial statement users, but it eliminates the requirement to disclose such information if the costs of obtaining it outweighs the expected benefits. The IASB amended the definitions of a related party and of a related party transactions to clarify the intended meaning and remove some inconsistencies. The Company and its subsidiaries are not state-controlled entities. The application of the revised definition of a related party set out in IAS 24 (as revised in 2009) in the current year has resulted in the

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

identification of related parties that were not identified as related parties under the previous standard. Specifically, associates of the ultimate holding company are treated as related parties of the company under the revised standard, whilst such entities were not treated as its related parties under the previous standard.

The newly issued and revised IFRSs which have an impact on the financial position and performance

The amendments to IFRS 3 "Business combinations"

The following amendments to IFRS 3, incorporated as part of the annual improvements to IFRS 2010 specify that the option to measure non-controlling interests either at fair value or at the proportionate share of the acquiree's net identifiable assets at the acquisition date under the IFRS 3 (2008) applies only to non-controlling interests that are present ownership interests end entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other non-controlling interests are measured at the acquisition date fair value unless another measurement basis is required by IFRSs. The amendments also specify that the current requirement to measure awards of the acquirer that replace acquire share-based payment transactions in accordance with IFRS 2 at the acquisition date ("market-based measure") applies also share-based payment transactions of the acquiree that are not replaced.

2.3.1 The newly issued and revised IFRS' which do not have a significant impact on financial statements

The following new and revised IFRS' have been adopted in these financial statements. Adoption of the new and revised IFRS's has no significant impact on the amounts reported in the current and previous years, but may have an impact on accounting of future transactions or arrangements.

The amendments to IAS 32 "Financial instruments- presentation" – Classification of rights issues	The amendment to IAS 32 addresses to accounting for rights issues (rights, options and warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, the standard required recognition of preemptive rights as derivative liabilities. Such preemptive rights, subject to certain conditions, must be classified as equity. The currency that the exercise price is stated irrelevant. Application of the changes under the revised standard has no impact on the amounts reported in the current and previous year, as the Group as the Group has not issued such equity instruments.
The amendments to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".	Previously, the interpretation 14, in certain circumstances, did not allow entities to recognize an asset for any surplus arising from the voluntary prepayment of a minimum funding contribution that relates to future service. This restriction has now been removed. Application of the revised standard has no significant impact on the consolidated financial statement of the Group.
IFRIC Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments"	The interpretation clarifies the requirements set out by IFRS in situations when some entities are renegotiating the terms of financial liabilities with their creditors. In some circumstances, the creditor agrees to accept an entity's shares or other equity instruments to settle the financial liability fully or partially. Application of this interpretation has no impact on the amounts reported in the current and previous year, as the Group has not carried out such transactions.
Amended standards and interpretations" Amendments to IFRS (2010)	Apart from the previously mentioned amendments to IAS 1 and IFRS 3, application of the amendments to the IFRS 10 has no significant impact on the amounts reported in the financial statements.

2.4. Early application of standards and interpretations

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

2.5. Standards published but not yet effective

The below described standards, interpretations or their amendments have been published but are not yet effective and the Company has not adopted them prior to the mandatory application date:
Amendments to ISFR 7 "Financial instruments - Financial Disclosures" - transfers of financial assets, approved by the European Union on November 22, 2011 (effective for annual periods beginning on or after July 1, 2011). The objective of the amendments is to improve the quality of the information reported about financial assets that have been transferred but are still, at least partially, recognized by the entity because they do not qualify for de-recognition; and financial assets that are no longer recognized by an entity, because they qualify for de-recognition, but with which the entity continues to have some involvement.
In the opinion of management, the amendments to MSSF 7 will not have a significant impact on disclosures for transfers of receivables. However, if in the future the company chooses a different accounting for transfers of financial assets, the amendment to the standard may impact the extend of disclosures. The Company decided not to adopt the above described standards, interpretations or the amendments prior to the mandatory application date. In the opinion of the Company, the standards, interpretations and their amendments are not expected to have a material impact on the financial statements if applied at the balance sheet date.

2.6. Voluntary changes in accounting principles

While preparing 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

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. 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.

3.4. 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.

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.

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

4. Sales revenue

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

Sales revenue from continuing operations	For the year ended 31/12/2011	For the year ended 31/12/2010
Sales of products	25 884	24 181
Services	4 996	4 699
Sales of goods	13 442	10 938
Sales of materials	13 399	9 694
Total	**57 721**	**49 512**
Other operating revenues	1 188	990
Financial revenues	402	1 358
(The total amount includes all the revenues defined by IAS 18)	**59 311**	**51 860**

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 2011	Cooperation	Repair	Spare parts	Production services	Goods and materials	Total amount
Revenues from sale of products, goods and materials	10 893	4 392	10 599	4 996	26 841	**57 721**
Costs of sales of products, goods and materials and	(7 883)	(3 220)	(7 440)	(4 350)	(25 546)	**(48 439)**
Gross profit (loss) on sales	**3 1010**	**1 172**	**3 159**	**646**	**1 295**	**9 282**
Selling costs	(329)	(84)	(277)	(59)	(61)	**(810)**
Administrative expenses	(1 764)	(364)	(1 490)	(314)	(306)	**(4 238)**
Profit (loss) on sales	**917**	**724**	**1 392**	**273**	**928**	**4 234**
The result on other operating activity						502
The result on financial activity						285
Gross profit (loss) on economic activity						**5 021**
Income tax						(828)
Net profit (loss)						**4 193**

Information for the year ended December 31, 2010 is presented on the next page (21)

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

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 bisiness 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 31/12/2011			For the period ended 31/12/2010		
	Poland	WDT	Export	Poland	WDT	Export
Revenues from sale of products, goods and materials	43 174	13 554	993	38 662	10 452	398
Costs of sales of products, goods and materials	(36 216)	(11 407)	(816)	(32 406)	(9 072)	(333)
Gross profit (loss) on sales	**6 958**	**2 147**	**177**	**6 256**	**1 380**	**65**
Selling costs	(471)	(329)	(10)	(556)	(156)	(6)
Administrative expenses	(3 178)	(988)	(72)	(2 848)	(797)	(29)
Profit (loss) on sales	**3 309**	**830**	**95**	**2 852**	**427**	**30**

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

6. Profit on operating activities

Profit on operating activities	For the period ended 31/12/2011	For the period ended 31/12/2010
Revenue from principal operations	57 721	49 512
Gain on disposal of non-financial fixed assets	44	3
Subsidies, co-financing	415	332
Reversed provision	1	4
Other operating revenues	728	651
Manufacturing cost of products for internal purposes	464	510
Change in the balance of products	(1 139)	(2 732)
Depreciation of fixed assets	(1 410)	(1 146)
Consumption of materials and energy	(10 355)	(8 838)
External services	(5 599)	(5 460)
Taxes and charges	(345)	(336)
Employment costs	(9 603)	(8 737)
Other costs by type	(380)	(345)
Value of goods and materials sold	(25 806)	(19 695)
Profit on operating activities	**4 736**	**3 723**

Since October, 2010 the PHS HYDROTOR S.A. Company has been realizing the investment program “Elaboration and implementation of innovative technologies in highly effective precision machining processes and measurement technologies for measuring overall dimensions of large machine parts” Total expenditure is expected to reach PLN 27 121 thousand.

The costs associated with realization of the investment - depreciation, salaries, contracted services and all the other costs have been excluded from current operations.

7. Employment costs

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

Employment	**Number of employees in 2011**	**Number of employees in 2010**
Production employees	169	146
Office employees	79	62
Employees on parental leave		
	248	**208**

Employment costs	**For the period ended 31/12/2011**	**For the period ended 31/12/2010**
Salaries	(8 088)	(7 190)
Post-employment benefits	(19)	(30)
Employment termination payments		(6)
Social security contributions	(1 353)	(1 231)
Other employee benefits	(143)	(280)
	(9 603)	**(8 737)**

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

8. Financial income and expenses

Financial income	For the period ended 31/12/2011	For the period ended 31/12/2010
Interest earned	409	370
Interest earned on loans	21	2
Dividend income	203	986
Gain on a sale of shares		1
Gain on currency exchange rates	163	74
Other revenues		
	796	**1 433**

Financial expenses		
Interest paid on loans and credits	(6)	-
Expenses related to the sale of shares	-	(1)
Revaluation of receivables	(232)	-
Loss on currency exchange rates	(65)	(96)
Total borrowing costs	**(303)**	**(97)**
Loss from derivatives trading	(208)	(21)
	(511)	**(118)**

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 2011 the Company concluded 17 forward contracts valued at EUR 1,250 thousand, from which the amount of EUR 1,050 thousand was settled in the year 2011(and the amount of EUR 200 thousand to be settled within the period from January 20 to February 20, 2012).

9. Income tax

Income tax	For the period ended 31/12/2011	For the period ended 31/12/2010
Corporate income tax- current charge	835	747
Deferred income tax (note no. 19) associated with the reversal of temporary differences	(7)	(4)
Income tax expense recognized in the profit and loss statement	828	743
Income tax paid	997	801
Current income tax assets	161	54
Current income tax liabilities	-	-

The current portion of the income tax was calculated at the rate of 19% (2010: 19%) of the tax base.

	For the period ended 31/12/2011	For the period ended 31/12/2010
Total income	60 968	51 964
Total expense	(55 947)	(46 926)
Pre-tax profit	5 021	5 038
Non-taxable income	(1 794)	(1 007)
Non-deductible expenses	1 696	(100)
Taxable income		
deductions from income	(525)	-
Income tax	4 398	3 931
Income tax rate of 19%	836	747
Income tax for previous periods	-	-
Total income tax	836	747
Effective tax rate %	17	19

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

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 85 thousand (2010: PLN 65 thousand) (see the note no. 23), is directly recognized in the entity's equity.

10. Dividends

Dividends	For the period ended 31/12/2011	For the period ended 31/12/2011	For the period ended 31/12/2011
The amounts paid to the entity's stockholders during the year:	2 039	2 998	4 317
Dividends for the previous fiscal year	2 039	2 998	4 317
in PLN and gross per share (0,00)	0,85	1,25	1,80
	2 039	2 998	4 317
proposed / final dividend for the year in	2 039	2 039	2 998
PLN and gross per share (0,00)		0,85	1,25

In 2011 the company received dividend of PLN 203 thousand from its subsidiary the Agromet ZEHS S.A., Lubań, the dividend was associated with a distribution of the subsidiary's profit for the year 2010.

In 2011 all the other subsidiaries did not pay dividends (in 20 10 the Hydrotorbis company paid the dividend in the amount of PLN 236 thousand).

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 31/12/2011	For the period ended 31/12/2011	For the period ended 31/12/2011
The net income for the given accounting period used to calculate earnings per share to be distributed among shareholders	4 193	4 295	5 753
The effects of dilutive ordinary shares	-	-	-
Interest on convertible bonds (after tax)	-	-	-
Profit shown for the purpose of calculating diluted earnings per share	**4 193**	**4 295**	**5 753**

Number of shares issued	For the period ended 31/12/2011	For the period ended 31/12/2011	For the period ended 31/12/2011
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**

Continuing operations	For the period ended 31/12/2011	For the period ended 31/12/2011	For the period ended 31/12/2011
Net profit for the accounting period attributable to shareholders	4 193	4 295	5 753
Excluded loss from discontinued operations	-	-	-

Net profit from continuing operations used to calculate earnings per share, excluding the result from discontinued operations	4 193	4 295	5 753
The effects of dilutive ordinary shares:	-	-	-
Net profit from continuing operations used to calculate diluted earnings per share, excluding the result from discontinued operations	4 193	4 295	5 753
Profit from continuing operations per ordinary share (PLN, 0,00)	**1,75**	**1,79**	**2,40**

12. Other intangible assets

	Development expenses	Patents and trademarks	Total
Gross value as of January 01, 2010		103	**103**
Increases		139	**139**
Decreases			
As of December 31, 2010		242	**242**
Increases due to acquisition of related entities	1 933		**1 933**
As at December 31, 2011	1 933	242	**2 175**
Amortization as of January 01, 2011		73	**73**
Amortization for the year 2010		10	**10**
As of December 31, 2010		83	**83**
Amortization for the year 2011		143	**143**
As of December 31, 2011		226	**226**
Net book value as of December 31, 2010		159	**159**
Net book value as of December 31, 2011	1 933	16	**1949**

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.

In 2011 amortization of intangible assets related to computer software (valued at PLN 139 thousand) was due to realization of investment projects.

These expenses were excluded from the current operating activities – they were included in the investment costs.

13. Tangible fixed assets

Fixed assets (PLN thousand) Gross value	land (including the right of perpetual usufruct)	buildings, premises, structures	Machinery and equipment	Vehicles
Opening balance or valuation				
As of January 01, 2010	**891**	**4 296**	**14 224**	**631**
Increase due to acquisition, modernization	116	216	1 296	
	400	83	62	2
Decrease due to liquidation or sale			(104)	
As of December 31, 2010	**1 407**	**4 595**	**15 478**	**633**
Increase due to acquisition, modernization			1 834	14
Decrease due to liquidation or sale	(120)	(337)	(92)	(36)
As of December 31, 2011	**1 287**	**4 258**	**17 220**	**611**

Fixed assets (PLN thousand) Depreciation, net value	land (including the right of perpetual usufruct)	buildings, premises, structures	Machinery and equipment	Vehicles
Accumulated depreciation and impairment As of January 01, 2010		**866**	**7 952**	**380**
Amortization for the year 2010		138	913	37
Decrease due to liquidation or sale			(63)	
As of December 31, 2010		**1 004**	**8 802**	**417**
Amortization for the year 2011		140	1 025	35
Decrease due to liquidation or sale		(143)	(70)	(30)
As of December 31, 2011		**1 001**	**9 757**	**422**
Net value				
As of January 01, 2010	**891**	**3 430**	**6 272**	**251**
As of December 31, 2010	**1 407**	**3 591**	**6 676**	**216**
As of December 31, 2011	**1 287**	**3 257**	**7 463**	**189**

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

Tangible fixed assets	As of 31/12/2011	As of 31/12/2010	As of01/01/2010
Own land (including the right of perpetual usufruct)	1 287	1 407	891
Buildings, premises and structures	3 257	3 591	3 430
Machinery and equipment	7 463	6 676	6 272
Vehicles	189	216	251
Other fixed assets	445	511	313
Fixed assets under construction	-	202	1
Tangible fixed assets	**12 641**	**12 603**	**11 158**

Fixed assets - balance sheet structure	As of 31/12/2011	As of 31/12/2010	As of 01/01/2010
Own fixed assets	12 641	12 603	11 158
Total balance sheet assets	**12 641**	**12 603**	**11 158**

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 31/12/2011	As of 31/12/2010	As of 01/01/2010
a/ **At the beginning 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	-
b/ increases (due to)	-	1 350	-
- shares in limited liability companies	-	1 350	-
- shares in joint stock companies	-		-
c/ **conversion**	-	-	-
- shares in limited liability companies	-	-	(1 741)
- shares in joint stock companies	-	-	17 741
d/ decreases (due to)		(1)	-
- shares in limited liability companies	-	-	-
- shares in joint stock companies	-	(1)	-
e/ **At the end of the period**	**26 309**	**26 309**	**24 960**
- shares in limited liability companies	8 569	8 569	7 219
- shares in joint stock companies	17 740	17 740	17 741

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 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

Due to difficult economic situation of the Defka Company, on September 25, 2011 the General Assembly of Shareholders adopted resolution to liquidate the company.

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 %	20 763	5 085	11 417	1 739	2 522
Hydraulika Siłowa HYDROTORBIS Ltd	100,00%	100,00%	2 557	1 000	603	88	867
WPH Ltd.,	100,00%	100,00%	7 350	9 455	3	1 741	(3 849)
WZM WIZAMOR Ltd.	94,73%	94,73%	3 948	230	1 409	2 300	9
DEFKA Ltd.	57,05%	67,21%	2 479	2 530			(51)

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.,	7 806	912	8 320		28 569	35 900	203
Hydraulika Siłowa HYDROTORBIS Ltd	1 424	109	416		3 981	16 410	
WPH Ltd.,	2 416	285	1 487		9 766	7 148	
WZM WIZAMOR Ltd.	1 805	450	1 085		5 753	6 308	
DEFKA Ltd.	2 836		193		5 315	2 479	

15. Available-for-sale Financial Assets

In the Company there are no available–for-sale financial assets.

16. Inventory

	As of 31/12/2011	As of 31/12/2010	As of 01/01/2010
Materials	3 678	3 683	3 203
Production in progress	4 362	3 991	4 179
Finished products	3 840	3 901	4 842
Goods	414	1 227	228
	12 294	**12 802**	**12 452**

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

As at the balance sheet date inventories of the PHS HYDROTOR S.A. were pledged as collateral on a commercial loan taken by the Company from the BPH Bank – the repayment of the loan is secured by the registered pledge on the inventory whose book value is not less than PLN 4,000 thousand.
In 2011 the Company made inventory write downs reducing the book value by PLN 55 thousand. As at the balance sheet date the residual book value of inventories that were written down amounts PLN 107 thousand.

17. Fixed assets held for sale

At the end of the 2011 the value of fixed assets classified in the previous periods as held for sale was PLN 15 thousand (in 2010: PLN39 thousand).

18. Other financial assets

18.1. Trade and other receivables

Trade and other receivables	As at 31/12/2011	As at 31/12/2010	As at 01/01/2010
Receivables from related parties	4 821	4 754	3 180
Receivables from other than related parties	3 702	2 039	1 846
Receivables on account of taxes, subsidies, customs, social insurances and other benefits	719	349	134
Advances for deliveries	1		
Advances for fixed assets	9 295		
Other receivables	4	2	2
Total receivables	**18 542**	**7 144**	**5 162**

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.

Significant increase in receivables was principally due to advances paid for the assets related to realization of the investment projects – advance payment for the purchase of some portal machines (a measurement machine and a travelling crane) from the Mikromat Company.

18.2. Gross trade receivables

Gross trade receivables	As at 31/12/2011	As at 31/12/2010	As at 01/01/2010
Due receivables (unexpired)	**6 419**	**4 143**	**940**
- Up to 3 months	6 419	4 143	940
Past due receivables	2 619	2 847	4 287
Write-offs to receivables	(515)	(197)	(201)
Net trade receivables	**8 523**	**6 793**	**5 026**

Gross trade receivables	As at 31/12/2011	As at 31/12/2010	As at 01/01/2010
Past due receivables	**2 619**	**2 847**	**4 287**
- Up to 1 month	867	962	1 339
- Above 1- 3 months	426	680	1 150
- Above 3- 6 months	294	261	549
- Above 6 months – 1 year	267	120	496
- Above 1 year	765	824	753

18.3. Receivables – currency structure

Receivables- currency structure	As at 31/12/2011	As at 31/12/2010	As at 01/01/2010
Total receivables in:	**9 247**	**7 144**	**5 162**
a/ Polish currency	8 017	6 455	4 498
b/ in foreign currency (converted into PLN)	1 230	689	664
- Euro (converted into PLN)	973	689	662
- USD (converted into PLN)	257		2

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.

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

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 515 thousand, from which the amount of PLN 231 thousand is related to the accrued interest (2010: PLN 197 thousand).

In 2011 the Company released provision for bad debts in the amount of PLN 38 thousand.

Simultaneously, the company wrote down the amount of 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 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
Short-term investments	10 486	7 550	11 175
Loans provided	573	135	
Valuation of forward contracts		3	
Cash	9 913	7 412	11 175

In June, 2011 the Company provided a loan to its subsidiary – the Defka Ltd., Dzierżoniów, in the amount of PLN 438 thousand. The loan repayment is expected in 2012. The total amount of debt of the Defka Company in liquidation due to loans taken out amounts to PLN 573thousand.

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 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
Total, including:	9 913	7 412	11 175
a/ cash in Polish currency	8 952	6 158	10 289
b/ cash in foreign currency(converted into PLN)	961	1 254	886
- in EUR (converted into PLN)	960	1 243	886
- in USD (converted into PLN)	1	11	-

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.

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

19. Prepayments and accruals

Prepayments and accruals- assets	For the period ended 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
Short-term investments	2 041	319	102
Interest on loans, bank deposits	11	16	65
VAT accounting in relation to future accounting periods		44	10
Insurance costs	32	27	21
Magazine subscriptions	1	5	1
Advertising costs	6	5	5
costs of the investment project OPIE – I phase		222	
costs of the investment project OPIE – II phase	1 991		

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 1.4-4.1) 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.

Accruals- liabilities	For the period ended 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
Long-term investments- grants	8 712	222	141
Grants – advanced grants to fund the project OPIE	8 490		
Grants linked to purchase of fixed assets,	222	222	141
including short-term assets	60	63	37

The funds granted from the Polish Agency for Enterprise Development to fund the investment project are the principal item. They refund the costs incurred during the I phase of the project realization (the amount of PLN 412 thousand) , and constitute advanced grant of PLN 8078 thousand for purchase of machines – II phase of the project realization.

20. Loans and credits

In the previous accounting periods the Company did not take out any loans and credits.

As of December 31, 2011 the Company signed two credit agreements.

In connection with the investment project, due to the increased amount of cash needed to hedge cash flows, the Company took out a working capital loan to fund its day-to day operating activities and an investment credit (in EUR) to finance investment expenditures.

1/ The working capital loan in the current account – the amount of the loan is PLN 4.000 thousand. The loan has been taken out for one year period - by November 02, 2012. The market interest rate on the loan is based on WIBOR 1M + the lending bank's margin of 0,8 percent). The loan is secured by a registered pledge on the Company's current assets – inventory up to the amount not lower than PLN 4.000 thousand.

2/ Investment credit in EUR – the amount of credit is EUR 3000 thousand, it is intended to cover investment expenditures. The credit repayment will occur by November 02, 2018. The market interest rate on the loan is based on EURIBOR 1M + the lending bank's margin of 0,9 percent). After completion of the investment project the pledge will be extended on the purchased portal machines, including a measuring machine with assignment of the insurance policy

Financial liabilities	For the period ended 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
Total liabilities, including:	**5 094**	-	-
Loans in the current account	-	-	-
Long-term credits	5 053	-	-
Valuation of contracts	41	-	-

21. Convertible bonds

The Company has not issued convertible bonds.

22. Financial derivatives

22.1. Currency derivatives

In the year 2011the Company entered into 17 foreign currency forward contracts valued at EUR 1.250 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 207 thousand.

As at the balance sheet date the Company had two contracts valued at EUR 200 thousand, which were not exercised. 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 31.12.2011	Profit/ loss
Millenium Bank	19.08.2011	EUR	100	4,2100	421,00	20.01.2012	442,6	(21,6)
Millenium Bank	07.09.2011	EUR	100	4,2400	424,00	20.02.2012	443,8	(19,8)
			200,00		845,00		886,4	(41,4)

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.

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:

23.1. Deferred income tax assets

Deferred income tax assets.	Reflected on the balance sheet	Reflected in the equity	Total
As of January 01, 2010	**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**
Increases	22		22
Employee benefit obligations, Social Security	22		22
Decreases	(17)		(17)
Provisions for employee benefits	(2)		(2)
Employee benefit obligations, Social Security	(15)		(15)
As of December 31, 2011	**158**		**158**
Provisions for employee benefits	**127**		**127**
Employee benefit obligations, Social Security	**31**		**31**

23.2. Deferred income tax provision

Deferred income tax provision	Recognized in the financial result	Recognized in equity	Total
As of January 01, 2010	**15**	**950**	**965**
- revaluation of assets		**950**	**950**
- investment allowances	**3**		**3**
- bank interest rate	**12**		**12**
Increases	3	105	108
- tax depreciation		105	105
- interest on bank deposits	3		3
Decreases	(12)	(65)	(77)
- investment allowances		(65)	(65)
- interest on bank deposits, loans	(12)		(12)
As of December 31, 2010	6	990	996
- revaluation of assets		990	990
- investment allowances	3		3
- bank interest	3		3
Increases	2		2
- interest on bank deposits, loans	2		2
Decreases	(4)	(85)	(89)
- investment allowances	(1)		(1)
- tax depreciation		(85)	(85)
- interest on bank deposits, loans	(3)		(3)
As of December 31, 2011	4	905	909
- revaluation of assets		905	905
- investment allowances	2		2
- interest on bank loans	2		2

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 31.12/2011	For the period ended 31.12.2010	For the period ended 31.12.2009
trade payables	2 054	1 254	1 349
advance payments for deliveries			
VAT and social insurance liabilities	532	413	391
Other liabilities	1 198	170	112
Total	3 784	1 837	1 852

Payables denominated in foreign currency	For the period ended 31.12/2011	For the period ended 31.12.2010	For the period ended 31.12.2009
Trade payables in:			
EUR (thousands)	12	24	3
USD (thousands)	10	4	
Total amount of trade payables translated into PLN (thousand)	**89**	**105**	**12**

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, 2010	480	-	**480**
Change in provisions – increase (+), used (-)	(460)	-	**(460)**
As of December 31, 2010	20	-	**20**
Change in provisions – increase (+), used (-)	-	-	**-**
As of December 31, 2011	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, 2010	- 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
Changes in 2010 – conversion of shares		(40 600)	40 600	-
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
Changes in 2011 – conversion of shares		-	-	-
As of December 31, 2011	- 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

	For the period ended 31/12/2011	Percentage participation	For the period ended 31/12/2010	Percentage participation
The number of preference registered shares	371 030	15,5%	371 030	15,5%
The number of ordinary shares	2 027 270	84,5%	2 027 270	84,5%
Total number of shares	2 398 300	100,0%	2 398 300	100,0%
The number of voting rights attached to preference registered shares	1 855 150	47,8%	1 855 150	47,8%
The number of voting rights attached to ordinary shares	2 027 270	52,2%	2 027 270	52,2%
The number of voting rights at the General Meeting	3 882 420	100,0%	3 882 420	100,0%

In 2011 the Company neither issued additional shares nor introduced changes to the stock structure.

On the basis of information available in the Company, as of the reporting date 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	356 051	356 051	14,85	9,17
Bodziachowski Ryszard with a closely related person	Warszawa	331 800	331 800	13,86	8,55
Kropiński Wacław	Tuchola	88 405	422 025	3,69	10,87

Within the period from the end of the year to the date of drawing up these statements Mr. Bodziachowski acquired 1.820 shares (increasing the number of corresponding voting rights), the information is presented in the table.

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

The number of PHS Hydrotor Company's shares held by members of the Management Board and the Supervisory Board.

The Management Board		Number of	As at 01.01.2011	Changes in the number of shares held		As at 31.12.2011	As at 30.04.2012
				purchase	sale		
Kropiński Wacław	President	shares	88 405	-	-	88 405	88 405
		votes	422 025	-	-	422025	422 025
Czapiewski Janusz	Vice-President	shares	3 190	-	-	3 190	3 190
		votes	3 190	-	-	3 190	3 190
The Supervisory Board		**Number of**	**As at 01.01.2011**	**Changes in the number of shares held**		**As at 31.12.2011**	**As at 30.04.2012**
				purchase	**sale**		
Główczewski Czesław	Chairman	shares	12 335	-	-	12 335	12 335
with the spouse		votes	49 412	-	-	49 412	49 412
Lewicki Mariusz	Vice-Chairman	shares	54 000	19 500	-	73 500	73 500
		votes	54 000	19 500	-	73 500	73 500
Deja Janusz	Secretary	shares	1 640	-	-	1 640	1 640
		votes	5 640	-	-	5 640	5 640
Bodziachowski	Member	shares	316 300	13 680	-	329 980	331 800
Ryszard with a closely related person	(since18.06.2011)	votes	316 300	13 680	-	329 980	331 800
Stachowiak Waldemar	Member	shares	-	-	-	-	-
		votes	-	-	-	-	-
Zwoliński Mieczysław	Member	shares	7 800	-	-	7 800	7 800
		votes	26 500	-	-	26 500	26 500

27. Supplementary capital

Supplementary capital	For the period ended 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
As of January 01	43 707	40 946	35 685
From the sale of shares at above their par value	13 350	13 350	13 350
Changes due to distribution of earnings	2 256	2 755	5 241
Changes arising from the redemption of shares			
Other changes		6	20
As of December 31	**45 963**	**43 707**	**40 946**

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 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
As of January 01	6 388	5 998	5 980
Increase in the fair market value of assets			
As of January 01	6 388	5 998	5 980
Recognition of deferred tax liability arising from revaluation of land and buildings	21	64	76
Restoration of fixed asset values		450	
Liquidation of fixed assets – transfer to the supplementary capital		(6)	
Decrease on disposal of available-for-sale financial assets	(355)	(118)	(58)
Reserve at the end of the period, arising from:	**6 054**	**6 388**	**5 998**
- revaluation of fixed assets in the year 1995	342	342	348
- revaluation of fixed assets at their fair value	5 712	6 046	5 650

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

29. Other reserve capitals

	For the period ended 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
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**

30. Retained earnings

Retained earnings	For the period ended 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
As of January 01	4 362	5 737	9 517
Dividend to shareholders	(2 039)	(2 998)	(4 317)
Deductions for capitals	(2 256)	(2 755)	(5 241)
Liquidation of fixed assets	106	83	25
Covering of losses resulting from adjustments			
Profit / loss of previous years	173	67	(16)
Net profit for the period	4 193	4 295	5 753
Profit/ loss from previous years	173	67	(16)
As at the end of the period	**4 366**	**4 362**	**5 737**

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 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
Equity capital	64 143	62 293	60 517
Number of shares	2 398 300	2 398 300	2 398 300
Book value per share	26,75	25,97	25,23

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 31/12/2011	For the period ended 31/12/2010	For the period ended 31/12/2009
Long-term provisions for retirement bonuses	610	590	605
Short-term provisions for retirement bonuses	59	88	101
Payroll obligations	286	184	183
	955	862	889

The last valuation of employee benefits and the present value of employee benefit obligations was determined on 31.12.2011. The present value of employee benefit obligations, the current and future employment costs have been determined by the use of Projected Unit Credit Method.

Annual Financial Report of the HYDROTOR S.A. Company for the year 2011 in PLN thousand

Provisions for future employee benefit obligations	Short-time provisions	Long-term provisions	Total
As of January 01, 2010	101	605	706
- increases	-	-	-
- decreases	(13)	(15)	(28)
As of 31.12.2010	88	590	678
- increases	-	-	
- decreases	(29)	20	(9)
As of 31.12.2011	59	610	669

The amount of provisions of PLN 9 thousand (2010: PLN28 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 AUXILIUM AUDYT Barbara Szmurło, Jadwiga Faron – Limited partnership, 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 11.000 + VAT,

* For auditing and reviewing consolidated financial statement the auditor will be paid remuneration in the amount of PLN 15.000 + VAT

34. 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 2011 the Hydrotor S.A. Company (to related entities):
1. sold products, services, goods and materials at the amount of PLN 20 332 thousand,
2. paid utility bills for the amount of PLN 446 thousand (other operating revenue),
3. provided a loan to Defka Company in the amount of PLN 438 thousand (total loan amount, including the loan of 2010, amounts to PLN 573 thousand),
4. revenue obtained from the interest charged for late payments - in the amount of PLN 203 thousand,
5. charged interest on late payments and the loans provided – in the amount of PLN 252 thousand (unpaid)

From the related entities, the Hydrotor Company:

1. purchased products, goods and materials at the purchase amount of PLN 14 636 thousand,
2. incurred operating costs in the amount of PLN 274 thousand,
3. purchased fixed assets at the purchase amount of PLN 259 thousand,
4. received dividend from the profit for the year 2010 in the amount of PLN 203 thousand.

The Hydrotor S.A. Company sells the products, goods, materials and services to related parties using standard prices.

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 2011, 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)
Members of the Management Board	
Wacław Kropiński	243
Janusz Czapiewski	173
Members of the Supervisory Board	
Waldemar Stachowiak	23
Ryszard Bodziachowski	11
Janusz Deja	78
Czesław Główczewski	55
Mariusz Lewicki	23
Mieczysław Zwoliński	64

According to the resolution No.17/VI/2011, since July of 2011 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 of 31.12.2011, the value of outstanding loans, provided to members of the Management Board and the Supervisory Board was PLN 7,4 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 16, 2012.

Signed by:

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

Tuchola, 16.04.2012