# SECO/WARWICK S.A.

SEPARATE FINANCIAL STATEMENTS

FOR THE PERIOD

JANUARY 1ST–DECEMBER 31ST 2011

## CONTENTS

# GENERAL INFORMATION

## I. Company details

| | |
|---|---|
| Name: | **SECO/WARWICK S.A.** |
| Legal form: | Joint-stock company (spółka akcyjna) |
| Registered address: | 66-200 Świebodzin, ul. Sobieskiego 8 |
| Core business according to the Polish Classification of Business Activities (PKD): | |
| 28,21,Z | Manufacture of ovens, furnaces and furnace burners, |
| 33,20,Z | Installation of industrial machinery and equipment, |
| 28,29,Z | Manufacture of other general-purpose machinery n.e.c., |
| 28,24,Z | Manufacture of power-driven hand tools, |
| 28,99,Z | Manufacture of other special-purpose machinery n.e.c., |
| 28,94,Z | Manufacture of machinery for textile, apparel and leather production, |
| 46,14,Z | Agents involved in the sale of machinery, industrial equipment, ships and aircraft, |
| 46,19,Z | Agents involved in the sale of a variety of goods, |
| 46,69,Z | Wholesale of other machinery and equipment, |
| 71,12,Z | Engineering activities and related technical consultancy, |
| 72,11,Z | Research and experimental development on biotechnology. |
| National Court Register (KRS) No.: | KRS 0000271014 |
| Industry Identification Number (REGON) | 970011679 |

The Company is the parent of the SECO/WARWICK Group.

## II. Duration

The Company has been established for an indefinite period.

## III. Presented periods

These separate financial statements contain data for the period January 1st–December 31st 2011. The comparative data is presented as at December 31st 2010 in the case of the statement of financial position, and for the period from January 1st 2010 to December 31st 2010 in the case of the statement of comprehensive income, statement of cash flows, and statement of changes in equity.

## IV. Management and Supervisory Boards of SECO/WARWICK S.A.

| MANAGEMENT BOARD | | |
|---|---|---|
| Composition of the Management Board as at December 31st 2011 | Leszek Przybysz<br>Andrzej Zawistowski<br>Wojciech Modrzyk<br>Witold Klinowski<br>Józef Olejnik | President of the Management Board<br>Vice-President of the Management Board<br>Vice-President of the Management Board<br>Member of the Management Board<br>Member of the Management Board |
| Composition of the Management Board as at February 1st 2012 | Paweł Wyrzykowski<br>Andrzej Zawistowski<br>Wojciech Modrzyk<br>Witold Klinowski<br>Józef Olejnik | President of the Management Board<br>Vice-President of the Management Board<br>Vice-President of the Management Board<br>Member of the Management Board<br>Member of the Management Board |
| SUPERVISORY BOARD | | |
| Composition of the Supervisory Board as at December 31st 2011 | Jeffrey Boswell<br>Henryk Pilarski<br>Piotr Kowalewski<br>Piotr Kula<br>Artur Rusiecki<br>Mariusz Czaplicki | Chairman of the Supervisory Board<br>Deputy Chairman of the Supervisory Board<br>Member of the Supervisory Board<br>Member of the Supervisory Board<br>Member of the Supervisory Board<br>Member of the Supervisory Board |

On December 21st 2011, the Management Board of SECO/WARWICK S.A. was notified that Mr Leszek Przybysz, President of the Company's Management Board, decided to step down, with effect as of December 31st 2011. The decision was due to personal reasons, as well as the termination of a three-year employment contract with SECO/WARWICK S.A. on February 28th 2012.

On January 12th 2012, Mr Paweł Wyrzykowski was appointed President of the Management Board of SECO/WARWICK S.A., with effect as of February 1st 2012.

The composition of the Supervisory Board did not change during the financial year.

## V. Auditors

PKF Audyt Sp. z o. o.
ul. Elbląska 15/17
01 -747 Warsaw, Poland

## VI. Major shareholders

The table below lists the shareholders holding over 5% of the total vote at the General Meeting as at December 31st 2011:

| Shareholder | Number of shares | % of share capital held | Number of votes at GM | % of total vote |
|---|---|---|---|---|
| SW Poland Holding B.V. (Netherlands) | 4,119,508 | 39.32% | 4,119,508 | 39.32% |
| Spruce Holding Limited Liability Company (USA) | 1,726,174 | 16.48%* | 1 726 174 | 16,48%* |
| James A. Goltz | 904,207 | 8.63% | 904,207 | 8.63% |
| ING NN OFE | 600,000 | 5.73%* | 600,000 | 5.73%* |
| OFE POLSAT S.A. | 485,974 | 4.64%* | 485,974 | 4.64%* |

* Percentages based on in-house calculations by SECO/WARWICK S.A. following a change in the amount and structure of the share capital effected on December 9th 2010.

On March 12th 2012, SECO/WARWICK S.A. received notifications from James A. Goltz and Bleauhard Holdings LLC ("BHLLC") regarding sale by James A. Goltz of 904,207 Company shares to BHLLC. BHLLC is James A. Goltz's subsidiary.

The table below presents the shareholders holding over 5% of the total vote at the General Meeting as at the date of release of this report:

| Shareholder | Number of shares | % of share capital held | Number of votes at GM | % of total vote |
|---|---|---|---|---|
| SW Poland Holding B.V. (Netherlands) | 4,119,508 | 39.32% | 4,119,508 | 39.32% |
| Spruce Holding Limited Liability Company (USA) | 1,726,174 | 16.48% | 1,726,174 | 16.48% |
| Bleauhard Holdings LLC | 904,207 | 8.63% | 904,207 | 8.63% |
| ING NN OFE | 600,000 | 5.73% | 600,000 | 5.73% |
| OFE POLSAT S.A. | 485,974 | 4.64% | 485,974 | 4.64% |

## VII. Subsidiaries

SECO/WARWICK S.A. is the parent of the following six subsidiaries:

- SECO/WARWICK ThermAL S.A. (formerly: Lubuskie Zakłady Termotechniczne Elterma S.A.),
- SECO/WARWICK Corporation,
- OOO SECO/WARWICK Group Moscow,
- Retech Systems LLC,
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.,
- SECO/WARWICK GmbH.

Other Group companies are:

- SECO/WARWICK of Delaware Inc.,
- Retech Tianjin Holdings LLC.

## VIII. Associates

- SECO/WARWICK Allied Pvt., Ltd., in which the Parent holds a 50% interest conferring the right to 50% of the total vote at the company's general meeting.

# FINANCIAL HIGHLIGHTS TRANSLATED INTO THE EURO

The table below presents average EUR/PLN exchange rates quoted by the National Bank of Poland for the periods covered by these financial statements and by the historical financial information:

| Financial year | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Average exchange rate for the period* | 4.1401 | 4.0044 |
| Exchange rate effective for the last day of the period | 4.4168 | 3.9603 |

**) Average of the exchange rates effective for the last day of each month in the period.*

Assets and equity and liabilities in the statement of financial position have been translated using the EUR/PLN exchange rates quoted by the National Bank of Poland for the last day of the period.

Items of the statement of comprehensive income and statement of cash flows have been translated using the exchange rates calculated as the arithmetic means of the EUR/PLN mid market rates quoted by the National Bank of Poland as effective for the last day of each month in the reporting period.

The table below presents key items of the separate statement of financial position, statement of comprehensive income and statement of cash flows disclosed in the financial statements and the comparable data, translated into the euro:

***Separate financial highlights***

| Item | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| | (PLN '000) | | (EUR '000) | |
| Net sales revenue | 126,818 | 105,603 | 30,632 | 26,372 |
| Cost of sales | -92,051 | -72,735 | -22,234 | -18,164 |
| Operating profit/(loss) | 9,168 | 10,146 | 2,214 | 2,534 |
| Pre-tax profit/(loss) | 5,349 | 10,614 | 1,292 | 2,651 |
| Net profit/(loss) | 4,169 | 8,273 | 1,007 | 2,066 |
| Net cash provided by/(used in) operating activities | 2,306 | -5,125 | 557 | -1,280 |
| Net cash provided by/(used in) investing activities | -2,550 | -23,895 | -616 | -5,967 |
| Net cash provided by/(used in) financing activities | -1,087 | 13,267 | -263 | 3,313 |
| | **Dec 31 2011** | **Dec 31 2010** | **Dec 31 2011** | **Dec 31 2010** |
| Total assets | 226,541 | 216,541 | 51,291 | 54,678 |
| Total liabilities | 55,210 | 47,560 | 12,500 | 12,009 |
| of which current liabilities | 40,958 | 32,925 | 9,273 | 8,314 |
| Equity | 171,332 | 168,981 | 38,791 | 42,669 |
| Share capital | 3,652 | 3,652 | 827 | 922 |

# MANAGEMENT BOARD'S STATEMENT

In compliance with the requirements laid down in the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009, the Management Board of the Parent represents that to the best of its knowledge these financial statements and the comparative data have been prepared in compliance with the accounting standards applicable to the Company and give an accurate, fair and clear view of the Company's assets, financial standing and financial performance, and the report on the operations of the Company gives a fair view of the development, achievements and position of the Company, and describes the key risks and threats.

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the EU, and their scope is compliant with the requirements set forth in the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2009, No. 33, item 259, as amended).

These financial statements cover the period from January 1st to December 31st 2011 and a comparative period from January 1st to December 31st 2010.

The Management Board represents that the entity qualified to audit financial statements that audited these financial statements was appointed in compliance with the applicable laws, and that both the auditing firm and the qualified auditors who performed the audit met the conditions required to issue an impartial and independent auditor's opinion, in accordance with the applicable provisions of Polish law. In line with the corporate governance principles adopted by the Management Board, the auditor was selected by the Company's Supervisory Board by virtue of Resolution No. 11/2011, concerning selection of the auditor. The Supervisory Board selected the auditor with due regard for the impartiality and objectivity of the selection itself as well as of the performance of the auditor's tasks.

Date: April 30th 2012

Paweł Wyrzykowski
*President of the Management Board*

Andrzej Zawistowski
*Vice-President of the Management Board*

Wojciech Modrzyk
*Vice-President of the Management Board*

Józef Olejnik
*Member of the Management Board*

Witold Klinowski
*Member of the Management Board*

# SECO/WARWICK S.A.

SEPARATE FINANCIAL STATEMENTS FOR THE PERIOD

JANUARY 1ST–DECEMBER 31ST 2011

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

## SEPARATE STATEMENT OF FINANCIAL POSITION

(PLN '000)

| Assets | Note No. | As at Dec 31 2011 | As at Dec 31 2010 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | **132,716** | **133,018** |
| Property, plant and equipment | *9* | 21,167 | 24,887 |
| Investment property | *11* | 422 | 435 |
| Intangible assets | *10* | 12,891 | 12,534 |
| Investments in subsidiary, jointly-controlled and associated entities | *12* | 94,915 | 93,244 |
| Deferred tax assets | *6* | 3,320 | 1,919 |
| **CURRENT ASSETS** | | **90 055** | **82,634** |
| Inventories | *14* | 14,535 | 10,058 |
| Trade receivables | *16* | 42,783 | 36,737 |
| Income tax receivable | *16* | 1,311 | |
| Other current receivables | *16* | 3,740 | 4,100 |
| Accruals and deferred income | *18* | 834 | 729 |
| Financial assets at fair value through profit or loss | *17* | | 47 |
| Loans and receivables | *17* | 2,453 | 4,741 |
| Cash and cash equivalents | *19* | 1,452 | 2,779 |
| Contract settlement | *15* | 22,948 | 23,444 |
| **ASSETS HELD FOR SALE** | 7 | **3,770** | **889** |
| **TOTAL ASSETS** | | **226,541** | **216,541** |

| Equity and liabilities | Note No. | As at Dec 31 2011 | As at Dec 31 2010 |
|---|---|---|---|
| **EQUITY** | | **171,331** | **168,981** |
| Share capital | *20* | **3,652** | **3,652** |
| Statutory reserve funds | *20* | 161,361 | 154,136 |
| Other capital reserves | *20* | | 36 |
| Retained earnings/(deficit) | *21* | 6,318 | 11,158 |
| **NON-CURRENT LIABILITIES** | | **14,252** | **14,635** |
| Loans and borrowings | *22* | 5,126 | 5,928 |
| Financial liabilities | *17* | | 4 |
| Deferred tax liabilities | *6* | 4,408 | 4,168 |
| Provision for retirement and similar benefits | *24* | 165 | 110 |
| Accruals and deferred income | *26* | 4,552 | 4,425 |
| **CURRENT LIABILITIES** | | **40,958** | **32,925** |
| Loans and borrowings | *22* | 8,269 | 7,323 |
| Financial liabilities | *17* | 4,327 | 72 |
| Trade payables | *23* | 11,077 | 12,956 |
| Income tax payable | *23* | | 1,422 |
| Other current liabilities | *23* | 2,994 | 1,820 |
| Provision for retirement and similar benefits | *24* | 2,180 | 1,977 |
| Other provisions | *24* | 2,072 | 1,604 |
| Accruals and deferred income | *26* | 10,039 | 5,751 |
| **LIABILITIES HELD FOR SALE** | | | |
| **TOTAL EQUITY AND LIABILITIES** | | **226,541** | **216,541** |

Date: April 30th 2012

Prepared by:
Dorota Subsar

Paweł Wyrzykowski
*President of the Management Board*

Andrzej Zawistowski
*Vice-President of the Management Board*

Wojciech Modrzyk
*Vice-President of the Management Board*

Józef Olejnik
*Member of the Management Board*

Witold Klinowski
*Member of the Management Board*

## SEPARATE STATEMENT OF COMPREHENSIVE INCOME

(PLN '000)

| | Note No. | for the period Jan 1–Dec 31 2011 | for the period Jan 1 – Dec 31 2010 |
|---|---|---|---|
| Net sales revenue, including: | *1,2* | **126,818** | **105,603** |
| Net revenue from sales of products | | 126,374 | 105,265 |
| Net revenue from sales of goods for resale and materials | | 444 | 338 |
| Cost of sales, including: | *2,3* | **-92,051** | **-72,735** |
| Cost of products sold | | -91,729 | -72,510 |
| Cost of goods for resale and materials sold | | -321 | -225 |
| **Gross profit/(loss)** | | **34,768** | **32,868** |
| Other operating income | *4* | 1,938 | 1,239 |
| Selling costs | *2,3* | -4,770 | -5,066 |
| General and administrative expenses | *2,3* | -20,960 | -16,737 |
| Other operating expenses | *4* | -1,808 | -2,158 |
| **Operating profit/(loss)** | | **9,168** | **10,146** |
| Finance income | *5* | 1,015 | 1,724 |
| Finance expenses | *5* | -4,834 | -1,256 |
| **Pre-tax profit/(loss)** | | **5,349** | **10,614** |
| Income tax | *6* | -1,180 | -2,341 |
| **Net profit/(loss) on continuing operations** | | **4,169** | **8,273** |
| Profit/(loss) on discontinued operations | | | |
| **Net profit/(loss) for financial year** | | **4,169** | **8,273** |
| **OTHER COMPREHENSIVE INCOME:** | | | |
| Valuation of cash flow hedging derivatives | | - 908 | -21 |
| Income tax relating to other comprehensive income | | 173 | 4 |
| **Other comprehensive income, net** | | **-736** | **-17** |
| **Total comprehensive income** | | **3,433** | **8,256** |

Date: April 30th 2012

Prepared by:
Dorota Subsar

Paweł Wyrzykowski
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*Member of the Management Board*

## SEPARATE STATEMENT OF CASH FLOWS
(PLN '000)

| | Note No. | Jan 1–Dec 31 2011 | Jan 1–Dec 31 2010 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Pre-tax profit/(loss) | *27* | **5,349** | **10,614** |
| Total adjustments: | | **223** | **-13,502** |
| Depreciation and amortisation | *3* | 2,689 | 2,585 |
| Foreign exchange gains/(losses) | | -553 | 179 |
| Interest and profit distributions (dividends) | | 463 | -91 |
| Profit/(loss) on investing activities | | 585 | 367 |
| Change in provisions | | 726 | 1,455 |
| Change in inventories | | -4,477 | -1,697 |
| Change in receivables | | -5,888 | -25,453 |
| Change in current liabilities (other than financial liabilities) | | -1,533 | 7,975 |
| Change in accruals and deferrals | | 4,807 | 2,477 |
| Derivatives | | 3,438 | 519 |
| Other adjustments | | -36 | -1,818 |
| **Cash from operating activities** | | **5,572** | **-2,888** |
| Income tax (paid)/refunded | | -3,266 | -2,237 |
| **Net cash provided by/(used in) operating activities** | | **2,306** | **-5,125** |
| **INVESTING ACTIVITIES** | | | |
| **Cash provided by financing activities** | | **3,135** | **448** |
| Proceeds from disposal of intangible assets and property, plant and equipment | | 197 | 18 |
| Interest received | | 247 | 205 |
| Repayment of non-current loans advanced | | 2,691 | |
| Cash received in connection with derivative instruments | | | 225 |
| **Cash used in investing activities** | | **5,684** | **24,343** |
| Investments in intangible assets, property, plant and equipment, and investment property | | 2,956 | 9,016 |
| Acquisition of related entities | | 2,149 | 10,547 |
| Acquisition of securities | | | 4,779 |
| Loans advanced | | 453 | |
| Cash paid in connection with derivative instruments | | 126 | |
| **Net cash provided by/(used in) investing activities** | | **-2,550** | **-23,895** |
| **FINANCING ACTIVITIES** | | | |
| **Cash provided by financing activities** | | **2,301** | **13,424** |

| | | |
|---|---|---|
| Net proceeds from issue of shares, other equity instruments and additional contributions to equity | | |
| Loans and borrowings | 2,301 | 13,424 |
| Issue of debt securities | | |
| Other cash provided by financing activities | | |
| **Cash used in investing activities** | **3,389** | **158** |
| Acquisition of own shares | | |
| Dividends and other distributions to owners | 1,048 | |
| Profit distributions other than to owners | | |
| Repayment of loans and borrowings | 1,570 | |
| Redemption of debt securities | | |
| Other financial liabilities | | |
| Decrease in finance lease liabilities | 49 | 44 |
| Interest paid | 722 | 114 |
| Other cash used in financing activities | | |
| **Net cash provided by/(used in) financing activities** | **-1,087** | **13,267** |
| **Total net cash flow** | **-1,331** | **-15,753** |
| **Balance-sheet change in cash, including:** | **-1,327** | **-15,884** |
| - effect of exchange rate fluctuations on cash held | 4 | -131 |
| **Cash at beginning of period** | **2,742** | **18,495** |
| **Cash at end of period, including:** | **1,411** | **2,742** |
| - restricted cash | | |

Date: April 30th 2012
Prepared by:
Dorota Subsar

Paweł Wyrzykowski
*President of the Management Board*

Andrzej Zawistowski
*Vice-President of the Management Board*

Wojciech Modrzyk
*Vice-President of the Management Board*

Józef Olejnik
*Member of the Management Board*

Witold Klinowski
*Member of the Management Board*

## SEPARATE STATEMENT OF CHANGES IN EQUITY (PLN '000)

| | Share capital | Statutory reserve funds | Capital reserve from revaluation of hedging instruments | Other capital reserves | Retained earnings/deficit | Equity attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| Twelve months ended Dec 31 2010 | | | | | | | |
| **Equity as at Jan 1 2010** | **3,471** | **128,530** | **0** | **2** | **2,382** | **0** | **134,386** |
| Total comprehensive income for twelve months ended Dec 31 2010 | | | -17 | | 8,273 | | **8,256** |
| Share capital increase (share premium account) | 181 | 26,125 | | | | | **26,306** |
| Share-based payments | | | | 34 | | | **34** |
| Distribution of profit | | -520 | | | 520 | | |
| **Equity as at Dec 31 2010** | **3,652** | **154,136** | **-17** | **36** | **11,175** | **0** | **168,981** |
| Twelve months ended Dec 31 2011 | | | | | | | |
| **Equity as at Jan 1 2011** | **3,652** | **154,136** | **-17** | **36** | **11,175** | **0** | **168,981** |
| Total comprehensive income for twelve months ended Dec 31 2011 | | | -,736 | | 4,169 | | **3,433** |
| Dividends | | | | | -,1,048 | | **-,1,048** |
| Management stock options | | | | -36 | | | **-36** |
| Distribution of profit | | 7,225 | | | -,7,225 | | **0** |
| **Equity as at Dec 31 2011** | **3,652** | **161,361** | **-,753** | **0** | **7,071** | **0** | **171,331** |

Date: April 30th 2012
Prepared by: Dorota Subsar

| | | | | |
|---|---|---|---|---|
| Paweł Wyrzykowski | Andrzej Zawistowski | Wojciech Modrzyk | Józef Olejnik | Witold Klinowski |
| *President of the Management Board* | *Vice-President of the Management Board* | *Vice-President of the Management Board* | *Member of the Management Board* | *Member of the Management Board* |

# SECO/WARWICK S.A.

SUPPLEMENTARY INFORMATION TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2011

## I. Compliance with International Financial Reporting Standards

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the IFRS endorsed by the European Union. As at the date of approval of these financial statements for publication, given the ongoing process of implementation of the IFRS in the European Union and the scope of the Company's business, as far as the accounting policies applied by the Company are concerned there are no differences between the IFRS which have come into force and the IFRS endorsed by the European Union.

The IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

These separate financial statements of the Company should be read in conjunction with the consolidated financial statements approved for publication by the Management Board and released on the date of publication of these condensed separate financial statements, in order to obtain complete information on the SECO/WARWICK Group's assets and financial position as at December 31st 2011 and its financial performance in the period from January 1st to December 31st 2011, in accordance with the International Financial Reporting Standards endorsed by the European Union.

## II. Going concern assumption and comparability of accounts

These financial statements have been prepared on the assumption that the Company would continue as a going concern for the 12 months after the last balance-sheet date, i.e. December 31st 2011. As at the date of signing these financial statements, the Company's Management Board was aware of no facts or circumstances that would involve a threat to the Company's continuing as a going concern in the 12 months after the balance-sheet date, as a result of any planned or forced discontinuation or material downsizing of its existing operations.

By the date of these financial statements for 2011, no events occurred which have not but should have been disclosed in the accounting books for the reporting period. Concurrently, these financial statements do not report any material events related to prior years.

## III. Description of adopted accounting policies, including methods of measurement of assets, equity and liabilities, revenue and expenses

The financial statements have been prepared based on a historical cost approach, except with respect to financial derivatives, which are measured at fair value.

These financial statements are presented in the złoty ("PLN"), and unless specified otherwise, all the values are given in thousands of PLN.

### Presentation of financial statements

Presentation of the statement of financial position

In accordance with IAS 1 "Presentation of financial statements", assets and liabilities are presented in the balance sheet as current and non-current.

In accordance with IFRS 5, non-current assets held for sale are presented separately in the balance sheet.

Presentation of the statement of comprehensive income

In accordance with IAS 1 "Presentation of Financial Statements", in the statement of comprehensive income expenses are presented by function.

Earnings per share

Net earnings per share for each period are determined by dividing net profit for the period by the weighted average number of shares outstanding in the period. The weighted average number of shares accounts for the dilutive effect of the issue of shares on the Warsaw Stock Exchange.

## Intangible assets

As intangible assets the Company recognises such assets which are identifiable (they can be separated or sold), are controlled by the entity and are highly probable to bring future economic benefits to the entity.

Intangible assets include mainly software and development expense, and are initially recognised at cost, which includes purchase price, import duties and non-deductible taxes included in the price, decreased by discounts and rebates and increased by all expenditure directly connected with the preparation of the asset for its intended use.

In order to determine whether a self-created intangible asset meets the recognition criteria for an asset, the entity distinguishes two phases in the asset origination process:

- the research phase,
- the development phase.

All costs originating in the first phase are charged directly to expenses of the period.

Intangible assets created as a result of development work are capitalised by the Group only if the following criteria are met:

- it is certain that the intangible asset will be completed,
- it is possible to demonstrate that the asset can be used or sold,
- the expenditure incurred can be measured reliably.

Goodwill arises on acquisition of a business and corresponds to the excess of transferred consideration over the acquirer's share in the fair value of net identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is recognised at cost less cumulative impairment losses. Goodwill is not amortised.

The table below summarises the Company's accounting policies with respect to intangible assets:

| Item | Patents and licences | Computer software |
|---|---|---|
| Useful life | 5–10 years | 5–15 years |
| Method used | Amortised throughout the agreement term using the straight-line method | Amortised using the straight-line method |
| Origin | Acquired | Acquired |
| Review for impairment / recoverable value testing | Annual assessment whether there are any indications of impairment | Annual assessment whether there are any indications of impairment |

### Property, plant and equipment

Property, plant and equipment are carried at cost less cumulative depreciation and impairment losses, if any.

Depreciation is charged using the straight-line method by estimating the useful life of a given asset, which is:

| | |
|---|---|
| Buildings and structures | from 10 to 40 years |
| Plant and equipment | from 5 to 30 years |
| Vehicles | from 5 to 10 years |
| Other tangible assets | from 5 to 15 years |

Non-current assets held under finance lease agreements have been disclosed in the balance sheet equally with other non-current assets and are depreciated in the same way.

The initial values of non-current assets held under finance lease agreements and of the obligations corresponding with such assets have been determined at amounts equal to the discounted value of future lease payments. Lease payments made in the reporting period have been charged against finance lease liabilities in an amount equal to the principal instalment and the excess (the finance charge) has been charged in full to finance expense of the period.

Any gains and losses arising on a sale or liquidation are determined as the difference between the income from the sale and the net value of the tangible assets, and are included in the income statement.

The Company has adopted the rule that the residual value of tangible assets is always equal to “zero”.

### Tangible assets under construction

Tangible assets under construction include expenditure on property, plant and equipment and intangible assets which are not yet fit for use but it is highly probable that they will be completed. Tangible assets under construction are presented in the balance sheet at cost less impairment losses. Tangible assets under construction are not depreciated.

### Investment property

The Company classifies as investment property all property which is considered a source of income (earns rentals) and/or is held for capital appreciation.

Investment property is carried at cost less cumulative depreciation and impairment losses, if any.

Depreciation is charged over the estimated useful life of the investment property, using the straight line method. Land is not depreciated.

### Financial assets and liabilities

**Financial assets** include equity interests in related entities, assets at fair value through profit or loss, hedging derivatives, loans and receivables and cash and cash equivalents.

**Financial liabilities** include loans and borrowings, other types of financing, overdraft facilities, financial liabilities at fair value through profit or loss, hedging derivatives, trade payables, liabilities to suppliers of property, plant and equipment, and lease liabilities.

Except for investments in subsidiaries, jointly controlled entities and associates, which are carried at cost in accordance with IAS 27 and IAS 28, financial assets and liabilities are recognised and measured in line with IAS 39 "Financial Instruments: Recognition and Measurement".

### *Recognition and measurement of financial assets*

Upon initial recognition, financial assets are recognised at fair value, which in the case of investments not measured at fair value through profit or loss is increased by transaction costs directly attributed to such assets.

#### *Receivables*

Trade receivables are recognised and carried at amounts initially invoiced, less any impairment losses on doubtful receivables. Impairment losses on receivables are estimated when the collection of the full amount of a receivable is no longer probable.

If the effect of the time value of money is material, the value of a receivable is determined by discounting the projected future cash flows to their present value using a discount rate that reflects the current market estimates of the time value of money. If the discount method has been applied, any increase in the receivable amount with the passage of time is recognised as finance income.

Other receivables include in particular prepayments made in connection with planned purchases of property, plant and equipment, intangible assets and inventories. As non-monetary assets, prepayments are not discounted.

#### *Cash and cash equivalents*

Cash and cash equivalents are held mainly in connection with the need to meet the Company's current demand for cash rather than for investment or any other purposes.

Cash and cash equivalents include cash in bank accounts, cash in hand, as well as all liquid instruments which may immediately be converted into cash of known amount and in the case of which the risk of value changes is insignificant.

### *Recognition and measurement of financial liabilities*

#### *Liabilities under loans*

Liabilities under loans and other financial liabilities are initially recognised at fair value and then carried at amortised cost using the effective interest rate method.

Transaction costs directly connected with acquisition or issue of a financial liability increase the carrying amount of the liability, because upon initial recognition the liability is recognised at the fair value of amounts paid or received in exchange for the liability. Thereafter, such costs are amortised throughout the term of the liability, using the effective interest rate method.

### *Hedge accounting*

Hedge accounting recognises the offsetting effects on the statement of comprehensive income of changes in the fair value of hedging instruments and the hedged items.

There are three types of hedging relationships:

a) a fair value hedge: a hedge of the exposure to changes in the fair value of a recognised asset or liability or an identified portion of such an asset, liability or highly probable future liability that is attributable to a particular risk and could affect the statement of comprehensive income;

b) a cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability and (ii) could affect the statement of comprehensive income;

c) a hedge of a net investment in a foreign operation as defined in IAS 21.

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

a) The hedging relationship is formally designated and documented, including the entity's risk management objective and strategy for entity the hedge, at the time when the hedge is undertaken. The relevant documentation identifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk, as well as how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the fair value of the hedged item or cash flows attributable to the hedged risk.
b) The hedge is expected to be highly effective in offsetting changes in the fair value or cash flows attributable to the hedged risk, based on the originally documented risk management strategy pertaining to a given hedging relationship.
c) In the case of a cash flow hedge, the contemplated transaction to which the hedge relates is highly probable and exposed to variability in cash flows, which may ultimately affect the statement of comprehensive income.
d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item attributable to the hedged risk, as well as the fair value of the hedging instrument, can be reliably measured.
e) The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

## Inventories

Inventories are measured at cost, using a weighted average cost formula. Any downward adjustment of the value of inventories to the net selling price is made through recognition of impairment losses. Furthermore, inventories that are slow-moving or which have become obsolete or whose usability has become in any way limited, are revalued as at the end of each financial year. If the circumstances leading to a decrease in the value of inventories cease to apply, a reverse adjustment is made, i.e. inventories are remeasured at their pre-impairment value.

Impairment losses on inventories and stock-taking discrepancies are charged to cost of products sold.

## Deferred income tax

In line with IAS 12 "Income Taxes", deferred income tax is determined using the liability method and recognised in the financial statements for all temporary differences between the carrying amounts of assets and liabilities and their tax values, as well as for any unused tax loss carry-forwards. Deferred tax assets are recognised for temporary differences to the extent it is probable that the assets will be realised and that taxable profit will be available against which the differences can be utilised. Unrecognised deferred tax assets are reviewed as at each balance-sheet date. Any previously unrecognised deferred tax assets are recognised to the extent it is probable that there will be future taxable income against which the assets can be realised.

Deferred tax assets are recognised for all deductible temporary differences arising from investments in subsidiaries and associates only to the extent it is probable that:

- the temporary differences will reverse in the foreseeable future, and
- taxable profit will be available against which the temporary differences can be utilised.

In line with IAS 12, deferred tax assets and liabilities are not discounted. Deferred income tax is determined based on the tax rates that have been enacted or substantively enacted as at the balance-sheet date.

## Provisions

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the Company anticipates that the costs for which provisions have been made will be recovered, e.g. under an insurance agreement, any such recovery is recognised as a separate item of assets, but only when it is practically certain to occur.

The cost related to a given provision is recognised in the statement of comprehensive income net of any recoveries. If the effect of the time value of money is material, the amount of a provision is determined by discounting the projected future cash flows to their present value, using a pre-tax discount rate reflecting the current market estimates of the time value of money, as well as any risk associated with a given obligation. If the discount method has been applied, any increase in the provision with the passage of time is charged to finance expenses.

The estimates of outcome and financial effect are determined by the judgement of the companies' management, based on past experience of similar transactions and, in some cases, reports from independent experts.

Provisions are reviewed at each balance-sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group creates the following provisions:

- provision for warranty repairs – on the basis of the historical cost of warranty repairs;
- provision for unused holidays – in an amount equivalent to the number of days of accrued unused holidays multiplied by average gross daily pay;
- provision for retirement benefits and length-of-service awards – calculated by actuaries;
- provision for employee benefits – bonus payments, salaries and wages;
- provision for probable costs related to the current financial year which will only be invoiced in the following year (accrued expenses). Depending on the type of accrued expenses, they are charged to costs of products sold, selling costs or general and administrative expenses;
- provision for a defined benefit plan. Fixed contributions are paid to a separate entity (a fund), as a consequence of which the actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested will be insufficient to meet the expected benefits) are borne by the Company.

Assumptions underlying the estimates and the provision amounts are reviewed as at each balance-sheet date.

### Accruals and deferred income

In order to ensure the matching of revenues with related expenses, expenses relating to future periods and deferred income are posted under liabilities of a given reporting period.

Accrued expenses

The Company recognises accrued expenses at probable values of current-period liabilities arising in particular under:

- services provided to the Company by its business partners, where the liability can be reliably estimated,
- up to the estimated contract revenue, advances received under construction contracts reduce the receivables under settlement of long-term contracts.

Deferred and accrued income

Deferred/accrued income includes primarily government grants intended to finance assets and revenue, as well as any excess of estimated revenue related to the stage of completion of a long-term contract, in accordance with IAS 11, over advances received.

Government grants are disclosed in the statement of financial position at the amount of funds received and then recognised as income over the periods necessary to match them with the related costs they are intended to compensate, on a systematic basis. Government grants are not credited directly to equity.

Accruals and deferrals settled over a period longer than 12 months as from the balance-sheet date are classified as non-current accruals and deferrals, whereas those settled over a period of 12 months or shorter are classified as current accruals and deferrals.

### Functional currency and presentation currency

*a) Functional currency and presentation currency*

Items of the financial statements are measured in the currency of the primary economic environment in which the Company operates (“functional currency”). The financial statements are presented in the Polish złoty (PLN), which is the functional currency and the presentation currency of the Group.

*b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of these transactions, as well as from balance-sheet valuation of monetary assets and liabilities expressed in foreign currencies, are recognised in the income statement, unless they are taken to equity (when they qualify for recognition as cash flow hedges or hedges of net investments).

## IV. Material judgements and estimates

In view of the fact that many items presented in the financial statements cannot be measured accurately, certain estimates need to be made in the preparation of the separate financial statements. The Management Board reviews such estimates taking into account the changes in the factors on which such estimates were based, new information and past experience. Therefore, the estimates made as at December 31st 2011 may change in the future.

*Depreciation/amortisation charges*

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

*Depreciation/amortisation charges for assets used under finance lease agreements*

Depreciation/amortisation charges for items of property, plant and equipment and intangible assets used under finance lease agreements are determined based on their expected useful lives, which is consistent with depreciation policy for assets that are owned. Useful lives equal to agreement term are not applied. The Company assumes that assets used under lease agreements must be purchased.

*Deferred tax assets*

Deferred tax assets are recognised in respect of all unused tax losses to be deducted in the future to the extent it is probable that taxable profit will be available which will enable these losses to be utilised.

*Provision for unused holidays*

Provision for accrued employee holidays is determined based on the number of days of accrued unused holidays as at the end of the reporting period.

*Provision for old-age and disability retirement benefits*

Old-age and disability retirement severance pays are paid to employees of the Company's subsidiaries operating under the Polish law in accordance with the provisions of Art. 92 of the Polish Labour Code, whereas at foreign companies such severance pays are paid in accordance with the local labour laws. Actuarial valuation of long- and short-term benefits is performed as at the end of each financial year.

*Provision for warranty repairs*

Provision for warranty repairs is calculated on the basis of the historical costs of manufacturing of the equipment sold and of the warranty repairs made in the previous years.

*Long-term contracts*

To account for long-term contracts, the Company applies the provisions of IAS 11 "Construction Contracts". When the outcome of a construction contract can be estimated reliably, the percentage of completion method is used. The stage of completion is determined by reference to the contract costs incurred to date and the total costs planned to be incurred.

At the end of each reporting period, the Company makes estimates regarding the outcome of each contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognised in the income statement.

The amount of such a loss is determined irrespective of: whether or not work has commenced on the contract, the stage of completion of contract activity, or the amount of profits expected to arise on other contracts which are not treated as single construction contracts in accordance with IAS 11:9.

The Company applies the above rules to account for commercial contracts related to the Company's core business whose performance terms exceed three months and whose total value is material from the point of view of reliability of the financial statements (revenue, expenses, and the financial result). The Company accrues only documented revenue, i.e. revenue which is guaranteed under the original contract, adjusted to account for any subsequent amendments to the original contract (annexes), or which constitutes any other revenue closely related to the project. Any changes of the contract revenue are taken into account if it is certain (i.e. a contract or annexes to a contract have been signed) or at least highly probable (i.e. annexes to a contract or preliminary contracts have been initialled) that the client will accept the amendments and the revenue amounts provided for in the amendments, and such revenue can be reliably measured. The stage of completion of a contract is determined by reference to the contract costs actually incurred in the reporting period and documented by appropriate accounting evidence, and the costs of business partners not yet invoiced.

The revenue as at the end of the reporting period is determined based on the percentage of completion of the contract, net of any revenue which affected the financial result in previous reporting periods. Estimated contract revenue attributable to the given reporting period is recognised as revenue from sales of products for the period, and disclosed under assets in the statement of financial position as receivables under settlement of long-term contracts.

Any excess of advances received under a contract over the estimated revenue attributable to a given reporting period is recognised under liabilities as prepaid deliveries. Up to the amount of the estimated contract revenue, advances reduce the receivables under settlement of long-term contracts.

Any excess of invoiced revenue is recognised as deferred income.

*Derivative financial instruments*

Derivative financial instruments are remeasured at the end of each reporting period at their fair value as determined by the bank.

### Subjective judgement

Where a given transaction does not fall within the scope of any standard or interpretation, the Management Board relies on its subjective judgment to determine and apply accounting policies which will ensure that the financial statements contain only relevant and reliable information and that they:

- give an accurate, clear and fair view of the Group's assets, its financial standing, results of operations and cash flows,
- reflect the economic substance of transactions,
- are objective,
- conform with the principles of prudent valuation,
- are complete in all material respects.

Subjective judgements as at December 31st 2011 were made with respect to contingent liabilities and provisions for claims.

## V. Changes in accounting policies

The accounting policies applied when preparing these annual financial statements are consistent with the accounting policies used to draw up the annual financial statements for the year ended December 31st 2010, save for the following amendments to standards and interpretations effective for periods beginning on July 1st 2011.

➢ **Amendments to IFRS 7 "Financial Instruments: Disclosure – Transfers of Financial Assets"**

The amendments introduce a requirement to make a disclosure which is sufficient to enable users of financial statements understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities, and evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The amended standard provides a definition of "continuing involvement" to ensure application of the disclosure requirements.

The application of said amendments did not affect the Company's financial position or operating results.

## VI. New standards to be applied by the Company

Below are presented new standards and IFRIC interpretations which have been published by the International Accounting Standards Board but are not yet effective for the current reporting period.

- ➢ **IFRS 9 "Financial Instruments" –** (effective for annual periods beginning on or after January 1st 2013),
- ➢ **Amendments to IAS 12 "Income Tax" – deferred tax** – recovery of underlying assets (effective for annual periods beginning on or after January 1st 2012).

- **IFRS 10 "Consolidated Financial Statements "** (effective for annual periods beginning on or after January 1st 2013),
- **IFRS 11 "Joint Arrangements"** (effective for annual periods beginning on or after January 1st 2013)
- **IFRS 12 "Disclosure of Interests in Other Entities"** (effective for annual periods beginning on or after January 1st 2013),
- **IFRS 13 "Fair Value Measurement"** (effective for annual periods beginning on or after January 1st 2013),
- **IAS 27 (revised 2011) "Separate Financial Statements " –** (effective for annual periods beginning on or after January 1st 2013),
- **IAS 28 (revised 2011) "Investments in Associates and Joint Ventures"** (effective for annual periods beginning on or after January 1st 2013),
- **Amendments to IFRS 1 "First-Time Adoption of IFRS"–** severe hyperinflation and removal of fixed dates for first-time adopters (effective for annual periods beginning on or after July 1st 2011),
- **Amendments to IAS** 1 "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income" (effective for annual periods beginning on or after July 1st 2012),
- **Amendments to IAS 19 "Employment Benefits"** – adjustments to accounting for post-employment benefits (effective for annual periods beginning on or after January 1st 2013).
- **IFRIC 20 "Stripping Cost of the Production Phase of a Surface Mine"** – accounting for costs of stripping activity in the production phase of surface mining (effective for annual periods beginning on or after January 1st 2013),

The Management Board does not expect the above standards and interpretations to have any significant effect on the accounting policies applied by the Company, save for the need to make certain additional or new disclosures. The Company is in the process of analysing the consequences and effects of applying these new standards and interpretations on its financial statements.

Date: April 30th 2012

| | | |
|---|---|---|
| | Paweł Wyrzykowski<br>*President of the Management Board* | Andrzej Zawistowski<br>*Vice-President of the Management Board* |
| Wojciech Modrzyk<br>*Vice-President of the Management Board* | Józef Olejnik<br>*Member of the Management Board* | Witold Klinowski<br>*Member of the Management Board* |

# SECO/WARWICK S.A.

SUPPLEMENTARY INFORMATION TO THE

SEPARATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2011

## Note 1. SALES REVENUE

As provided for under IAS 18, revenue from sales of products, goods for resale, materials and services, net of VAT, discounts and rebates, is recognised when the entity has transferred to the buyer the significant risks and rewards incidental to their ownership.

**Sales revenue and total revenue and income of the Company:**

| Item | 2011 | 2010 |
|---|---|---|
| Sales of products | 126,374 | 105,265 |
| Sales of goods for resale and materials | 444 | 338 |
| **TOTAL sales revenue** | **126,818** | **105,603** |
| Other operating income | 1,938 | 1,239 |
| Finance income | 1,015 | 1,724 |
| **TOTAL revenue and income** | **129,771** | **108,566** |

The Company did not generate any revenue from discontinued operations.

## Note 2. OPERATING SEGMENTS

For detailed information on operating segments, see the consolidated financial statements of the SECO/WARWICK Group (Note No. 2 to the consolidated financial statements for the 12 months ended 31 December 2011).

## Note 3. OPERATING EXPENSES

| COSTS BY TYPE | Jan 1–Dec 31 2011 | Jan 1 – Dec 31 2010 |
|---|---|---|
| Depreciation and amortisation | 2,689 | 2,585 |
| Raw materials and energy used | 60,905 | 50,318 |
| Contracted services | 17,706 | 13,787 |
| Taxes and charges | 430 | 372 |
| Salaries and wages | 23,688 | 19,398 |
| Social security and other benefits | 4,435 | 3,681 |
| Other costs by type | 7,901 | 6,395 |
| **Total costs by type, including:** | **117,754** | **96,536** |
| Selling costs | -4,770 | -5,066 |
| General and administrative expenses | -20,960 | -16,737 |
| Change in products | 175 | 1,243 |
| Cost of products and services for own needs | -470 | -3,466 |
| **Cost of products and services sold** | **91,729** | **72,510** |

| DEPRECIATION/AMORTISATION AND IMPAIRMENT LOSSES RECOGNISED IN THE INCOME STATEMENT | Jan 1–Dec 31 2011 | Jan 1 - Dec 31 2010 |
|---|---|---|
| **Items recognised in cost of sales:** | **992** | **1,236** |
| Depreciation of property, plant and equipment | 882 | 1,126 |
| Impairment of property, plant and equipment | | |
| Amortisation of intangible assets | 110 | 109 |
| **Items recognised in selling costs** | **345** | **332** |
| Depreciation of property, plant and equipment | 143 | 205 |
| Amortisation of intangible assets | 202 | 127 |
| Cost of operating leases | | |
| **Items recognised in general and administrative expenses**: | **1,339** | **1,005** |
| Depreciation of property, plant and equipment | 1,145 | 856 |
| Amortisation of intangible assets | 194 | 149 |
| Cost of operating leases | | |
| **Items recognised in operating expenses:** | **13** | **13** |
| Depreciation of investment property | 13 | 13 |

## EMPLOYEE BENEFITS

| PERSONNEL COSTS | Jan 1–Dec 31 2011 | Jan 1–Dec 31 2010 |
|---|---|---|
| Salaries and wages | 23,688 | 19,398 |
| Social security | 3,412 | 2,775 |
| Retirement benefits | | |
| Other post-employment benefits | | |
| Share-based payment scheme | | |
| Other employee benefits | 1,023 | 906 |
| **Total employee benefits, including:** | **28,123** | **23,079** |
| Items recognised in cost of sales | 13,979 | 11,660 |
| Items recognised in selling costs | 2,123 | 2,377 |
| Items recognised in general and administrative expenses: | 12,021 | 9,042 |

## Note 4. OTHER OPERATING INCOME AND EXPENSES

| OTHER OPERATING INCOME | Jan 1–Dec 31 2011 | Jan 1–Dec 31 2010 |
|---|---|---|
| Reversal of impairment losses on receivables | 255 | 95 |
| Release of provisions | | 12 |
| Gain on disposal of non-current non-financial assets | 37 | |
| Compensations/damages received | 40 | 7 |
| Income from lease of tangible assets and investment property | 904 | 865 |
| Income from re-invoicing | | 4 |
| VAT | 417 | |
| Other | 285 | 256 |
| **Total other operating income** | **1,938** | **1,239** |

| OTHER OPERATING EXPENSES | Jan 1–Dec 31 2011 | Jan 1–Dec 31 2010 |
|---|---|---|
| Impairment losses on receivables | 1,209 | 398 |
| Court expenses, compensation/damages, penalties | 3 | 8 |
| Services purchase cost for re-invoicing | 14 | |
| Cost of discontinued production | | 137 |
| Output VAT charged to costs | | 416 |
| Cost of lease of tangible assets | 424 | 390 |
| Revaluation of tangible asset | 17 | 486 |
| Donations | 45 | 42 |
| Other | 96 | 280 |
| **Total other operating expenses** | **1,808** | **2,158** |

## Note 5. FINANCE INCOME AND EXPENSES

| FINANCE INCOME | Jan 1–Dec 31 2011 | Jan 1–Dec 31 2010 |
|---|---|---|
| Interest income | 291 | 272 |
| Income from investments | | 225 |
| Revaluation of investments (valuation of forward transactions) | | 1,819 |
| Impairment loss on investment in SECO/WARWICK Tianjin | | -592 |
| Net foreign exchange gains | 724 | |
| **Total finance income** | **1,015** | **1,724** |

| FINANCE EXPENSES | Jan 1–Dec 31 2011 | Jan 1–Dec 31 2010 |
|---|---|---|
| Interest paid | 774 | 117 |
| Loss on derivative instruments at maturity | 126 | |
| Revaluation of investments | 3,438 | |
| Impairment loss on investment in SECO/WARWICK Tianjin | 496 | |
| Net foreign exchange losses | | 1,140 |
| **Total finance expenses** | **4,834** | **1,257** |

## Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main items of the tax expense for the annual periods ended December 31st 2011 and December 31st 2010 were as follows:

| INCOME TAX DISCLOSED IN THE INCOME STATEMENT | Jan 1–Dec 31 2011 | Jan 1–Dec 31 2010 |
|---|---|---|
| *Current income tax* | **2,168** | **2,742** |
| Current income tax expense | 2,168 | 2,742 |
| Adjustments to current income tax for previous years | | |
| *Deferred income tax* | **-988** | **-401** |
| Related to temporary differences and their reversal | -988 | -401 |
| Related to a reduction of income tax rates | | |
| Income tax benefit arising from transactions involving items of equity | | |
| **Tax expense disclosed in the income statement** | **1,180** | **2,341** |

| INCOME TAX RECOGNISED IN EQUITY | Jan 1–Dec 31 2011 | Jan 1–Dec 31 2010 |
|---|---|---|
| *Current income tax* | **0** | **82** |
| Current income tax expense | 0 | 82 |
| *Deferred income tax* | **0** | **0** |
| Tax on net gain/loss on revaluation of cash flow hedges | 0 | 0 |
| **Tax benefit / (tax expense) recognised in equity** | **0** | **82** |

| CURRENT INCOME TAX | 2011 | 2010 |
|---|---|---|
| **Pre-tax profit** | **5,349** | **10,614** |
| Non-taxable income and previous years' income increasing tax base | -1,961 | -1,298 |
| Non-tax-deductible costs and previous years' costs decreasing tax base | 8,065 | 5,144 |
| **Taxable income** | **11,453** | **14,460** |
| Deductions from income – donation, loss | -41 | -30 |
| **Tax base** | **11,412** | **14,430** |
| Income tax at 19% | 2,168 | 2,741 |
| **Effective income tax rate** (share of income tax in pre-tax profit) | **41%** | **26%** |

The current portion of the income tax was calculated as 19% of the income tax base.

No tax related to foreign tax jurisdictions applies.

| Item | Dec 31 2011 | | Dec 31 2010 | |
|---|---|---|---|---|
| | carrying amount | amount disclosed in the income statement | carrying amount | amount disclosed in the income statement |
| *Deferred tax liabilities* | | | | |
| Accelerated tax depreciation/amortisation | 1,868 | 215 | 1,654 | (111) |
| Investment property remeasured at fair value | | | | |
| Lease (net) | 12 | (5) | 17 | (5) |
| Financial assets available for sale remeasured at fair value | | | | |
| Currency contracts (cash flow hedges) remeasured at fair value | | | | |
| Foreign exchange gains | 526 | 398 | 128 | (77) |
| Adjustments to long-term contracts | 2,002 | (358) | 2,360 | 508 |
| Forward transactions | | | 9 | 9 |
| Other | | (9) | | |
| Fair value adjustments on acquisition of companies | | | | |
| **Deferred tax liabilities** | **4,408** | **241** | **4,168** | **324** |
| *Deferred tax assets* | | | | |
| Provision for old-age and disability retirement severance pays | 46 | 15 | 32 | 8 |
| Provision for length-of-service awards and bonuses | 276 | 4 | 272 | 224 |
| Provision for unused holidays | 123 | 31 | 93 | 40 |
| Provision for losses on contracts | | | | (25) |
| Provision for warranty repairs | 253 | | 253 | 55 |
| Other provisions | 141 | 89 | 52 | 52 |
| Assets arising under long-term contracts | 1,066 | 299 | 767 | 464 |
| Foreign exchange losses | 255 | 102 | 152 | 78 |
| Subsidy for the purchase of tangible assets | | | | |
| Salaries, wages and social security contributions payable in subsequent periods | 132 | 10 | 122 | 12 |
| Lease liabilities | 1 | (10) | 11 | (7) |
| Other | | | | |
| Impairment losses on receivables | | (49) | 48 | 49 |
| Impairment losses on investment (China) | 207 | 94 | 113 | 113 |
| Valuation of financial instruments | 644 | 644 | | (337) |
| **Deferred tax assets** | **3,144** | **1,229** | **1,915** | **726** |

| Item | Dec 31 2011 | | Dec 31 2010 | |
|---|---|---|---|---|
| | carrying amount | amount recognised in equity | carrying amount | amount recognised in equity |
| Valuation of financial instruments – equity component | 177 | 177 | 4 | 4 |
| **Deferred tax assets** | **177** | **177** | **4** | **4** |

## Note 7. ASSETS HELD FOR SALE

On October 8th 2010, the Board of Directors of SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. executed an agreement providing for sale to the Chinese shareholder Tianjin Kama Electric Thermal Equipment Manufacturing Co., Ltd. of a 25% equity interest in SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. held by SECO/WARWICK Corp. for USD 300 thousand and a 25% equity interest held by SECO/WARWICK S.A. also for USD 300 thousand. Initially, it was arranged that the transaction would be finalised by December 31st 2010. However, this arrangement had not been met by the Chinese partner. Therefore, a new payment schedule was agreed. An annex to the original agreement was also signed, providing for a potential dissolution of SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. if payments are not made as scheduled. The President of SECO/WARWICK (Tianjin) Industrial Furnace Co. completed the first stage concerning change of the company's name.

As the parent expects to encounter difficulties in collecting the cash owed, in keeping with the principle of prudence in accounting, an impairment loss was recognised on cash received so far from the Chinese owner of KAMA Eletric Thermal Equipment Manufacturing Co.
The value of shares in SECO/WARWICK Tianjin, over which SECO/WARWICK S.A. lost control, was PLN 1,481 thousand. Impairment losses recognised so far amount to PLN 656 thousand.
As at the end of 2011, SECO/WARWICK S.A. recognised another impairment loss of PLN 432 thousand. The amount presented under financial assets held for sale is PLN 393 thousand.

Held-for-sale assets are presented by the Company as a separate item of assets.

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Plant and equipment | 3,377 | - |
| Financial assets | 393 | 889 |
| **Assets held for sale** | **3,770** | **889** |

As at December 31st 2011, the value of machinery and equipment carried by the Company as property, plant and equipment held for sale was PLN 3,377 thousand. As the Management Board expects the said assets to be sold in the financial year 2012, they were recognised as assets held for sale to ensure compliance with IFRS 5.

## Note 8. DIVIDENDS PROPOSED OR APPROVED BY WAY OF RESOLUTION BY THE DATE OF APPROVAL OF THESE FINANCIAL STATEMENTS

On May 26th 2011, the Annual General Meeting of SECO/WARWICK S.A. adopted Resolution No. 20 concerning distribution of profit for the period January 1st–December 31st 2010. Net profit earned by SECO/WARWICK S.A. of Świebodzin in the financial year 2010 was PLN 8,273,151.42. PLN 1,047,621.00 was allocated to dividend payment. The dividend per ordinary share amounted to PLN 0.10. The Issuer has not issued any preference shares. The dividend record date was June 16th 2011, while the dividend payment date was July 1st 2011. The dividend was paid as scheduled.

## Note 9. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment (by type) between January 1st and December 31st 2010

| Item | Land | Buildings and structures | Plant and equipment | Vehicles | Other tangible assets | Total |
|---|---|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2010** | **840** | **12,051** | **11,430** | **2,696** | **1,381** | **28,398** |
| **Increase, including:** | **-** | **343** | **3,538** | **435** | **24** | **4,340** |
| assets acquired | - | 343 | 370 | 435 | 24 | **1,172** |
| assets generated internally | - | - | 3,168 | - | - | **3,168** |
| lease agreements concluded | - | - | - | - | - | **-** |
| other | - | - | - | - | - | **-** |
| **Decrease, including:** | **-** | **-** | **-** | **53** | **20** | **73** |
| disposal | - | - | - | 53 | 5 | **58** |
| liquidation | - | - | - | - | 15 | **15** |
| revaluation | - | - | - | - | - | **-** |
| **Gross carrying amount as at Dec 31 2010** | **840** | **12,394** | **14,968** | **3,078** | **1,385** | **32,665** |
| | | | | | | |
| **Cumulative amortisation as at Jan 1 2010** | **-** | **2,006** | **4,179** | **1,299** | **641** | **8,125** |
| **Increase, including:** | **-** | **490** | **1,243** | **320** | **134** | **2,187** |
| depreciation | - | 490 | 1,243 | 320 | 134 | **2,187** |
| revaluation | - | - | - | - | - | **-** |
| other | - | - | - | - | - | **-** |
| **Decrease, including:** | - | **-** | **-** | 36 | 15 | **51** |
| revenue | - | - | - | 36 | 4 | **40** |
| liquidation | - | - | - | | 11 | **11** |
| revaluation | - | - | - | - | - | **-** |
| **Cumulative amortisation as at Dec 31 2010** | **-** | **2,496** | **5,422** | **1,583** | **760** | **10,261** |
| | | | | | | |
| **Impairment losses as at Jan 1 2010** | **-** | **-** | **-** | **-** | **-** | **-** |
| Increase, including: | - | - | 487 | **-** | **-** | **487** |
| - impairment | | | 487 | | | **487** |
| Decrease, including: | - | - | - | - | - | **0** |
| **Impairment losses as at Dec 31 2010** | **-** | **-** | 487 | **-** | **-** | **487** |
| **Net carrying amount as at Dec 31 2010** | **840** | **9,898** | **9,059** | **1,495** | **625** | **21,917** |

Changes in property, plant and equipment (by type) in the period January 1st–December 31st 2011

| Item | Land | Buildings and structures | Plant and equipment | Vehicles | Other tangible assets | Total |
|---|---|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2011** | **840** | **12,394** | **14,968** | **3,078** | **1,385** | **32,665** |
| **Increase, including:** | **-** | **39** | **2,807** | **771** | **121** | **3,738** |
| assets acquired | - | 39 | 444 | 771 | 121 | **1,375** |
| assets generated internally | - | - | 2,363 | - | - | **2,363** |
| lease agreements concluded | - | - | - | - | - | **-** |
| other | - | - | - | - | - | **-** |
| **Decrease, including:** | **-** | **-** | **4,332** | **61** | **49** | **4,442** |
| disposal | - | - | 46 | 61 | 17 | **124** |
| liquidation | - | - | 909 | - | 32 | **941** |
| revaluation | - | - | - | - | - | **-** |
| reclassification (assets held for sale) | - | - | 3,377 | - | - | **3,377** |
| **Gross carrying amount as at Dec 31 2011** | **840** | **12,433** | **13,443** | **3,788** | **1,457** | **31,961** |
| | | | | | | |
| **Cumulative depreciation as at Jan 1 2011** | **-** | **2,496** | **5,422** | **1,583** | **760** | **10,261** |
| **Increase, including:** | **-** | **596** | **962** | **494** | **119** | **2,171** |
| depreciation | - | 596 | 962 | 494 | 119 | **2,171** |
| revaluation | - | - | - | - | - | **-** |
| other | - | - | - | - | - | **-** |
| **Decrease, including:** | **-** | **-** | **456** | **61** | **38** | **555** |
| revenue | - | - | 33 | 61 | 8 | **102** |
| liquidation | - | - | 423 | - | 30 | **453** |
| revaluation | - | - | - | - | - | **-** |
| **Cumulative depreciation as at Dec 31 2011** | **-** | **3,092** | **5,928** | **2,016** | **841** | **11,877** |
| **Impairment losses as at Jan 1 2011** | **-** | **-** | **487** | **-** | **-** | **487** |
| Increase, including: | - | - | **-** | - | - | **-** |
| Decrease, including: | - | - | **487** | - | - | **487** |
| liquidation | | | 487 | | | **487** |
| **Impairment losses as at Dec 31 2011** | **-** | **-** | - | - | - | **-** |
| **Net carrying amount as at Dec 31 2011** | **840** | **9,341** | **7,515** | **1,772** | **616** | **20,083** |

| OWNERSHIP STRUCTURE – net value | Dec 31 2011 | Dec 31 2010 |
|---|---:|---:|
| Owned | 20,016 | 21,828 |
| Used under lease, tenancy or similar contract | 67 | 89 |
| **Total** | **20,083** | **21,917** |

As at December 31st 2010, the Company analysed information from external and internal sources for any indication of necessity to test assets for impairment. As no such indications were found, assets were not tested for impairment.

Gross value of items of property, plant and equipment which had a net value of zero but were still used as at December 31st 2011, amounted to PLN 1,879 thousand (December 31st 2010: PLN 1,732 thousand).

## Tangible assets under construction:

| ***Tangible assets under construction as at Jan 1 2010*** | ***Expenditure incurred in the financial year*** | ***Accounting for the expenditure*** | | | | | ***As at Dec 31 2010*** |
|---|---|---|---|---|---|---|---|
| | | ***Buildings, premises and civil engineering structures*** | ***Plant and equipment*** | ***Vehicles*** | ***Other tangible assets*** | ***Intangible assets*** | |
| 3,509 | **5,857** | 343 | 3,538 | 435 | 24 | 2,057 | **2,970** |
| ***Tangible assets under construction as at Jan 1 2011*** | ***Expenditure incurred in the financial year*** | ***Accounting for the expenditure*** | | | | | ***As at Dec 31 2011*** |
| | | ***Buildings, premises and civil engineering structures*** | ***Plant and equipment*** | ***Vehicles*** | ***Other tangible assets*** | ***Intangible assets*** | |
| 2,970 | **7,721** | 39 | 2,807 | 771 | 121 | 5,869 | **1,084** |

| Tangible assets under construction | Dec 31 2011 | Dec 31 2010 |
|---|---:|---:|
| Modular line | - | 2,243 |
| Test furnace | - | |
| VPT furnace | 640 | 663 |
| Other | 444 | 64 |
| **Total** | **1,084** | **2,970** |

**Value and area of land held in perpetual usufruct**

| Address | Number of Land and Mortgage Register Entry | Lot No. | Surface area [sq m] as at Dec 31 2011 | Value as at Dec 31 2011 | Surface area [sq m] as at Dec 31 2010 | Value as at Dec 31 2010 |
|---|---|---|---|---|---|---|
| ul. Sobieskiego 8, Świebodzin, Poland | KW 1306 | 95/7 | 5,098 | 289 | 5,098 | 289 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9562 | 94/4 | 2,467 | 140 | 2,467 | 140 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9444 | 94/16 | 285 | 97 | 285 | 97 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 94/23 | 119 | 6 originally lot No. 94/17 KW 9444 | 119 | 6 originally lot No. 94/17 KW 9444 |
| | KW 9444 | 94/22 | 1,415 | | 1,415 | |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 94/21 | 2,645 | 150 | 2,645 | 150 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 19319 | 94/19 | 214 | 12 | 214 | 12 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 94/8 | 110 | 6 | 110 | 6 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 39300 | 94/25 | 1,279 | 73 | 1,279 | 73 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW 40641 | 195/80 | 11,605 | 23 | 11,605 | 23 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW 41410 | 195/94 | 221 | 1 | 221 | 1 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 94/6 | 1,121 | 10 | 1,121 | 10 |
| | | **Total** | **26,579** | **808** | **26,579** | **808** |

On December 21st 2010, SECO/WARWICK S.A. signed a USD 2,500 thousand investment loan agreement with BRE Bank Spółka Akcyjna. The loan was granted to finance 20% of the purchase cost of five shares in Retech Systems LLC.

The loan is secured with an blanket ordinary mortgage of USD 2,500 thousand and a blanket ceiling mortgage of up to USD 250 thousand created over a property owned by the State Treasury and comprising the following lots:

- Nos. 94/21, 94/8, 94/23, 94/6, with total area of 0.3995ha, situated at ul. Sobieskiego 8, Świebodzin
- Nos. 94/16, 94/22, with total area of 0.1700ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/19, with area of 0.0214ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/4, with area of 0.2467ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/7, with area of 0.5098ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/25, with area of 0.1279ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 195/80, with area of 1.1605ha, situated at ul. Świerczewskiego 76, Świebodzin
- No. 195/94, with area of 0.0221ha, situated at ul. Świerczewskiego 76, Świebodzin
- as well as buildings and structures situated on the above lots, owned by the borrower, and on undeveloped lot No. 94/14, owned by the borrower, with an area of 0.1030ha, situated at ul. Sobieskiego 8, Świebodzin.

## Note 10. INTANGIBLE ASSETS

**Changes in intangible assets (by type) – between January 1st and December 31st 2010**

| *Item* | *Development expense* | *Patents and licences, software* | *Other intangible assets* | *Total* |
|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2010** | **5,448** | **2,170** | **1,638** | **9,256** |
| **Increase, including:** | **3,243** | **242** | **1,815** | **5,300** |
| business combinations | - | - | - | **-** |
| acquisitions | 3,243 | 242 | 1,815 | **5,300** |
| revaluation | - | - | - | **-** |
| other | - | - | - | **-** |
| **Decrease, including:** | **-** | **27** | **-** | **27** |
| disposal of subsidiary | - | - | - | **-** |
| disposal | - | - | - | **-** |
| liquidation | - | 27 | - | **27** |
| other | - | - | - | **-** |
| **Gross carrying amount as at Dec 31 2010** | **8,691** | **2,385** | **3,453** | **14,529** |
| | | | | |
| **Cumulative amortisation as at Jan 1 2010** | **179** | **875** | **584** | **1,638** |
| **Increase, including:** | **89** | **198** | **98** | **385** |
| depreciation | 89 | 198 | 98 | **385** |
| revaluation | - | - | - | **-** |
| other | - | - | - | **-** |
| **Decrease, including:** | **-** | **27** | **-** | **27** |
| liquidation | - | 27 | - | **27** |
| sale | - | - | - | **-** |
| revaluation | - | - | - | **-** |
| other | - | - | - | **-** |
| **Cumulative amortisation as at Dec 31 2010** | **268** | **1,046** | **682** | **1,996** |
| | | | | |
| **Impairment losses as at Jan 1 2010** | **-** | **-** | **-** | **-** |
| Increase, including: | - | - | - | **-** |
| Decrease, including: | - | - | - | **-** |
| **Impairment losses as at Dec 31 2010** | **-** | **-** | **-** | **-** |
| | | | | |
| **Net carrying amount as at Dec 31 2010** | **8,423** | **1,339** | **2,771** | **12,533** |

**Changes in intangible assets (by type) in the period January 1st - December 31st 2011**

| *Item* | *Development expense* | *Patents and licences, software* | *Other intangible assets* | *Total* |
|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2011** | **8,691** | **2,385** | **3,453** | **14,529** |
| **Increase, including:** | **595** | **269** | **-** | **864** |
| business combinations | - | - | - | **-** |
| acquisitions | 595 | 269 | - | **864** |
| revaluation | - | - | - | **-** |
| other | - | - | - | **-** |
| **Decrease, including:** | **-** | **-** | **-** | **-** |
| disposal of subsidiary | - | - | - | **-** |
| disposal | - | - | - | **-** |
| liquidation | - | - | - | **-** |
| other | - | - | - | **-** |
| **Gross carrying amount as at Dec 31 2011** | **9,286** | **2,654** | **3,453** | **15,393** |
| | | | | |
| **Cumulative depreciation as at Jan 1 2011** | **268** | **1,046** | **682** | **1,996** |
| **Increase, including:** | **87** | **245** | **175** | **507** |
| depreciation | 87 | 245 | 175 | **507** |
| revaluation | - | - | - | **-** |
| other | - | - | - | **-** |
| **Decrease, including:** | **-** | **-** | **-** | **-** |
| liquidation | - | - | - | **-** |
| sale | - | - | - | **-** |
| revaluation | - | - | - | **-** |
| other | - | - | - | **-** |
| **Cumulative depreciation as at Dec 31 2011** | **355** | **1,291** | **857** | **2,503** |
| | | | | |
| **Impairment losses as at Jan 1 2011** | **-** | **-** | **-** | **-** |
| Increase, including: | - | - | - | **-** |
| Decrease, including: | - | - | - | **-** |
| **Impairment losses as at Dec 31 2011** | **-** | **-** | **-** | **-** |
| | | | | |
| **Net carrying amount as at Dec 31 2011** | **8,931** | **1,363** | **2,596** | **12,891** |

Intangible assets do not serve as security for liabilities.

| OWNERSHIP STRUCTURE – net value | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Owned | 12,891 | 12,534 |
| Used under lease, tenancy or similar contract | | |
| **Total** | **12,891** | **12,534** |

As at December 31st 2011 and December 31st 2010, the Company carried no intangible assets held for sale.

As at December 31st 2011, gross carrying amount of fully amortised intangible assets that were still used and controlled by the Company was PLN 89 thousand (as at December 31st 2010: PLN 89 thousand).

## Note 11. INVESTMENT PROPERTY

SECO/WARWICK S.A. owns an investment property located at ul. Sobieskiego 8 in Świebodzin, Poland, which comprises a production hall currently leased out to VACMAX. In 2011 and 2010, the property generated lease income of PLN 54 thousand.

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Opening balance | **435** | **448** |
| **Increase (subsequent expenditure), including:** | **-** | **-** |
| modernisation | - | - |
| **Decrease, including:** | **13** | **13** |
| Depreciation | 13 | 13 |
| Sale | - | - |
| Closing balance | **422** | **435** |

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| **Gross carrying amount – opening balance** | 527 | 527 |
| **Increase, including:** | **-** | **-** |
| Acquisitions | - | - |
| **Decrease, including:** | - | - |
| Disposals | - | - |
| **Carrying amount – closing balance** | 527 | 527 |

| | | |
|---|---|---|
| **Cumulative depreciation – opening balance** | 92 | 79 |
| **Increase, including:** | **13** | **13** |
| Depreciation | **13** | **13** |
| **Decrease, including:** | - | - |
| Sale | - | - |
| **Cumulative depreciation – closing balance** | **105** | **92** |
| | | |
| **Impairment losses – opening balance** | - | - |
| Increase | - | - |
| Decrease | - | - |
| **Impairment losses – closing balance** | - | - |
| | | |
| **Net carrying amount – closing balance** | **422** | **435** |

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| **Lease income** | **54** | **54** |

| | | |
|---|---|---|
| **Cost of generating lease income** | **23** | **23** |
| Real property tax | 10 | 10 |
| Depreciation | 13 | 13 |

## Note 12. INVESTMENTS IN SUBSIDIARY, JOINTLY-CONTROLLED AND ASSOCIATED ENTITIES

**Investments in subordinated entities carried at cost**

| Shares in subordinated entities | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| subsidiaries | 83,920 | 82,249 |
| jointly controlled entities* | 393 | 889 |
| associates | 10,995 | 10,995 |

*Discontinued operations.

**Change in investments in subsidiaries**

| Item | 2011 | 2010 |
|---|---|---|
| **As at beginning of period** | **82,249** | **29,635** |
| ***Increase during the period, including:*** | | ***52,615*** |
| - business combinations | | |
| - acquisition of entity | | *1,751* |
| - reclassification (acquisition of control over Retech) | | *16,597* |
| - acquisition of control over Retech | | *34,267* |
| - additional contributions to SECO/WARWICK Retech equity | *822* | |
| - establishment of SECO/WARWICK GmbH | *849* | |
| *Decrease during the period, including:* | | |
| **As at end of period** | **83,920** | **82,249** |

**Change in investments in jointly-controlled and associated entities**

| Item | 2011 | 2010 |
|---|---|---|
| **As at beginning of period** | **11,884** | **29,073** |
| ***Increase during the period, including:*** | | |
| - acquisition of shares | | |
| ***Decrease during the period, including:*** | ***495*** | ***17,188*** |
| - reclassification (acquisition of control over Retech) | | 16,597 |
| - impairment loss on investment in SECO/WARWICK Tianjin | 494 | 591 |
| - sale of associate | | |
| **As at end of period** | **11,389** | **11,884** |
| Discontinued operations | 393 | 889 |

In 2011, payments under the share purchase agreement involving shares in SECO/WARWICK ALLIED were PLN 478 thousand (2010: 835 thousand). As at December 31st 2011, SECO/WARWICK S.A. had no investment commitment towards SECO/WARWICK ALLIED Pvt. LTD (as at the end of 2010: PLN 490 thousand). The commitments arose under the share purchase agreement concerning shares in the company.

## Investments in subsidiary, jointly-controlled and associated entities

| Company name | Carrying amount of shares as at Dec 31 2011 | % of share capital held | % of the total vote | Method of consolidation | Assets | Liabilities | Revenue | Net profit/ loss |
|---|---|---|---|---|---|---|---|---|
| SECO/WARWICK ThermAL | 7,657 | 100% | 100% | full method | 72,487 | 42,933 | 84,261 | 7,305 |
| SECO/WARWICK Corporation | 21,806 | 100% | 100% | full method | 43,412 | 35,665 | 54,517 | 330 |
| SECO/WARWICK Moscow | 172 | 100% | 100% | full method | 2,966 | 2,391 | 2,286 | (341) |
| RETECH Systems LLC | 50,863 | 100% | 100% | full method | 65,100 | 32,272 | 122,849 | 4,272 |
| SECO/WARWICK ALLIED | 10,995 | 50% | 50% | equity method | 64,607 | 46,951 | 59,418 | 2,238 |
| SECO/WARWICK Retech | 2,573 | 100% | 100% | full method | 8,875 | 3,995 | 6,350 | (1,155) |
| SECO/WARWICK GmbH | 849 | 51% | 51% | full method | 1,414 | 1,041 | 0 | (600) |

| Company name | Carrying amount of shares as at Dec 31 2010 | % of share capital held | % of the total vote | Method of consolidation | Assets | Liabilities | Revenue | Net profit/ loss |
|---|---|---|---|---|---|---|---|---|
| LZT Elterma S.A. | 7,657 | 100% | 100% | full method | 50,529 | 28,090 | 55,584 | (2,407) |
| SECO/WARWICK Corporation | 21,806 | 100% | 100% | full method | 28,800 | 21,489 | 35,070 | (3,743) |
| SECO/WARWICK Moscow | 172 | 100% | 100% | full method | 1,452 | 599 | 506 | 11 |
| SECO/WARWICK Tianjin* | 889 | 50% | 50% | proportional method | 6,000 | 3,254 | 579 | (374) |
| RETECH Systems LLC | 50,863 | 100% | 100% | full method | 63,931 | 39,724 | 4,302 | (42) |
| SECO/WARWICK RETECH | 1,751 | 100% | 100% | full method | 6,012 | 2,971 | 4,148 | (30) |
| SECO/WARWICK ALLIED | 10,995 | 50% | 50% | equity method | 44,574 | 29,173 | 44,719 | 2,794 |

*Discontinued operations.

## Note 13. TEST FOR IMPAIRMENT OF SHARES

### Tests for impairment of shares

The Company carried out tests for impairment of shares held in subsidiary entities of SECO/WARWICK Corporation and Retech Systems LLC. No impairment loss was recognised as a result of the tests. The recoverable amounts attributable to individual cash-generating units were determined based on their calculated value in use.

### Cash-generating unit

In each case the value in use was calculated based on cash flow projections derived from the financial budgets covering a period of five years. The projections reflect the management's business experience and an analysis of third-party information. The table below presents the key assumptions concerning the discount rate and the estimated growth rate after the period of detailed projections:

| No. | Item | |
|---|---|---|
| 1. | Projection period | 5 years |
| 2. | Discount rate: | |
| | *SECO/WARWICK Corp.* | 12.0% |
| | *Retech Systems LLC* | 7.9% |
| 3. | Growth rate after the budget period | 2% |

**Other important assumptions for the calculation of the value in use are as follows:**

Estimates of the value in use of a cash-generating unit are sensitive to changes of the following variables:

• free cash flows;

• discount rates;

• market share in the projection period.

Free cash flows are estimated based on historical data concerning individual cash-generating units and forecast operating profit, depreciation and amortisation, capital expenditure, changes in non-cash current assets and non-financial liabilities.

Discount rate reflects the management's assessment of the risk inherent in the company's operations. It is used by the management to assess the operating efficiency (performance) and future investment proposals. The discount rate was determined taking into account the risk-free interest rate determined for each period covered by the projection as the arithmetic mean of the following: median of the forecast risk-free interest rates calculated by stock-exchange analysts and estimated future risk-free interest rates.

Growth rates after the budget period are estimated based on the published findings of industry research.

Assumptions regarding the market are material because – in addition to using industry data to determine the growth rate – the management assesses how the assets and financial standing of individual cash-generating units may change over the budget period relative to their peers. The management expects the market share to remain stable over the projection period.

**Sensitivity to changes of assumptions**

With respect to the estimation of the value in use of individual cash-generating units, the management believes that no reasonably possible change of any of the key assumptions referred to above could cause the carrying amount of a given cash-generating unit to exceed its recoverable amount. As the carrying amounts are lower than the respective value in use (recoverable amounts), no impairment losses were recognised on the shares held.

## Note 14. INVENTORIES

Inventories are valued at acquisition or production cost, but no higher than at net realisable value as at the balance-sheet date. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to sell.

| Inventories | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Materials (at cost) | 10,620 | 8,549 |
| Semi-finished products and work in progress | 3,915 | 1,508 |
| Finished products | - | - |
| Goods for resale | - | - |
| Prepaid deliveries | - | - |
| **Total inventories (carrying amount)** | **14,535** | **10,057** |
| Impairment losses on inventories | - | - |
| **Inventories, gross** | **14,535** | **10,057** |

## CHANGES IN IMPAIRMENT LOSSES ON INVENTORIES

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| **Balance at beginning of period** | **-** | **-** |
| **Increase, including:** | **-** | **-** |
| - impairment losses recognised in correspondence with other operating expenses | - | - |
| **Decrease, including:** | **-** | **-** |
| - impairment losses reversed in correspondence with other operating income | - | - |
| - impairment losses used | - | - |
| **Balance of impairment losses on finished products at end of period** | **-** | **-** |

## Note 15. LONG-TERM CONTRACTS

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Costs incurred under construction contracts, including recognised gains (net of recognised losses) | 33,547 | 33,339 |
| Advances received | -12,911 | -11,359 |
| Excess of received advances over revenue recognised using the percentage of completion method | 2,312 | 1,464 |
| **Total assets under construction contracts in progress** | **22,948** | **23,444** |

## Note 16. TRADE AND OTHER RECEIVABLES

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| a) from related entities | **8,657** | **3,628** |
| - trade receivables, maturing in: | 8,657 | 3,619 |
| - up to 12 months | 8,657 | 3,619 |
| - over 12 months | | |
| - other | | 9 |
| b) from other entities | **39,176** | **37,209** |
| - trade receivables, maturing in: | 34,126 | 33,118 |
| - up to 12 months | 34,126 | 33,118 |
| - over 12 months | | |
| - taxes, grants, customs duties, social security and other benefits receivable | 1,311 | |
| - other | 3,740 | 4,091 |
| - receivables under court proceedings | | |
| **Total trade and other receivables, net** | **47,833** | **40,837** |
| c) impairment losses on receivables | 1,293 | 888 |
| **Total trade and other receivables, gross** | **49,126** | **41,725** |

The Company operates a policy of selling its products and services only to customers whose reliability it has checked. Management believes that thanks to this policy there is no additional credit risk beyond the level determined by the impairment losses recognised with respect to the Company's uncollectible trade receivables.

As at December 31st 2011, trade receivables of PLN 1,293 thousand (2010: PLN 888 thousand) were classified as unrecoverable and, accordingly, a relevant impairment loss was recognised.

The changes in impairment losses on receivables were as follows:

| CHANGE IN IMPAIRMENT LOSSES ON TRADE AND OTHER RECEIVABLES | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Change in impairment losses on receivables from related entities | - | - |
| Impairment losses as at beginning of period | **2** | **64** |
| **a) increase, including:** | **-** | **-** |
| - trade receivables | - | - |
| - impairment losses of acquired entities | - | - |
| - receivables under court proceedings | - | - |
| - other | - | - |
| **b) decrease, including:** | **-** | **62** |
| - reversal of impairment losses on trade receivables | - | 62 |
| - reversal of impairment losses on receivables under court proceedings | - | - |
| - reversal of impairment losses on other receivables | - | - |
| - use | - | - |
| - exchange differences | - | - |
| **Impairment losses on trade receivables from related entities as at end of period** | 2 | 2 |
| Change in impairment losses on receivables from other entities | - | - |
| Impairment losses as at beginning of period | **886** | **680** |
| **a) increase, including:** | **1,045** | **399** |
| - trade receivables | 1,045 | 144 |
| - receivables under court proceedings | - | 255 |
| - other | - | - |
| **b) decrease, including:** | **639** | **193** |
| - reversal of impairment losses on trade receivables | 255 | 95 |
| - reversal of impairment losses on receivables under court proceedings | - | - |
| - reversal of impairment losses on other receivables | 255 | - |
| - use | 129 | 98 |
| **Impairment losses on trade receivables from other entities as at end of period** | **1,292** | **886** |
| | | - |
| **Impairment losses on trade receivables as at end of period** | **1,293** | **888** |

Maturity structure of trade receivables (gross) as from the balance-sheet date:

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| up to 1 month | 3,824 | 2,707 |
| more than 1 month, up to 3 months | 29,132 | 8,947 |
| more than 3 months, up to 6 months | 8,825 | 6,643 |
| more than 6 months, up to 1 year | 190 | 18,339 |
| more than 1 year | - | - |
| past due | 812 | 825 |
| Total trade receivables (gross) | 44,076 | 38,349 |
| Impairment losses on trade receivables | 1,293 | 888 |
| **Total trade receivables (net)** | **42,783** | **37,461** |

Trade and other receivables (gross) by currency:

| Item | Dec 31 2011 | | Dec 31 2010 | |
|---|---|---|---|---|
| | in foreign currency | restated in PLN | in foreign currency | restated in PLN |
| PLN | - | 9,269 | - | 6,340 |
| EUR | 7,498 | 33,117 | 7,233 | 28,630 |
| USD | 1,875 | 6,408 | 1,921 | 5,622 |
| GBP | 63 | 332 | 247 | 1,133 |
| CHF | - | | - | - |
| Other | - | | - | - |
| **Total** | | **49,126** | | **41,725** |

Trade receivables under court proceedings:

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Trade receivables under court proceedings | - | 783 |
| Impairment losses on disputed receivables | - | 255 |
| **Net trade receivables under court proceedings** | **-** | **528** |

## Contingent receivables

Guarantees received as at December 31st 2011:

| Company name | Bank name | Surety in respect of | Currency | Dec 31 2011 | *AMOUNT (PLN)* |
|---|---|---|---|---|---|
| Nyborg-Mawent SA | | PBG | PLN | 72 | 72 |
| Winkel / Volvo | | APG | EUR | 24 | 104 |
| STS | | Payment Guarantee | EUR | 105 | 463 |
| **Total** | | | | | **639** |

Guarantees received as at December 31st 2010:

| Company name | Bank name | Surety in respect of | Currency | Dec 31 2010 | *AMOUNT (PLN)* |
|---|---|---|---|---|---|
| Nyborg-Mawent SA | | PBG | PLN | 72 | 72 |
| **Total** | | | | | **72** |

## Note 17. OTHER FINANCIAL ASSETS AND LIABILITIES

**Loans advanced (including loans advanced to members of the Management Board) – as at December 31st 2011**

No loans were advanced to members of the Management Board or the Supervisory Board in 2011.

**LOANS ADVANCED**

| | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Loans advanced | 2,442 | 4,741 |
| Impairment losses | | |
| **Total net loans advanced** | **2442** | **4,741** |
| - non-current | | |
| - current | 2442 | 4,741 |

On February 22nd 2010, SECO/WARWICK S.A. advanced a PLN 4,000 thousand loan to its subsidiary, SECO/WARWICK ThermAL S.A. Following partial repayment of the loan on December 29th 2011, the outstanding amount is PLN 2,000 thousand. Under an annex to the agreement of December 31st 2011, the borrower agreed to repay the loan by April 30th 2012.

On September 10th 2010, SECO/WARWICK S.A. advanced a USD 250 thousand loan to its subsidiary, SECO/WARWICK Corp. Under an annex to the agreement of December 25th 2010, the borrower agreed to repay the loan by March 31st 2011. The loan was repaid on the agreed date.

On July 1st 2011, SECO/WARWICK S.A. advanced a EUR 100 thousand loan (carrying amount: PLN 442 thousand) to its subsidiary, SECO/WARWICK GmbH.
As at December 31st 2011, the interest accrued under the loan was PLN 11 thousand.

On November 23rd 2011, SECO/WARWICK S.A. advanced a PLN 400 thousand loan to its subsidiary, SECO/WARWICK ThermAL S.A. The borrower agreed to repay the loan by November 30th 2011. The loan was repaid on the agreed date.

**OTHER FINANCIAL ASSETS AND LIABILITIES**

| | Dec 31 2011 | | Dec 31 2010 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Derivative financial instruments | | 4,321 | 46 | 21 |
| Lease liabilities | | 5 | | 55 |
| **Total financial assets and liabilities at fair value through profit or loss** | | **4,326** | **0** | **76** |
| - non-current | | | | 4 |
| - current | | 4,326 | 46 | 72 |
| **Total financial assets and liabilities at fair value through equity** | | **-753** | **0** | **-17** |
| - non-current | | | | |
| - current | | -753 | | -17 |

## Disclosures concerning derivative financial instruments which meet the hedge accounting criteria

SECO/WARWICK S.A. uses currency forwards and zero-cost collars established by writing a put option and buying a call option to hedge an average of 60% of its EUR-denominated cash flows generated from export sales and up to 55% of its USD- and GBP-denominated cash flows. The purpose is to ensure that the budgeted exchange rates for contracts are met. Any changes in the value of the EUR- or USD-denominated cash flows are offset by changes in the fair value of the hedging instrument. Hedge accounting is applied if all the criteria provided for in IAS 39:88 are met. Any negative balance-sheet valuation of derivative instruments is recognised directly in equity. If a transaction which has been hedged with a currency forward affects the income statement, any negative valuation previously recognised inequity is reclassified into the income statement. Fair value of currency forward contracts was determined by the bank which is party to the transaction.

The table below presents details of each hedging relationship as at December 31st 2011.

| Dec 31 2011 | Notional amount of contract with business partner (EUR'000) | Original notional amount of hedging instrument (EUR'000) | Notional amount of hedging instrument as at Dec 31 2011 (EUR '000) | Fair value of hedging instrument (PLN '000) | Amount recognised in profit or loss (PLN '000) | Amount recognised in equity (PLN '000) | Date of expected cash flow |
|---|---|---|---|---|---|---|---|
| 1 | 545 | 380 | 100 | -36 | -35 | -2 | Mar 30 2012 |
| 2 | 5,500 | 4,125 | 2,050 | -896 | -880 | -16 | Mar 30 2012 |
| 3 | 1,299 | 900 | 900 | -400 | -379 | -21 | Mar 1 2012 |
| 4 | 1,029 | 720 | 340 | -132 | -130 | -2 | May 31 2012 |
| 5 | 711 | 400 | 400 | -185 | -154 | -31 | Mar 28 2012 |
| 6 | 275 | 190 | 40 | -18 | -18 | 0 | Mar 28 2012 |
| 7 | 741 | 525 | 525 | -276 | -276 | 0 | May 31 2012 |
| 8 | 400 | 280 | 280 | -132 | -132 | 0 | Apr 30 2012 |
| 9 | 967 | 677 | 677 | -335 | -172 | -163 | May 31 2012 |
| 10 | 120 | 84 | 84 | -37 | -37 | 0 | Mar 30 2012 |
| 11 | 203 | 140 | 140 | -63 | -63 | 0 | May 31 2012 |
| 12 | 79 | 55 | 55 | -25 | -25 | 0 | Feb 28 2012 |
| 13 | 1,710 | 1,190 | 1,190 | -598 | -155 | -443 | Nov 30 2012 |
| 14 | 576 | 400 | 400 | -170 | -142 | -27 | Feb 28 2012 |
| 15 | 800 | 560 | 400 | -176 | -153 | -23 | Feb 28 2012 |
| 16 | 1,831 | 1,800 | 400 | -42 | -37 | -5 | Jun 29 2012 |
| **TOTAL** | **16,785** | **12,426** | **7,981** | **-3,522** | **-2,788** | **-734** | |

| 31/12/2011 | Notional amount of contract with business partner (USD'000) | Original notional amount of hedging instrument (USD'000) | Notional amount of hedging instrument as at Dec 31 2011 (USD '000) | Fair value of hedging instrument (PLN '000) | Amount recognised in profit or loss (PLN '000) | Amount recognised in equity (PLN '000) | Date of expected cash flow |
|---|---|---|---|---|---|---|---|
| 1 | 506 | 180 | 180 | -118 | -108 | -10 | Jan 31 2012 |
| 2 | 835 | 585 | 585 | -377 | -198 | -178 | Aug 30 2012 |
| 3 | 836 | 500 | 500 | -305 | -297 | -8 | Jul 2 2012 |
| **TOTAL** | **2,177** | **1,265** | **1,265** | **-799** | **-604** | **-196** | |

## Note 18. PREPAYMENTS AND ACCRUED INCOME

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Insurance policies | 291 | 207 |
| Subscriptions | 2 | 2 |
| VAT to be settled in the following period | 391 | 396 |
| Other | 149 | 124 |
| **Total current prepayments and accrued income** | **833** | **729** |

## Note 19. CASH AND CASH EQUIVALENTS

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Cash at banks and cash in hand | 1,452 | 2,779 |
| Short-term deposits | | |
| Other cash equivalents | | |
| **Total cash and cash equivalents** | **1,452** | **2,779** |

CASH AND CASH EQUIVALENTS (BY CURRENCY):

| Item | Dec 31 2011 | | Dec 31 2010 | |
|---|---|---|---|---|
| | in foreign currency | restated in PLN | in foreign currency | restated in PLN |
| PLN | - | 32 | - | 447 |
| EUR | 155 | 685 | 583 | 2,307 |
| USD | 178 | 608 | 1 | 3 |
| GBP | 24 | 127 | 5 | 22 |
| **Total** | | **1,452** | | **2,779** |

## Note 20. SHARE CAPITAL AND STATUTORY RESERVE FUNDS/CAPITAL RESERVES

**Share capital**

| Item | *Dec 31 2011* | *Dec 31 2010* |
|---|---|---|
| Number of shares | 10,476,210 | 10,476,210 |
| Par value of shares | 0.2 | 0.2 |
| **Share capital** | 2,095 | 2,095 |
| **Share capital restated using a hyperinflation index (IAS 19)** | 1,557 | 1,557 |
| **Share capital at end of period** | **3,652** | **3,652** |

Share capital structure:

| Shareholder | Type of preference attached to shares | Type of limitation on rights to shares | Number of shares |
|---|---|---|---|
| SW Poland Holding B.V. (Netherlands) | None | - | 4,119,508 |
| Spruce Holding Limited Liability Company (USA) | None | - | 1,726,174 |
| James A. Goltz (since March 12th 2012 -Bleauhard Holdings LLC) | None | - | 904,207 |
| ING NN OFE | None | - | 600,000 |
| OFE Polsat S.A. | None | - | 485,974 |
| Other | None | - | 2,640,347 |
| **TOTAL** | | | 10,476,210 |

Changes in share capital:

| Item | *Jan 1–Dec 31 2011* | *Jan 1–Dec 31 2010* |
|---|---|---|
| **Share capital at beginning of period** | 3,652 | 1,914 |
| **Share capital increases during the period** | | |
| Share capital increase | | 181 |
| Share capital restated using a hyperinflation index (IAS 19) | | 1,557 |
| **Share capital reductions during the period** | | |
| **Share capital at end of period** | **3,652** | **3,652** |

Other capitals

| Item | Statutory reserve funds | Other capital reserves |
|---|---|---|
| **Balance as at Dec 31 2010** | **128,530** | **2** |
| **Increase** | | |
| Coverage of loss | -520 | |
| Share capital increase - share premium account | 26,125 | |
| Valuation of management stock options | | 34 |
| **Balance as at Dec 31 2010** | **154,136** | **36** |
| **Increase** | | |
| Profit distributions | 7,225 | |
| Share capital increase - share premium account | | |
| Valuation of management stock options | | |
| **Decrease** | | |
| Management stock options | | 36 |
| **Balance as at Dec 31 2011** | **161,361** | **0** |

## Note 21. RETAINED EARNINGS (DEFICIT)

Retained earnings (deficit) do not include non-distributable amounts (amounts that are not available for distribution as dividends):

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Retained earnings (retained earnings/deficit) | 2,902 | 2,902 |
| Capital reserve from revaluation of hedging derivatives | -753 | -17 |

## Note 22. FINANCIAL AND OTHER LIABILITIES

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Overdraft facilities | 6,560 | 5,841 |
| Bank loans | 6,835 | 7,410 |
| Other financial liabilities: | 4,326 | 76 |
| *- valuation of financial instruments* | *4,321* | *22* |
| *- lease liabilities* | *5* | *54* |
| **Total financial liabilities** | **17,721** | **13,327** |
| - non-current | 5,126 | 5,932 |
| - current | 12,595 | 7,395 |

Loans and borrowings:

| Item | Amount of liability | Interest rate |
|---|---|---|
| | **LOANS** | |
| **Dec 31 2011** | | |
| | Investment loan | |
| BRE BANK S.A. | 6,835 | LIBOR 1M +1,55% |
| | Overdraft facilities | |
| Bank Handlowy | 1,195 | USD- LIBOR 1M +1,6 % |
| BZ WBK | 3,903 | PLN 1M WIBOR +1.1 % |
| BRE BANK | 1,462 | PLN WIBOR O/N + 1.5 % |
| **Total loans** | **13,395** | **x** |
| **Dec 31 2010** | | |
| | Investment loan | |
| BRE BANK S.A. | 7,410 | 1M LIBOR + 1.55 % |
| | Overdraft facilities | |
| CITI BANK | 563 | USD 1M LIBOR + 1.6 % |
| BZ WBK | 3,929 | PLN 1M WIBOR +1.1 % |
| BRE BANK | 1,349 | PLN WIBOR O/N + 1.5 % |
| **Total loans** | **13,251** | **x** |

**Non-current and current loans and borrowings as at December 31st 2011 and December 31st 2010**:

| Name and registered office of lender | Loan / facility amount | | Repayment date | Security |
|---|---|---|---|---|
| | PLN | Currency (USD) | | |
| Bank Handlowy | 1,195 | 350 | May 4 2012 | Submission to enforcement for up to USD 360 thousand |
| BZ WBK | 3,903 | | Oct 31 2012 | Submission to enforcement for up to PLN 16,000 thousand |
| BRE BANK | 1,462 | | Mar 28 2014 | Blank promissory note |
| BRE BANK S.A. investment loan | 6,835 | 2,000 | Dec 31 2015 | Ordinary mortgage for USD 2,500 thousand<br>Ceiling mortgage for USD 250 thousand<br>Submission to enforcement for up to USD 2,750 thousand |
| **Total as at Dec 31 2011** | **13,395** | **X** | **x** | |
| **Name and registered office of lender** | **Loan / facility amount** | | **Repayment date** | **Security** |
| | **PLN** | **Currency (USD)** | | |
| CITI BANK | 563 | 190 | May 5 2011 | Submission to enforcement for up to USD 360 thousand |
| BZ WBK | 3,929 | | Oct 30 2011 | Submission to enforcement for up to PLN 10,000 thousand |
| BRE BANK | 1,349 | | Jun 30 2011 | Blank promissory note |
| BRE BANK S.A. investment loan | 7,410 | 2,500 | Dec 31 2015 | Ordinary mortgage for USD 2,500 thousand<br>Ceiling mortgage for USD 250 thousand<br>Submission to enforcement for up to USD 2,750 thousand |
| **Total as at Dec 31 2010** | **1, 251** | **X** | **x** | |

Loans by maturity:

| Item | *Dec 31 2011* | *Dec 31 2010* |
|---|---|---|
| Current loans and borrowings | 8,269 | 7,323 |
| Non-current loans and borrowings | 5,126 | 5,928 |
| - repayable more than 1 year, up to 3 years | 3,417 | 4,446 |
| - repayable in more than 3 years, up to 5 years | 1,709 | 1,482 |
| - repayable in more than 5 years | | |
| **Total loans and borrowings** | **13,395** | **13,251** |

Loans and borrowings by currency:

| Item | Dec 31 2011 | | Dec 31 2010 | |
|---|---|---|---|---|
| | Value in foreign currency | Value in PLN | Value in foreign currency | Value in PLN |
| PLN | - | 5,365 | - | 5,458 |
| USD | 2,350 | 8,030 | 2,690 | 7,793 |
| **Total loans and borrowings** | **x** | **13,395** | **x** | **13,251** |

**Credit facilities as at Dec 31 2011:**

| Lender | Overdraft facility | Bank loan | Loan / facility amount as per agreement | Interest | Repayment date | Security |
|---|---|---|---|---|---|---|
| **BRE BANK S.A.** | | 6,835 | Loan agreement No. 29/058/10/D/IN for a USD 2,500 thousand investment loan | USD 1M LIBOR + 1.55 % | Dec 31 2015 | Ordinary mortgage for USD 2,500 thousand<br>Ceiling mortgage for USD 250 thousand<br>Submission to enforcement for up to USD 2,750 thousand |
| | | | General cooperation agreement No. 29/019/03/Z/PX, Annex 14 of April 21st 2011<br>for PLN 18,000 thousand | 0.135% a.v, 1.62 pa; change in guarantee<br>PLN 500 | Mar 28 2014 | Blank promissory note with a promissory note declaration, powers of attorney to SWSA's bank accounts held with BH, BZWBK, uncertified assignment of claims in the event that total debt under the FBD credit facility exceeds PLN 5m, maximum PLN 22m, submission to voluntary enforcement for up to PLN 27m |
| | 1,462 | | Agreement No. 29/034/10//Z/VV, Annex 3 of February 27th 2012 | PLN WIBOR O/N + 1.50% | Mar 28 2014 | |
| **Bank Handlowy** | 1,195 | | Agreement No. BDK/KR-RB/000009908/0181/10 of May 6th 2010 for an overdraft facility of up to USD 600 thousand; USD<br>Annex 3 of October 10th 2011 | PLN 1M LIBOR + 1.6% | May 4 2012 | Submission to enforcement for up to USD 360 thousand |
| | | | Framework agreement No. BDK/URT/0000099098/0056/11 of December 19th 2011 on a revolving guarantee facility; | 0.15% a.v., 1.8 pa for each commenced month of the agreement validity – payable in advance | Nov 30 2012 | Submission to enforcement for up to PLN 3,600,000, entity to make an uncertified assignment of claims under contract if the amount used under the facility exceeds PLN 5m |
| **BZ WBK S.A** | 3,903 | | Overdraft facility agreement No. KR K0007042 of October 20th 2011, Annex 3 | PLN 1M WIBOR +1.1 % | Oct 31 2012 | Submission to enforcement for up to PLN 16,000 thousand |
| **Total** | **6,560** | **6,835** | | | | |

**Credit facilities as at Dec 31 2010:**

| Lender | Overdraft facility | Bank loan | Loan/facility amount as per agreement | Interest | Repayment date | Security |
|---|---|---|---|---|---|---|
| **BRE BANK S.A.** | | 7,410 | Loan agreement No. 29/058/10/D/IN for a USD 2,500 thousand investment loan | USD 1M LIBOR + 1.55 % | Dec 31 2015 | Ordinary mortgage for USD 2,500 thousand<br>Ceiling mortgage for USD 250 thousand<br>Submission to enforcement for up to USD 2,750 thousand |
| | | | General cooperation agreement No. 29/019/03/Z/PX, Annex 9 of July 12th 2010<br>for PLN 18,000 thousand | | Jun 30 2011 | Blank promissory note with a promissory note declaration, powers of attorney to SWSA's bank accounts held with BH, BZWBK, uncertified assignment of claims in the event that total debt under the FBD credit facility exceeds PLN 5m, maximum PLN 22m, submission to voluntary enforcement for up to PLN 27m |
| | 1,349 | | Agreement No. 29/020/03/Z/VV, Annex 9 of July 12th 2010; overdraft facility of up to PLN 3,000 thousand;<br>guarantee facility of up to PLN 15,000 thousand | PLN WIBOR O/N + 1.50%<br>0.135% a.v, 1.62 pa; change in guarantee PLN 500 | Jun 30 2011 | |
| **CITI BANK** | 563 | | Agreement No. BDK/KR-RB/000009908/0181/10 of May 6th 2010 for an overdraft facility of up to USD 600 thousand; USD<br>Annex 1 of December 2nd 2010 | USD 1M LIBOR + 1.6 % | May 5 2011 | Submission to enforcement for up to USD 360 thousand |
| | | | Framework agreement No. BDK/URT/0000099098/0056/09 of December 3rd 2009 on a PLN 9,000 thousand revolving guarantee facility;<br>Annex 2 of December 2nd 2010 | 0.15% a.v., 1.8 pa for each commenced month of the agreement validity – payable in advance | Nov 30 2011 | Submission to enforcement for up to PLN 10.8m<br>Undertaking to make an uncertified assignment of claims under contract if the amount used under the facility exceeds PLN 5m |
| **BZ WBK S.A** | 3,929 | | Overdraft facility agreement No. KR K000704; from October 20th 2010 to May 31st 2010: PLN 5,000 thousand, | PLN 1M WIBOR +1.1 % | May 31 2010 | Submission to enforcement for up to PLN 10,000 thousand |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | then up until October 30th 2011: PLN 2,500 thousand | | | |
| **HSBC BANK** | | | Agreement No. 167/2009 of January 5th 2010 on a guarantee facility of PLN 3,400 thousand | 0.15% a.v.; 1.8 pa, minimum of PLN 400 thousand | Dec 31 2010 | Submission to enforcement for up to PLN 5,100 thousand, valid until December 31st 2014, promissory note, powers of attorney for the bank |
| **Total** | **5,841** | **7,410** | | | | |

**LEASES**

SECO/WARWICK S.A. concluded with BRE Leasing Sp. z o.o. lease agreement No. PO/77517/2009 for the lease of passenger car SUBARU Tribeca. The initial value of the lease agreement was PLN 140 thousand. The agreement expired on January 13th 2012. As at the end of 2011, the lease liability was PLN 5 thousand.

As at December 31st 2011, the future minimum lease payments under lease agreements and the net present value of the minimum lease payments were as follows:

| Item | Dec 31 2011 | | Dec 31 2010 | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of the lease payments | Minimum lease payments | Present value of the lease payments |
| Up to 1 year | 5 | 5 | 53 | 50 |
| From 1 year to 5 years | | | 4 | 4 |
| Over 5 years | | | | |
| **Total minimum lease payments** | **5** | **5** | **58** | **55** |
| Future interest expense | | | 3 | |
| **Present value of minimum lease payments, including:** | **5** | **5** | **55** | **55** |
| Current | 5 | 5 | 50 | 50 |
| Non-current | | | 4 | 4 |

## OTHER LIABILITIES

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Other liabilities: | **-** | **490** |
| - current portion | - | 490 |
| - non-current portion | - | - |

SECO/WARWICK S.A. no longer has investment commitments towards SECO/WARWICK ALLIED Pvt. LTD (December 31st 2010: PLN 490 thousand under the share purchase agreement).

## Note 23. TRADE PAYABLES AND OTHER LIABILITIES

| TRADE PAYABLES AND OTHER LIABILITIES | as at Dec 31 2011 | as at Dec 31 2010 |
|---|---|---|
| a) trade payables maturing in: | 10,277 | 12,209 |
| - up to 12 months | 10,277 | 12,209 |
| - over 12 months | | |
| b) prepaid deliveries | 799 | 747 |
| c) promissory notes payable | | |
| d) taxes, customs duties, social security and other benefits payable (net of income tax) | | 1,422 |
| e) salaries and wages payable | 1,216 | 1,111 |
| f) other | 1,778 | 709 |
| **TOTAL** | **14,070** | **16,198** |

Trade and other current payables by currency:

| Item | Dec 31 2011 | | Dec 31 2010 | |
|---|---|---|---|---|
| | in foreign currency | restated in PLN | in foreign currency | restated in PLN |
| PLN | | 8,459 | | 8,349 |
| EUR | 991 | 4,375 | 1,565 | 6,190 |
| USD | 360 | 1,231 | 199 | 588 |
| GBP | 0.7 | 4 | 13 | 573 |
| SEK | 2 | 1 | | |
| other | | | | 498 |
| **Total** | **x** | **14,070** | **x** | **16,198** |

Trade payables by delinquency period:

| Item | *Total* | *Not past due* | *Past due but recoverable* | | | | |
|---|---|---|---|---|---|---|---|
| | | | *< 30 days* | *30 – 60 days* | *60 – 90 days* | *90 – 180 days* | *>180 days* |
| ***Dec 31 2011*** | **11,076** | 11,076 | | | | | |
| ***Dec 31 2010*** | **12,956** | 12,956 | | | | | |

Other current liabilities by delinquency period:

| Item | *Total* | *Not past due* | *Past due but recoverable* | | | | |
|---|---|---|---|---|---|---|---|
| | | | *< 30 days* | *30 – 60 days* | *60 – 90 days* | *90 – 180 days* | *>180 days* |
| ***Dec 31 2011*** | **2,994** | 2,994 | | | | | |
| ***Dec 31 2010*** | **3,242** | 3,242 | | | | | |

**Contingent liabilities**

Contingent liabilities under guarantees and sureties:

| **Dec 31 2011** | **Bank name** | **Surety in respect of** | **Currency** | ***IN FOREIGN CURRENCY*** | ***AMOUNT (PLN)**** |
|---|---|---|---|---|---|
| Guarantee 1 | BRE | PBG | PLN | 37 | 37 |
| Guarantee 2 | BRE | PBG | EUR | 184 | 813 |
| Guarantee 3 | BRE | PBG | EUR | 174 | 766 |
| Guarantee 4 | BRE | PGB | EUR | 137 | 605 |
| Guarantee 5 | BH | SBLC | USD | 1,000 | 3,417 |
| Guarantee 6 | BRE | PGB | EUR | 80 | 353 |
| Guarantee 7 | BH | SBLC | USD | 500 | 1,709 |
| Guarantee 8 | BRE | PBG | EUR | 58 | 254 |

| | | | | | |
|---|---|---|---|---|---|
| Guarantee 9 | BH | APG | EUR | 513 | 2,266 |
| Guarantee 10 | BRE | PBG | EUR | 12 | 53 |
| Guarantee 11 | BRE | APG | PLN | 665 | 665 |
| Guarantee 12 | BRE | APG | EUR | 207 | 914 |
| Guarantee 13 | BRE | PBG | USD | 70 | 238 |
| Guarantee 14 | BH | SBLC | USD | 506 | 1,729 |
| Guarantee 15 | BRE | PGB | EUR | 12 | 53 |
| Guarantee 16 | BRE | APG | PLN | 1,808 | 1,808 |
| Guarantee 17 | BRE | Payment guarantee | EUR | 47 | 208 |
| **TOTAL** | | | | | **15,889** |

* The guarantees were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2011.

| **Dec 31 2010** | **Bank name** | **Surety in respect of** | **Currency** | ***IN FOREIGN CURRENCY*** | ***AMOUNT (PLN)***** |
|---|---|---|---|---|---|
| Guarantee 1 | BRE | PBG | PLN | 35 | 35 |
| Guarantee 2 | BRE | PBG | EUR | 200 | 792 |
| Guarantee 3 | BRE | PBG | EUR | 184 | 729 |
| Guarantee 4 | BRE | PBG | EUR | 140 | 554 |
| Guarantee 5 | BRE | PBG | EUR | 174 | 687 |
| Guarantee 6 | BRE | PBG | EUR | 12 | 46 |
| Guarantee 7 | BRE | PBG | EUR | 159 | 628 |
| Guarantee 8 | BRE | APG | EUR | 135 | 533 |
| Guarantee 9 | HSBC | PBG | PLN | 850 | 850 |
| Guarantee 10 | BRE | APG | EUR | 233 | 924 |
| Guarantee 11 | BRE | APG | PLN | 803 | 803 |
| Guarantee 12 | BRE | BB | EUR | 54 | 214 |
| Guarantee 13 | BRE | APG | PLN | 785 | 785 |
| Guarantee 14 | BRE | APG | EUR | 233 | 924 |
| Guarantee 15 | BRE | BB | USD | 26 | 77 |
| Guarantee 16 | BH | APG | EUR | 719 | 2,848 |
| Guarantee 17 | BRE | PGB | EUR | 137 | 542 |
| Guarantee 18 | BRE | APG | USD | 510 | 1,512 |
| Guarantee 19 | BRE | APG | EUR | 83 | 328 |
| Guarantee 20 | BRE | APG | EUR | 42 | 166 |
| **TOTAL** | | | | | **13,977** |

** The guarantees were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2010.

APG → advance payment guarantee
CRG → credit repayment guarantee

PBG → performance bond guarantee
CRB → credit repayment bond

**Other sureties**

| Company name | Bank name | Surety in respect of | Currency | Dec 31 2011 | *AMOUNT (PLN)* |
|---|---|---|---|---|---|
| S/W ALLIED Pvt. Ltd. | Union Bank of India | Guarantee and credit facility | INR | 225,000 | 14,423 |
| RETECH Systems | East West Bank | Credit guarantee | USD | 1,000 | 3,417 |
| RETECH Systems | East West Bank | Guarantee and credit facility | USD | 19,000 | 64,931 |
| Hart-Tech | BOŚ Bank | Conditional surety | PLN | 2,000 | 2,000 |
| **TOTAL** | | | | | **84,771** |

| Company name | Bank name | Surety in respect of | Currency | Dec 31 2010 | *AMOUNT (PLN)* |
|---|---|---|---|---|---|
| S/W ALLIED Pvt. Ltd. | Union Bank of India | Guarantee and credit facility | INR | 147,500 | 9,949 |
| RETECH Systems | East West Bank | Credit guarantee | USD | 1,000 | 2,964 |
| RETECH Systems | East West Bank | Guarantee and credit facility | USD | 15,000 | 44,462 |
| LZT ELTERMA | BZ WBK | Guarantee facility | PLN | 2,500 | 2,500 |
| **TOTAL** | | | | | **59,875** |

On April 6th 2011, the Company's Management Board adopted a resolution to increase the value of surety granted for SECO/WARWICK Allied Pvt. Ltd. (India) from INR 147,500 thousand to INR 225,000 thousand. The total value of the surety, translated at the mid-exchange rate quoted by the National Bank of Poland for the date of the resolution, is PLN 14,233 thousand.

On November 17th 2010, SECO/WARWICK S.A. provided indemnification against any claims under guarantees issued to James A. Goltz in relation to a credit facility provided to RETECH Systems by East West Bank.

On March 10th 2011, Retech Systems LLC executed an annex to Credit Facility Agreement No. 3001971 which raised the guarantee and credit facility limit from USD 15,000 thousand to USD 19,000 thousand. Following the increase in the facility limit, the value of the surety issued by SECO/WARWICK S.A. for Retech Systems LLC was raised by USD 4,000 thousand.

The PLN 2,000 thousand surety was issued by SECO/WARWICK S.A. to secure the repayment of a loan contracted by Hart-Tech Sp. z o.o. from Bank Ochrony Środowiska. The surety is conditional, as defined in Art. 89 of the Polish Civil Code, and the condition giving legal effect to the obligation undertaken by SECO/WARWICK S.A. under the surety is the award of financial aid in the form of technology credit under Measure 4.3 of the Operational Programme Innovative Economy 2007-2013 to Hart-Tech Sp. z o.o. by Bank Gospodarki Krajowej. Technology Credit Facility under the Innovative Economy Operational Programme, 2007-2013.

**Social assets and liabilities of the Company Social Benefits Fund**

The Act on Company Social Benefits Fund of March 4th 1994 (as amended) stipulates that an employer should set up a Company Social Benefits Fund if it has more than 20 full-time employees. The Company has set up such a Fund and makes periodic contributions to the Fund in the amount of the basic contribution / contribution agreed upon with the trade unions. Additionally, the Fund holds property, plant and equipment. The Fund is used to subsidise the Company's social activity, loans advanced to the employees and other social expenses.

The Company set off the Fund's assets against its liabilities towards the Fund, as the Fund's assets do not represent a separate asset category.

The table below presents analytic data on the Fund's assets, liabilities and expenses, as well as the net balance of the Fund.

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Total tangible assets contributed to the Fund | | |
| Loans advanced to employees | 92 | 72 |
| Cash | 154 | 88 |
| Liabilities to the Fund | | |
| | | |
| Net balance | 198 | 130 |
| Contributions to the Fund during financial period | 344 | 278 |

**Investment commitments**

As at December 31st 2011, the Company had capital commitments of PLN 107 thousand related to acquisition of property, plant and equipment; as at the end of 2010, investment commitments was PLN 80 thousand. These amounts were used to purchase new plant and equipment.

## Note 24. PROVISIONS

### EMPLOYEE BENEFITS

**Retirement benefits and other post-employment benefits**

Retiring employees of the Company receive retirement severance pays in amounts established pursuant to the Polish Labour Code. Therefore, based on a valuation prepared by a qualified actuary, the Company recognises a provision for the present value of the retirement severance pay obligations.

### Provision for retirement severance pays and similar benefits

| NON-CURRENT PROVISION FOR RETIREMENT BENEFITS AND SEVERANCE PAYS | Jan 1– Dec 31 2011 | Jan 1– Dec 31 2010 |
|---|---|---|
| as at beginning of period | 110 | 70 |
| increase | | |
| - provisions of acquired entities | | |
| - provision created | 165 | 110 |
| use | | |
| release | 110 | 70 |
| **as at end of period** | **165** | **110** |

The table below presents key assumptions made by the actuary, AVCS Sp. z o.o., as at the balance sheet date.

| Item | *Dec 31 2011* | *Dec 31 2010* |
|---|---|---|
| Discount rate (%) | 5.80 | 6.00 |
| Expected inflation rate (%) | 2.50 | 2.50 |
| Expected rate of growth of salaries and wages (%) | 5.00 | 5.00 |

| **CURRENT PROVISION FOR RETIREMENT AND SIMILAR BENEFITS (BY CATEGORY)** | **Jan 1–Dec 31 2011** | **Jan 1–Dec 31 2010** |
|---|---|---|
| **1. Provision for unused holidays** | | |
| a) as at beginning of period | **488** | **277** |
| b) increase | 649 | 488 |
| - provisions of acquired entities | - | - |
| - provision created | 649 | 488 |
| c) use | - | - |
| d) release | 488 | 277 |
| f) **as at end of period** | **649** | **488** |
| **2. Provision for bonuses** | | |
| a) as at beginning of period | **1,433** | **250** |
| b) increase | 2,324 | 1,433 |
| - provisions of acquired entities | - | - |
| - provision created | 2,324 | 1,433 |
| c) use | 1,433 | 250 |
| d) release | 872 | - |
| **f) as at end of period** | **1,452** | **1,433** |
| **3. Provision for retirement severance pays** | | |
| a) as at beginning of period | **56** | **59** |
| b) increase | 78 | 56 |
| - provisions of acquired entities | - | - |
| - provision created | 78 | 56 |
| c) use | - | - |
| d) release | 56 | 59 |
| **f) as at end of period** | **78** | **56** |

## Other provisions

| CHANGE IN OTHER CURRENT PROVISIONS (BY ITEM) | Jan 1–Dec 31 2011 | Jan 1–Dec 31 2010 |
|---|---|---|
| **Provision for projected losses/additional expenses** | | |
| a) as at beginning of period | **274** | **108** |
| b) increase | 2,106 | 240 |
| - provision created | 2,106 | 240 |
| c) use | - | - |
| d) release | 1,638 | 74 |
| **f) as at end of period** | **742** | **274** |
| **Provision for warranty repairs** | | |
| a) as at beginning of period | **1,330** | **1,040** |
| b) increase | - | 1,330 |
| - provision created | - | 1,330 |
| c) use | - | 1,442 |
| d) release | - | -402 |
| **f) as at end of period** | **1,330** | **1,330** |
| **Provision for penalties** | | |
| a) as at beginning of period | **-** | **432** |
| b) increase | - | - |
| - provision created | - | - |
| c) use | - | - |
| d) release | - | 432 |
| **f) as at end of period** | **-** | **-** |

## Note 25. LEASES

**Operating lease**

In 2010–2011, SECO/WARWICK S.A. neither used nor delivered for use any assets under an operating lease agreement.

**Finance leases**

SECO/WARWICK S.A. used a passenger car SUBARU Tribeca. The related agreement with BRE Leasing was concluded on February 20th 2009. For detailed information on the lease, see Note 22.

SECO/WARWICK S.A. did not deliver any assets for use under a finance lease agreement.

## Note 26. DEFERRED INCOME

| Item | *Dec 31 2011* | *Dec 31 2010* |
|---|---|---|
| - subsidies for partial financing of tangible assets | 0 | 1 |
| - subsidies from the Polish Ministry of Science and Higher Education | 4,552 | 4,425 |
| - excess of received advances over revenue recognised using the percentage of completion method | 2,312 | 1,463 |
| - contract costs – business partners | 2,118 | 251 |
| - adjustment to revenue connected with settlement of long-term contracts (invoiced amount exceeding revenue recognised using the percentage of completion method) | 5,609 | 4,036 |
| **Total deferred income, including:** | **14,591** | **10,176** |
| Non-current | 4,552 | 4,425 |
| Current | 10,039 | 5,751 |

## Note 27. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

| Item | *Dec 31 2011* | *Dec 31 2010* |
|---|---|---|
| **Cash in the balance-sheet** | **1,452** | **2,779** |
| exchange differences on balance-sheet valuation | (41) | (37) |
| monetary assets classified as cash equivalents for the purposes of the statement of cash flows | | |
| **Total cash and cash equivalents disclosed in the statement of cash flows** | **1,411** | **2,742** |

| Item | *Dec 31 2011* | *Dec 31 2010* |
|---|---|---|
| **Depreciation and amortisation** | **2,689** | **2,586** |
| amortisation of intangible assets | 2,170 | 2,187 |
| depreciation of property, plant and equipment | 506 | 386 |
| depreciation of investment property | 13 | 13 |
| | | |
| **Change in provisions results from the following items:** | **726** | **1,455** |
| balance-sheet change in provisions | 967 | 1,779 |
| elimination of change in deferred tax liabilities | (240) | (324) |
| | | |
| **Change in inventories results from the following items:** | **(4,477)** | **(1,697)** |
| balance-sheet change in inventories | (4,477) | (1,697) |
| | | |
| **Change in receivables results from the following items:** | **(5,888)** | **(25,452)** |
| balance-sheet change in current receivables | (6,997) | (24,948) |
| elimination of income tax receivable | 1,098 | (504) |
| Interest accrued on the loan advanced to SECO/WARWICK GmbH | 11 | |

| | | |
|---|---|---|
| **Change in current liabilities (excluding financial liabilities) results from the following items:** | **(1,533)** | **7,974** |
| balance-sheet change in current liabilities | 2,127 | 6,054 |
| adjustment for change in liabilities related to acquisition of property, plant and equipment | 105 | (80) |
| elimination of change in lease liabilities | - | 4 |
| valuation of derivative instruments | (4,255) | 1,750 |
| liability towards Allied | 490 | 246 |
| | | |
| **Change in accruals and deferrals results from the following items:** | **4,807** | **2,477** |
| balance-sheet change in accruals and deferrals | 3,488 | 1,748 |
| elimination of change in deferred tax assets | 1,319 | 729 |

## Note 28. RELATED PARTIES

| ***Related party*** | ***Year*** | ***Sales to related party*** | ***Purchases from related party*** | ***Receivables from related party*** | ***Liabilities towards related party*** |
|---|---|---|---|---|---|
| **SECO/WARWICK ThermAL** | | | | | |
| | *2011* | 7,177 | 2,507 | 5,859 | 1,045 |
| | *2010* | 3,906 | 1,195 | 5,878 | 724 |
| **SECO/WARWICK Corporation** | | | | | |
| | *2011* | 2,207 | 1,283 | 2,377 | - |
| | *2010* | 3,474 | 411 | 1,712 | 384 |
| **SECO/WARWICK GmbH** | | | | | |
| | *2011* | - | - | 442 | - |
| | *2010* | - | - | - | - |
| **SECO/WARWICK Moscow** | | | | | |
| | *2011* | 1,824 | - | 173 | - |
| | *2010* | 162 | - | 160 | - |
| **RETECH** | | | | | |
| | *2011* | 409 | 23 | 1,292 | 157 |
| | *2010* | 254 | 1,938 | -28 | 1,336 |
| **SECO/WARWICK RETECH** | | | | | |
| | *2011* | 353 | - | 922 | - |
| | *2010* | 634 | - | 504 | - |
| **SECO/WARWICK Allied** | | | | | |
| | *2011* | 1,053 | - | 1,080 | - |
| | *2010* | 1 | - | 117 | - |

***Other related parties***

*Employment contract between SECO/WARWICK S.A. and Piotr Zawistowski*
Under the contract of February 1st 2007, Piotr Zawistowski was obliged to provide work to the Company as a junior maintenance engineer. The contract was first concluded for a probationary period of three months. On March 1st 2007, the parties signed an annex to the contract,

transforming it into an employment contract for an indefinite term. The contract contains standard provisions, which comply with the Polish Labour Code. On May 5th 2008, Piotr Zawistowski assumed the position of Chief Manager of the Melting Furnaces Maintenance Division, on February 1st 2010 he was appointed Deputy Head of the Vacuum Division in charge of LPC technology and on May 4th 2010 - Head of the VOC Division. Piotr Zawistowski is a close member of the family, as defined in IAS 24, of Andrzej Zawistowski, member of the Management Board of SECO/WARWICK S.A.

*Employment contract between SECO/WARWICK S.A. and Ewa Zawistowska*
Under the contract of January 2nd 2006, Ewa Zawistowska was obliged to provide work to the Company as a human resources management specialist. The contract was concluded for an indefinite term On April 1st 2009, Ewa Zawistowska assumed the position of Management Board Office Administrator. The contract contains standard provisions, which comply with the Polish Labour Code. Ewa Zawistowska is a close member of the family, as defined in IAS 24, of Andrzej Zawistowski, member of the Management Board of SECO/WARWICK S.A.

*Employment contract between SECO/WARWICK S.A. and Katarzyna Zawistowska*
Under the contract of November 3rd 2008, Katarzyna Zawistowska was obliged to provide work to the Company as a full-time Planning Clerk. The contract was first concluded for a probationary period of three months. The next contract was concluded for a definite term. The contract contains standard provisions, which comply with the Polish Labour Code. Since February 2nd 2009, Katarzyna Zawistowska has been employed as a Clerk in the Spare Parts Department. Katarzyna Zawistowska is a close member of the family, as defined in IAS 24, of Andrzej Zawistowski, member of the Management Board of SECO/WARWICK S.A.

*Employment contract between SECO/WARWICK S.A. and Anna Klinowska*
Under the contract of January 3rd 2005, Anna Klinowska was obliged to provide work to the Company as a full-time Management Board Assistant. The contract was first concluded for a probationary period. The next contract was concluded for a definite term. The contract contains standard provisions, which comply with the Polish Labour Code. Since June 1st 2007, Anna Klinowska has been employed as a Human Resources and Payroll Specialist. Anna Klinowska is a close member of the family, as defined in IAS 24, of Witold Klinowski, member of the Management Board of SECO/WARWICK S.A.

| **Other related parties** | ***2011*** | ***2010*** |
|---|---|---|
| Short-term employee benefits (salaries, wages and overheads) | 317 | 415 |
| Length-of-service awards | | |
| Post-employment benefits | | |
| Termination benefits | | |
| Share-based payments | | |

## Note 29. KEY PERSONNEL REMUNERATION

Senior management of SECO\WARWICK S.A. comprises members of the Management and Supervisory Boards.

The table below presents total remuneration paid or payable to members of the Management and Supervisory Boards:

| **Item** | ***Dec 31 2011*** | ***Dec 31 2010*** |
|---|---|---|
| Management Board of SECO/WARWICK S.A. | **2,167** | **2,179** |
| Short-term employee benefits (salaries, wages and overheads) | 2,167 | 2,179 |
| Length-of-service awards | | |

| | | |
|---|---|---|
| Post-employment benefits | | |
| Termination benefits | | |
| Share-based payments | | |
| Supervisory Board of SECO/WARWICK S.A. | **138** | **140** |
| Short-term employee benefits (salaries, wages and overheads) | 138 | 140 |
| Length-of-service awards | | |
| Post-employment benefits | | |
| Termination benefits | | |
| Share-based payments | | |
| **Total** | **2,305** | **2,319** |

***MANAGEMENT BOARD REMUNERATION:***

| Name | Base pay | Other benefits | Total |
|---|---|---|---|
| ***MANAGEMENT BOARD*** | | | |
| **Dec 31 2011** | | | |
| Leszek Przybysz | 500 | **28** | 528 |
| Andrzej Zawistowski | 300 | | 300 |
| Wojciech Modrzyk | 389 | | 389 |
| Witold Klinowski | 526 | | 526 |
| Józef Olejnik | 423 | | 423 |
| **Total** | | | |
| **Dec 31 2010** | **2,138** | **28** | **2,166** |
| Leszek Przybysz | 531 | | 531 |
| Andrzej Zawistowski | 300 | | 300 |
| Wojciech Modrzyk | 397 | | 397 |
| Witold Klinowski | 526 | | 526 |
| Józef Olejnik | 425 | | 425 |
| **Total** | **2,179** | | **2,179** |

***SUPERVISORY BOARD REMUNERATION:***

| Name | *Dec 31 2011* | *Dec 31 2010* |
|---|---|---|
| Henryk Pilarski | 36 | 36 |
| Piotr Kowalewski | 30 | 30 |
| Piotr Kula | 24 | 24 |
| Artur Rusiecki | 24 | 24 |
| Mariusz Czaplicki | 24 | 16 |
| Artur Grygiel | 0 | 10 |
| **Total** | **138** | **140** |

## Note 30. FINANCIAL ASSETS

| Item | Category (IAS 39) | Carrying amount | | Fair value | | Maximum credit risk exposure in 2011 |
|---|---|---|---|---|---|---|
| | | Dec 31 2011 | Dec 31 2010 | Dec 31 2011 | Dec 31 2010 | |
| ***Financial assets*** | | | | | | |
| Investments in related entities | Financial assets classified as held for sale | 94,915 | 93,244 | 94,915 | 93,244 | 94,915 |
| Financial assets available for sale | Financial assets classified as held for sale | | | | | |
| - loans advanced | Loans and receivables | 2,453 | 4,741 | 2,453 | 4,741 | 2,453 |
| Trade and other receivables | Loans and receivables | 47,833 | 40,837 | 47,833 | 40,837 | 47,833 |
| Derivative financial instruments | Financial liabilities at fair value through profit or loss | | 47 | | 47 | 0 |
| Cash and cash equivalents | Loans and receivables | 1,452 | 2,779 | 1,452 | 2,779 | 0 |
| ***Financial liabilities*** | | | | | | |
| **Current** | | | | | | |
| Interest-bearing loans and borrowings, including: | Other financial liabilities at amortised cost | | | | | |
| - *overdraft facility* | Other financial liabilities at amortised cost | 6,560 | 5,841 | 6,560 | 5,841 | 0 |
| - *current loans* | Other financial liabilities at amortised cost | 1,709 | 1,482 | 1,709 | 1,482 | 0 |
| - *finance lease liabilities (current)* | Other financial liabilities at amortised cost | 5 | 50 | 5 | 50 | 0 |
| Trade payables and other liabilities | Other financial | 14,071 | 14,777 | 14,071 | 14,777 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | liabilities at amortised cost | | | | | |
| - *currency forwards* | Financial liabilities at fair value through profit or loss | 4,321 | 21 | 4,321 | 21 | 0 |
| **Non-current** | | | | | | |
| - *non-current loans* | Other financial liabilities at amortised cost | 5,126 | 5,928 | 5,126 | 5,928 | 0 |
| Trade payables and other liabilities | Other financial liabilities at amortised cost | | | | | |
| - finance lease liabilities (non-current) | Other financial liabilities at amortised cost | | 4 | | 4 | 0 |

| Financial assets and liabilities at fair value | Dec 31 2011 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Financial assets at fair value through profit or loss | | | X |
| Financial assets available for sale | | | - |
| Financial liabilities at fair value through profit or loss | | | X |
| Hedging instruments - assets | | | X |
| Hedging instruments - liabilities | | | X |

| Financial assets and liabilities at fair value | Dec 31 2010 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Financial assets at fair value through profit or loss | | | X |
| Financial assets available for sale | | | - |
| Financial liabilities at fair value through profit or loss | | | X |
| Hedging instruments - assets | | | X |
| Hedging instruments - liabilities | | | X |

For the purpose of measurement of derivative financial instruments the Company uses the information provided by banks without reviewing their respective valuation models in detail. Therefore, the Company decided to classify the measurement of derivative instruments as Level 3 measurement.

## Note 31. EMPLOYMENT STRUCTURE

| Item | *Dec 31 2011* | *Dec 31 2010* |
|---|---|---|
| Blue-collar employees | 107 | 107 |
| White-collar employees | 187 | 166 |
| Employees on parental leaves | 2 | 4 |
| **Total** | **296** | **277** |

## Note 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

In the course of its operating and financing activities, SECO/WARWICK S.A. is exposed to risks arising mainly in connection with the financial instruments held by the Company. Those risks may be broadly defined as market risk, comprising currency risk, interest rate risk, liquidity risk and credit risk. The objective behind the Company's financial risk management is to mitigate any adverse movements in foreign exchange and interest rates, stabilise cash flows and ensure an adequate level of liquidity and financial flexibility. The rules of financial risk management within the Company are determined by the Management Board. As part of the risk management process, an expert management accounting system has been developed and implemented. The key risk parameters at the level of operating and financing activities are monitored through monthly reports.
The Company's Finance Department, as the organisational unit responsible for implementation of the Company's financial risk policy, identifies, measures, manages and monitors the risks referred

to above on an ongoing basis. The Management Board receives regular update reports on the type and extent of exposure to a given risk.

### 32.1 Currency risk

The Company is exposed to currency risk, arising in connection with sales, trade receivables, financial liabilities and bank loans denominated in EUR and USD. The currency risk hedging strategy, the objective of which is to minimise the effects of exchange rate fluctuations, is defined and periodically reviewed by the Management Board. In 2011, the following strategy was applied to manage currency risk:

In accordance with the currency risk management procedures in place at the Company, each contract executed by the Company is hedged by means of a forward transaction so as to ensure that the exchange rate budgeted for a given contract is met. With respect to each forward contract entered into by the Company, hedge accounting documentation is maintained in accordance with Par. 88 of IAS 39. The documentation specifies the parameters of the hedge (the forward contract), of the hedged item (contract or payment) and the effectiveness of the hedge. The effectiveness of a hedge is measured at least at the end of every quarter. Where the documented effectiveness of a hedge is high (changes in market value of the forward are fully offset by changes in market value of the payment), hedge accounting is applied – the valuation of the derivative instrument is recognised in equity and then reclassified into the income statement at the time when the related sale is accounted for in the income statement. By using hedge accounting, the Company is able to match the costs with the revenues under hedging transactions.

The Company enters into forward transactions based on the criterion of high effectiveness, as specified in IAS 39 (changes in market value of the forward are fully offset by changes in market value of the payment). Purchase of PUT options is also acceptable, even if the criterion of effectiveness is not met.
Analysis of the Company's sensitivity to fluctuations in PLN/USD and PLN/EUR exchange rates

Assuming a 10% depreciation of the US dollar against the złoty as at December 31st 2011 (all other things being equal), both the Company's net profit for the financial year 2011 and the Company's equity would have been lower by PLN -890 thousand (for 2010, the respective figure would have been PLN -370 thousand). Conversely, assuming a 10% appreciation of the US dollar against the złoty (all other things being equal), both the Company's net profit for the financial year 2011 and its equity would have been higher by PLN +1,890 thousand (for 2010: PLN +630 thousand in both cases).

Assuming a 10% depreciation of the euro against the złoty as at December 31st 2011 (all other things being equal), both net profit for the financial year 2011 and equity would have been lower by PLN -4,860 thousand (for 2010, net profit would have been lower by PLN -5,570 thousand). Conversely, assuming a 10% appreciation of the euro against the złoty (all other things being equal), both net profit for the financial year 2011 and equity would have been higher by PLN +4,860 thousand (for 2010, net profit would have been higher by PLN +5,570 thousand).

Assumptions adopted for 2011:
- average USD/PLN exchange rate used to translate items of the income statement: 2.9679
- average EUR/PLN exchange rate used to translate items of the income statement: 4.1401
- USD/PLN exchange rate as at the end of the period used to translate items of the balance sheet: 3.4174
- EUR/PLN exchange rate as at the end of the period used to translate items of the balance sheet: 4.4168

Assumptions adopted for 2010:

- average USD/PLN exchange rate used to translate items of the income statement: 3.0402
- average EUR/PLN exchange rate used to translate items of the income statement: 4.0044
- USD/PLN exchange rate as at the end of the period used to translate items of the balance sheet: 2.9641
- EUR/PLN exchange rate as at the end of the period used to translate items of the balance sheet: 3.9603

The Company acknowledges that its sales may potentially lead to a concentration of currency risk. In the financial year under analysis, 63% of sales revenue was generated in EUR, 17% – in USD and 20% – in PLN.

### 32.2 Interest rate risk

The Company's exposure to interest rate risk is not material. In the financial year 2011, the total amount of interest on the Company's loan liabilities was PLN 774 thousand.

### 32.3 Risk related to product prices

The bulk of the Company's sales revenue is generated under long-term contracts for the supply of equipment. At the proposal preparation stage, each piece of equipment is priced using the current prices of materials and labour. In addition, the fixed costs and the assumed margin on the equipment are taken into account. As a result, in the opinion of the Company's Management Board, the price risk is minimised.

Nevertheless, the achievement of the Company's strategic objectives concerning product prices may be hindered by competition. If competitive pressures intensify, especially in Asian markets, they may adversely affect the Company's ability to meet its planned financial results. The Company's Management Board believes that the SECO/WARWICK S.A. is now engaged in numerous activities to strengthen its market position and increase its competitive edge by offering high quality services and comprehensive solutions, ensuring that its product mix is flexible, enhancing its existing and building new competence, using state-of-the-art technologies and developing new technological solutions.

### 32.4 Capital management

The Company's capital management relies on a sustainable financial policy, designed to secure financial resources sufficient to finance the Company's business development, while ensuring that its financing structure and liquidity levels are adequate. The Company's capital is defined as the sum of equity and net debt.

The Company's capital management policy takes into account two key elements:

- operating performance in the context of investment and development plans,
- dividend policy and the external debt repayment schedule.

In order to combine these factors, the Company periodically defines its financing structure framework. The current targets under the capital management policy are as follows:

- current ratio – in the range from 1.5 to 2.5,

The capital management policy adopted by the Company requires it to maintain financial discipline, while giving it enough flexibility to support profitable development.
As there are no external requirements regarding the Company's capital, its capital structure may be shaped taking into account the operating performance and the dividend policy.

Capital management is also centred around the goal of maintaining a predetermined level of financial liquidity which allows the Company both to repay its external debt as its falls due and to finance the expenditures connected with the Company's business risk. That goal is pursued for instance by maintaining available credit facilities that may be drawn when the need arises.

### 32.5 Liquidity risk

Liquidity risk is the risk that the Company may face problems with meeting its financial liabilities. Liquidity risk is managed by projecting future cash flows, analysing the relation of liquid assets to cash flows, monitoring liquidity ratios based on balance-sheet items and ensuring constant access to various sources of financing at the level of the individual members of the Company.

The Company also manages its liquidity risk by maintaining available unused credit facilities which serve as a liquidity reserve securing solvency and financial flexibility. The Company considers its bank loans as financial instruments that may potentially lead to a concentration of liquidity risk as the Company enters into cooperation with selected financial institutions only (see Note 22). As at December 31st 2011, bank loans represented 31% of total current liabilities (December 31st 2010: 31%).

The table below presents the Company's financial liabilities by maturity as at December 31st 2011 and December 31st 2010, based on contractual undiscounted payments.

| Dec 31 2011 | Payable on demand | up to 1 year | 1–5 years | Over 5 years | Total as at Dec 31 2011 |
|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | | 8,269 | 5,126 | | **13,395** |
| Trade liabilities | | 11,077 | | | **11,077** |
| Other liabilities | | 7,321 | | | **7,321** |
| **TOTAL** | | **26,667** | **5,126** | | **31,793** |
| **Dec 31 2010** | **Payable on demand** | **up to 1 year** | **1–5 years** | **Over 5 years** | **Total as at Dec 31 2011** |
| Interest-bearing loans and borrowings | | 7,323 | 5,928 | | **13,251** |
| Trade liabilities | | 12,956 | | | **12,956** |
| Other liabilities | | 3,314 | 4 | | **3,318** |
| **TOTAL** | | **23,593** | **5,933** | | **29,526** |

The maturity structure of liabilities is presented in Note 22.

### 32.6 Credit risk

The Company operates a policy of selling its products and services only to customers whose reliability it has checked. Management believes that thanks to this policy there is no additional credit risk beyond the level defined by the impairment losses recognised with respect to uncollectible trade receivables. The Company considers its trade receivables as financial assets that may potentially lead to a concentration of liquidity risk. The Company defines its exposure to credit risk as the total amount of outstanding receivables and monitors the balances owed by each customer on a regular basis. As at December 31st 2011, the share of receivables from two customers exceeded the materiality level (10% and 27% of total net trade receivables, respectively).
There are no past due receivables that would not be classified as uncollectible.

| Item | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| up to 1 month | 3,824 | 2,707 |
| more than 1 month, up to 3 months | 29,132 | 8,947 |
| more than 3 months, up to 6 months | 8,825 | 6,643 |
| more than 6 months, up to 1 year | 190 | 18,339 |
| past due | 812 | 825 |
| Total trade receivables (gross) | 44,076 | 38,349 |
| Impairment losses on trade receivables | 1,293 | 888 |
| **Total trade receivables (net)** | **42,783** | **37,461** |

## 33. MANAGEMENT STOCK OPTIONS

On April 29th 2009, the General Meeting approved the key assumptions of the Incentive Scheme of SECO/WARWICK S.A. ("the Incentive Scheme"). The Rules of the Incentive Scheme were adopted by way of the Supervisory Board's resolution on July 27th 2009. The Company implemented the Incentive Scheme in the years 2009-2011, while the subscription warrants distributed to the eligible scheme participants may be exercised on or after January 2nd 2012, but no later than on June 30th 2017.

**Cost of the Incentive Scheme**

The Company assumes that it is not possible to reliably measure the fair value of the management stock option scheme as at the grant date, i.e. April 29th 2009. In accordance with IFRS 2.24, in such cases an entity is required to adopt an accounting approach based on intrinsic value of the instruments (the price of the underlying stock less the exercise price). Under the intrinsic value model:

- intrinsic value is remeasured as at each reporting date from the grant date until final settlement,
- as at each reporting date during the vesting period, the cumulative expense is measured as the product of the instrument's intrinsic value as at that date and the portion of the vesting period lapsed; any changes in the cumulative expense are recognised in profit or loss,
- any changes in the intrinsic value of the options from the vesting date until final settlement should be recognised in profit or loss.

As the required Allotment Criteria, defined in Par. 5 of Resolution 4 of the Extraordinary General Meeting of July 17th 2007, amended by Resolution 6 of the Extraordinary General Meeting of February 28th 2008 and Resolution 24 of the Annual General Meeting of April 29th 2009, and in Par. 4.2, Par. 4.3 and Par. 4.8 of the Rules of the SECO/WARWICK S.A. Incentive Scheme, were not fully satisfied in the financial year 2011, no subscription warrants were allotted.

The fair value of subscription warrants for 2010 was PLN 0, hence the cost of the management option scheme operated by SECO/WARWICK S.A. as at December 31st 2011 was determined as follows:

| | |
|---|---|
| Share price as at December 31st 2011 | PLN 22.90 |
| Exercise price in 2010 | PLN 27.55 |
| Option intrinsic value | PLN 0 |

| | |
|---|---|
| Number of the management stock options | 300,000 |
| Vesting period | 3 years |
| Number of management stock options granted in 2010 | 13.879 |
| Option intrinsic value | PLN 0 |
| **Cost for the period** | PLN 0 |

## 34. CAPITALISED BORROWING COSTS

In the presented reporting periods, the Company did not capitalise any borrowing costs.

## 35. REVENUE GENERATED SEASONALLY, CYCLICALLY OR OCCASIONALLY

In the presented reporting periods, there were no material items of seasonal, cyclical or occasional revenue at the Company.

## 36. COURT PROCEEDINGS

There are no proceedings pending before central or local government administration bodies, court proceedings or arbitration proceedings which could have a material effect on the financial standing or profitability (exceeding 10% of equity) of the Company.

## 37. TAX SETTLEMENTS

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administration authorities, which are authorised to impose high penalties and sanctions. Lack of reference to well-established legal regulation in Poland has resulted in ambiguity and inconsistency of the applicable laws and regulations. Frequent differences of opinion on the legal interpretation of tax laws, both between different governmental authorities and between governmental authorities and companies, create areas of uncertainty and conflicts. Therefore, the tax risk in Poland is significantly higher than is usually the case in countries with more developed tax systems.
Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Group.
In the Management Board’s opinion, as at December 31st 2011, there was no need to create appropriate provisions for any recognised and measurable tax risks. The Company pays its tax liabilities when due.
From January 1st 2004 to March 31st 2010, SECO/WARWICK S.A. and SECO/WARWICK ThermAL S.A., the subsidiary, formed a tax group. As of January 1st 2012, the two companies have again been consolidated for tax purposes.

## 38. WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT

Not applicable

## 39. EVENTS SUBSEQUENT TO THE BALANCE-SHEET DATE

On January 12th 2012, Mr Paweł Wyrzykowski was appointed President of the Management Board of SECO/WARWICK S.A., with effect as of February 1st 2012.

Between January 26th and February 2nd 2012, SECO/WARWICK S.A. and SECO/WARWICK ThermAL S.A., the Issuer’s subsidiary, executed with BRE Bank S.A. of Warsaw nine forward contracts for the sale of euro in the total amount of EUR 2,788,000 (PLN 11,708,206), two forward contracts to sell U.S. dollars in the total amount of USD 3,650,000 (PLN 11,663,575), eleven zero-cost collar contracts comprising a long put option and a short call option with a total value of EUR 2,220,000 (PLN 9,373,506), and one zero-cost collar contract comprising a long put option and a short call option with a total value of USD 800,000 (PLN 2,578,640). The total value of the contracts is PLN 35,323,927. The forward contract to sell a total of USD 3,100,000 (PLN 9,906,050) concluded between SECO/WARWICK S.A. and BRE Bank S.A. of Warsaw on February 2nd 2012 was the contract with the highest value.

On February 2nd 2012, the Management Board of SECO/WARWICK S.A. received a notification of an agreement concluded between Retech Systems LLC. of Ukiah, USA, its subsidiary, and Qinghai Supower Titanium Co. Ltd of China concerning the construction and supply of equipment for melting and refining of titanium. The agreement was executed on February 2nd 2012 for a period of 12 months and its value amounts to USD 21,531,600 (PLN 68,804,228)

On March 12th 2012, the Management Board of SECO/WARWICK S.A. received notifications from James A. Goltz and Bleauhard Holdings LLC ("BHLLC") of the sale by James A. Goltz of 904,207 Company shares to BHLLC. BHLLC is James A. Goltz's subsidiary.

On April 16th 2012, the Management Board of SECO/WARWICK S.A. was notified that its subsidiary Retech Systems LLC (USA) and Titanium Metals Corporation (USA) had signed a contract to manufacture and deliver equipment for melting and refining titanium. The contract was signed on April 12th 2012, its term runs from April 12th 2012 until November 30th 2013, and its value is USD 16,884,192 (PLN 53,722,122). Under the contract, any unresolved disputes between the parties will be submitted for arbitration. Arbitration proceedings are to be conducted in accordance with the procedural laws of the State of Illinois. The equipment will be delivered successively over the life of the agreement, in accordance with agreed schedules. The remaining provisions of the contract do not differ from standard terms used in agreements of such type. The total value of the contract exceeds 10% of SECO/WARWICK S.A.'s equity.

For details on events subsequent to the balance-sheet date, see current reports available on the corporate website at www.secowarwick.com.pl/biezace

## 40. FINANCIAL STATEMENTS ADJUSTED FOR INFLATION

In the presented reporting periods, the Company did not revalue its share capital and other capitals to account for hyperinflation.

Date: April 30th 2012

| | | |
|---|---|---|
| | Paweł Wyrzykowski<br>*President of the Management Board* | Andrzej Zawistowski<br>*Vice-President of the Management Board* |
| Wojciech Modrzyk<br>*Vice-President of the Management Board* | Józef Olejnik<br>*Member of the Management Board* | Witold Klinowski<br>*Member of the Management Board* |