SECO/WARWICK S.A.

SEPARATE FINANCIAL STATEMENTS

FOR THE PERIOD FROM JANUARY 1ST TO DECEMBER 31ST 2009

CONTENTS

GENERAL INFORMATION

I. Company Details

Name:	**SECO/WARWICK S.A.**
Legal Form:	Joint-stock company *(spółka akcyjna)*
Registered address:	ul. Sobieskiego 8, 66-200 Świebodzin, Poland

Core Business According to the Polish Classification of Business Activities (PKD):

29.21.Z	Manufacture of ovens, furnaces and furnace burners
29.24.B	Service activities related to the installation, repair and maintenance of other special purpose machinery n.e.c., excluding service activities
29.24.A	Manufacture of other general-purpose machinery n.e.c., excluding service activities
29.40.A	Manufacture of metal forming machinery and machine tools, excluding service activities
29.40.B	Service activities related to the installation, repair and maintenance of metal forming machinery and machine tools
29.51.Z	Manufacture of machinery for metallurgy
51.14.Z	Agents involved in the sale of machinery, industrial equipment, ships and aircraft
51.61.Z	Wholesale of metal forming machinery,
51.70.Z	Other specialised wholesale
74.20.A	Architectural, spatial planning and engineering activities and related technical consultancy
74.30.Z	Technical testing and analysis
73.10.G	Research and development in the field of technique and technology

National Court Register (KRS) No.:	KRS 0000271014
Industry Identification Number (REGON)	970011679

SECO/WARWICK S.A. is the Parent Undertaking of the SECO/WARWICK Group.

II. Duration of the Company

The duration of the Company is unlimited.

III. Presented Periods

These separate financial statements cover the period from January 1st to December 31st 2009. Comparable data for the statement of financial position reflect the situation as at December 31st 2008; for the statement of comprehensive income, statement of cash flows and statement of changes in equity, comparable data covers the period from January 1st to December 31st 2008.

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

MANAGEMENT BOARD		
Composition of the Management Board as at December 31st 2008	Jeffrey William Boswell Andrzej Zawistowski Witold Klinowski Józef Olejnik Wojciech Modrzyk	President of the Management Board Vice-President of the Management Board Member of the Management Board Member of the Management Board Member of the Management Board as of May 1st 2008
On March 1st 2009, composition of the Management Board changed to be as follows	Leszek Przybysz Andrzej Zawistowski Witold Klinowski Józef Olejnik Wojciech Modrzyk	President of the Management Board Vice-President of the Management Board Member of the Management Board Member of the Management Board Member of the Management Board
Composition of the Management Board as at December 31st 2009	Leszek Przybysz Andrzej Zawistowski Witold Klinowski Józef Olejnik Wojciech Modrzyk	President of the Management Board Vice-President of the Management Board Member of the Management Board Member of the Management Board Vice-President of the Management Board
SUPERVISORY BOARD		
Composition of the Supervisory Board as at December 31st 2008	Henryk Pilarski Piotr Kowalewski Piotr Kula Artur Grygiel Robert Legierski	Chairman of the Supervisory Board Vice-Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board as of February 28th 2008
Composition of the Supervisory Board as at April 29th 2009	Henryk Pilarski Piotr Kowalewski Piotr Kula Robert Legierski Andrzej Libold Jeffrey Boswell	Chairman of the Supervisory Board Vice-Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board as of April 29th 2009 Member of the Supervisory Board as of April 29th 2009

Composition of the Supervisory Board as at June 18th 2009	Jeffrey Boswell Henryk Pilarski Piotr Kowalewski Piotr Kula Artur Grygiel Andrzej Libold	Chairman of the Supervisory Board Vice-Chairman of the Supervisory Board Vice-Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board
Composition of the Supervisory Board as at December 31st 2009	Jeffrey Boswell Henryk Pilarski Piotr Kowalewski Piotr Kula Artur Grygiel	Chairman of the Supervisory Board Vice-Chairman of the Supervisory Board Vice-Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board

V. Auditors

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

VI. Significant Shareholders

The table below presents the shareholders holding over 5% of the total vote at the General Shareholders Meeting as at December 31st 2009:

Shareholder	Number of shares held	% of share capital held	Number of votes	% of total vote at GM
SW Poland Holding B.V. (the Netherlands)	4,119,508	43.04%	4,119,508	43.04%
Spruce Holding Limited Liability Company (USA)	1,726,174	18.03%	1,726,174	18.03%
ING NN OFE	723,199	7.56%	723,199	7.56%
PZU Asset Management S.A.	513,000	5.36%	513,000	5.36%
PKO TFI S.A.	577,716	6.04%	577,716	6.04%

VII. Subsidiaries

SECO/WARWICK S.A. is the direct Parent Undertaking of the following three subsidiaries:

- LZT Elterma S.A.,
- SECO/WARWICK Corporation, and
- OOO SECO/WARWICK Group,

and holds 100% of the share capital and 100% of the total vote at the general shareholders meetings of these companies.

Other Group members are:

- Przedsiębiorstwo Handlowo-Usługowe „Eltus" Sp. z o.o w likwidacji (in liquidation), in which the Parent Undertaking holds, through LZT Elterma, 100% of the share capital and 100% of the total vote at the general shareholders meeting,

- SECO/WARWICK of Delaware Inc., in which the Parent Undertaking holds, through SECO/WARWICK Corporation, 100% of the share capital and 100% of the total vote at the general shareholders meeting,
- SECO/WARWICK (Tianjin) China (jointly-controlled entity), in which SECO/WARWICK S.A. holds directly 25% of the share capital (and of the total vote), and indirectly – through SECO/WARWICK Corporation – another 25% of the share capital and the total vote.

VIII. Associates

- Retech Systems LLC, in which the Parent Undertaking holds 50% of ordinary shares and 50% of the total vote at the general shareholders meeting,
- SECO/WARWICK Allied Pvt. Ltd., in which the Parent Undertaking holds 50% of shares, conferring the right to 50% of the total vote at the company's general shareholders 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 2009	Dec 31 2008
Average exchange rate for the period*	4.3406	3.5321
Exchange rate effective for the last day of the period	4.1082	4.1724

**) the 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 the 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 these financial statements and the comparable data, translated into the euro:

Separate Financial Highlights

Item	2009	2008	2009	2008
	(PLN '000)		(EUR '000)	
Net sales revenue	74,517	145,625	17,167	41,229
Cost of sales	-50,265	-110,033	-11,580	-31,152
Operating profit/(loss)	7,189	17,013	1,656	4,817
Pre-tax profit/(loss)	1,315	3,711	303	1,051
Net profit/(loss)	-520	2,899	-120	821

Net cash provided by (used in) operating activities	30,803	9,471	7,096	2,681
Net cash provided by (used in) investing activities	-19,748	-19,823	-4,550	-5,612
Net cash provided by (used in) financing activities	-1,607	-24,313	-370	-6,883
Total assets	155,452	179,805	37,839	43,094
Total liabilities	21,066	47,112	5,128	11,291
of which current liabilities	14,520	41,340	3,534	9,908
Equity	134,386	132,693	32,712	31,803
Share capital	3,471	3,471	832	969

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, dated February 19th 2009, the Management Board represents that to the best of its knowledge these financial statements and the comparable 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.

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, dated February 19th 2009 (Dz.U. of 2009 No. 33, item 259). These financial statements cover the period from January 1st to December 31st 2009 and the comparable period from January 1st to December 31st 2008.

The Management Board represents that the qualified auditor of 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 audit opinion, in accordance with the applicable provisions of the Polish law. In line with the corporate governance rules adopted by the Management Board, the auditor was selected by the Supervisory Board by virtue of Resolution No. 6/2009 of February 25th 2009 concerning appointment 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 tasks by the auditor.

Date: April 20th 2010

Leszek Przybysz
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 FROM JANUARY 1ST TO DECEMBER 31ST 2009

PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

SEPARATE STATEMENT OF FINANCIAL POSITION

(PLN '000)

Assets		As at Dec 31 2009	As at Dec 31 2008
NON-CURRENT ASSETS		**91,746**	**89,908**
Property, plant and equipment	*10*	23,782	22,378
Investment property	*12*	448	461
Goodwill			
Intangible assets	*11*	7,619	4,204
Investments in subsidiaries, jointly-controlled entities and associates	*13*	58,707	58,707
Financial assets available for sale			
Other assets			
Loans and receivables			
Prepayments and accrued income			
Deferred tax assets	*6*	1,190	4,156
CURRENT ASSETS		**63,706**	**89,897**
Inventories	*14*	8,361	11,537
Trade receivables	*16*	12,626	44,089
Other current receivables	*16*	3,262	4,120
Prepayments and accrued income	*18*	1,047	1,634
Financial assets at fair value through profit or loss			
Loans and receivables			
Cash and cash equivalents	*19*	18,662	9,270
Contract settlement	*15*	19,748	19,248
ASSETS HELD FOR SALE	7		
TOTAL ASSETS		**155,452**	**179,805**

Equity and Liabilities		**As at Dec 31 2009**	**As at Dec 31 2008**
EQUITY		**134,386**	**132,693**
Share capital	*20*	**3,471**	**3,471**
Statutory reserve funds	*20*	128,531	125,631
Other capitals	*20*	2	
Retained earnings/(deficit)	*21*	2,382	3,591
NON-CURRENT LIABILITIES		**6,545**	**5,772**
Loans and borrowings	*22*		
Other liabilities	*22*	450	1,059
Deferred tax liabilities	*6*	3,844	4,458
Provision for retirement and similar benefits	*24*	70	75
Provisions for liabilities			
Accruals and deferred income	*18*	2,181	180
CURRENT LIABILITIES		**14,520**	**41,340**
Loans and borrowings	*22*		1,296
Derivative financial instruments	*17*	1,826	14,203
Trade payables	*23*	5,440	10,154
Current tax payable	*23*	1,177	2,235
Other current liabilities	*23*	1,774	2,225
Provision for retirement and similar benefits	*24*	586	297
Other provisions	*24*	1,580	1,295
Accruals and deferred income	*26*	2,138	9,636
LIABILITIES HELD FOR SALE	6		
TOTAL EQUITY AND LIABILITIES		**155,452**	**179,805**

Date: April 20th 2010

Prepared by:
Dorota Subsar

Leszek Przybysz
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)

		Jan 1 –Dec 31 2009	Jan 1–Dec 31 2008
Net sales revenue, including:	*1,2*	**74,517**	**145,625**
Net revenue from sales of products		74,029	145,109
Net revenue from sales of goods for resale and materials		488	516
Cost of sales, including:	*2,3*	**-50,265**	**-110,033**
Cost of products sold		-49,908	-109,631
Cost of goods for resale and materials sold		-357	-403
Gross profit/(loss)		**24,252**	**35,592**
Other operating income	*4*	1,804	1,235
Selling costs	*1,2,3*	-3,837	-5,140
General and administrative expenses	*1,2,3*	-13,415	-12,947
Other operating expenses	*4*	-1,615	-1,726
Operating profit/(loss)		**7,189**	**17,013**
Finance income	*5*	1,210	1,503
Finance expenses	*5*	-7,084	-14,804
Pre-tax profit/(loss)		**1,315**	**3,711**
Corporate income tax	*6*	-,1,835	-812
Net profit/(loss) from continuing operations		**-520**	**2,899**
Profit/(loss) from discontinued operations			
Net profit/(loss) for financial year		**-520**	**2,899**
Earnings per share (PLN)	*8*	-0.06	0.31
Weighted average number of shares as at	*8*	9,572,003	9,572,003
OTHER COMPREHENSIVE INCOME:			
Valuation of cash flow hedging derivatives		2,729	-2,729
Income tax relating to other comprehensive income		-519	519
Other comprehensive income, net		**2,211**	**-2,211**
Total comprehensive income		**1,691**	**688**

Date: April 20th 2010

Prepared by:
Dorota Subsar

Leszek Przybysz
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 CASH FLOWS
(PLN '000)

		Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
OPERATING ACTIVITIES			
Pre-tax profit/(loss)	**27**	**1,315**	**3,711**
Total adjustments:		**28,911**	**8,290**
Share of net profit of subordinated undertakings valued with equity method			
Depreciation and amortisation	3	2,598	2,151
Foreign exchange (gains)/losses		399	-159
Interest and profit distributions (dividends)		58	312
(Profit)/loss on investing activities		11,364	3,015
Change in provisions		569	-2,267
Change in inventories		3,176	-1,139
Change in receivables		31,743	-7,127
Change in current liabilities, excluding financial liabilities		-5,889	-2,694
Change in accruals and deferrals		-5,409	4,724
Derivative instruments		-9,702	11,473
Other adjustments		2	
Cash from operating activities		**30,226**	**12,002**
Income tax (paid) / refunded		577	-2,531
Net cash provided by (used in) operating activities		**30,803**	**9,471**
INVESTING ACTIVITIES			
Cash provided by investing activities		**8**	**15**
Proceeds from disposal of intangible assets and property, plant and equipment		8	15
Proceeds from disposal of financial assets			
Dividends and profit distributions received			
Repayment of non-current loans advanced			
Cash received in connection with derivative instruments			
Other cash provided by financial assets			
Cash used in investing activities		**19,757**	**19,838**
Investments in intangible assets, property, plant and equipment, and investment property		7,244	4,772
Acquisition of related undertakings			12,048
Acquisition of securities			
Other cash used in investing activities		1,146	
Cash paid in connection with derivative instruments		11,367	3,018
Net cash provided by (used in) investing activities		**-19,748**	**-19,823**
FINANCING ACTIVITIES			
Cash provided by financing activities			**0**

Net proceeds from issue of shares, other equity instruments and additional contributions to equity		
Loans and borrowings		
Issue of debt securities		
Other cash provided by financing activities		
Cash used in financing activities	**1,607**	**24,313**
Acquisition of own shares		
Dividends and other distributions to owners		
Profit distributions other than to owners		
Repayment of loans and borrowings	1,507	24,000
Redemption of debt securities		
Other financial liabilities		
Decrease in finance lease liabilities	42	
Interest paid	58	312
Other cash used in financing activities		
Net cash provided by (used in) financing activities	**-1,607**	**-24,313**
Total net cash flow	**9,448**	**-34,665**
Balance-sheet change in cash, including:	**9,393**	**-34,455**
- effect of exchange rate fluctuations on cash held	-55	210
Cash at beginning of period	**9,048**	**43,712**
Cash at end of period, including:	**18,495**	**9,048**
- restricted cash		2,307

Date: April 20th 2010

Prepared by:
Dorota Subsar

Leszek Przybysz
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 INTERIM STATEMENT OF CHANGES IN EQUITY (PLN '000)

	Share capital	Statutory reserve funds	Capital reserve from revaluation of hedging instruments	Other capitals	Retained earnings (deficit)	Minority interests	Total equity
Twelve months ended Dec 31 2008							
Equity as at Jan 1 2008	**3,471**	**104,489**	**0**	**0**	**24,044**	**0**	**132,004**
Total comprehensive income for twelve months ended Dec 31 2008			(2,211)		2,899		688
Liquidation of tangible assets		3			(3)		
Distribution of profit		21,139			(21,139)		
Equity as at Dec 31 2008	**3,471**	**125,631**	**(2,211)**	**0**	**5,801**	**0**	**132,693**
Twelve months ended Dec 31 2009							
Equity as at Jan 1 2009	**3,471**	**125,631**	**(2,211)**	**0**	**5,801**		**132,693**
Total comprehensive income for twelve months ended Dec 31 2009			2,211		(520)		1,691
Share-based payments				2			2
Distribution of profit		2,899			(2,899)		
Equity as at Dec 31 2009	**3,471**	**128,530**	**0**	**2**	**2,382**	**0**	**134,386**

Date: April 20th 2010
Prepared by: Dorota Subsar

Leszek Przybysz	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 2009

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 Boards ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

These separate financial statements should be read in conjunction with the consolidated financial statements (approved for publication by the Management Board and published on the same day as these separate financial statements) in order to obtain a full picture of the Group's assets and financial standing as at December 31st 2008, and of its financial performance for the period January 1st - December 31st 2008, 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 2009. As at the date of signing these financial statements, the 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 2009, no events occurred which have not but ought to have been disclosed in the accounting books for the reporting period. Concurrently, these financial statements do not report any significant events related to prior years.

III. Description of Adopted Accounting Policies, Including Methods of Measurement of Assets, Equity and Liabilities, Revenue and Expenses

These financial statements have been prepared based on a historical cost approach, except with respect to financial derivatives, which are measured at fair value through profit or loss (or in accordance with IAS 39 if hedge accounting is applied).

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

<u>Presentation of the statement of financial position</u>

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.

<u>Presentation of the statement of comprehensive income</u>

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 in the period. The weighted average number of shares accounts for the dilutive effect related to the issue of shares at 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 benefits to the entity.

Intangible items 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 item meets the recognition criteria for an intangible 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 expense of the period.

Components of intangible items created as a result of development work are capitalised by the Company in the statement of financial position only if the following criteria are met:

- it is certain that the intangible item will be completed,
- the feasibility of the asset for use or sale can be demonstrated,
- the expenditure incurred can be measured reliably.

Goodwill arises on acquisition of a business entity and corresponds to the excess of the cost of the business combination over the acquiring entity's share of 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 indicators of impairment.	Annual assessment whether there are any indicators of impairment.

Property, Plant and Equipment

Property, plant and equipment is 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 statement of financial position 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 an amount 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 statement of financial position at cost less impairment. 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 interests in associates, 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 tangible assets, 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 impairment charges for doubtful receivables. Impairment charges for 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 significant, the value of receivables 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 receivables 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 and not 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 and other financial liabilities are initially recognised at fair value and then carried at amortised cost using the effective interest method.

Transaction costs directly connected with an acquisition or issue of a financial liability increase the carrying value 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 existence of the liability, using effective interest.

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 is subject to 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 undertaking the hedge, at the time when the hedge is undertaken. The relevant documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk, as well as information 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 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 in all the reporting periods covered by the hedge.

Inventories

Inventories are measured at cost, using a weighted average cost formula. A downward adjustment of the value of inventories to the net selling price is made by way of impairment charges. In addition, inventories that have become obsolete or unusable, and inventories whose usability has become in any way limited, are revalued 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 charges for 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 unused tax loss carryforwards. A deferred tax asset is recognised for temporary differences to the extent it is probable that the asset will be realised and that taxable profit will be available against which the differences can be utilised. Unrecognised deferred tax assets are reviewed at each balance-sheet date. A previously unrecognised deferred tax asset is recognised to the extent it is probable that there will be future taxable income against which the assets can be realised.

A deferred tax asset is 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 will 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 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 time value of money is significant, the value 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 judgment of the Company's 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 Company 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 to 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.

Assumptions underlying the estimates and the level of provisions are reviewed at each balance-sheet date.

Accruals and Deferrals

In order to ensure the matching of revenues with related expenses, expenses or revenues relating to future periods 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 Company.

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).

IV. Material Judgments and Estimates

In view of the fact that many items presented in separate financial statements cannot be measured accurately, the Management Board needs to make certain estimates in the preparation of 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 2009 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 Company reviews the useful lives of its assets annually, on the basis of current estimates.

Depreciation Charges for Tangible Assets Used under Finance Lease Agreements

Depreciation 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 at the Company are paid in accordance with the provisions of Art. 92 of the Polish Labour Code. Actuarial valuation of long- and short-term benefits is performed 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 the equipment sold and of the warranty repairs made in the previous years.

Provision for Bonus Payments

The Company's employees are awarded annual bonuses whose amount is determined by reference to the net profit margin (net profit/sales revenue) for the period. Depending on the reference margin, an employee may be awarded a bonus equal to 100%, 150% or 200% of his or her average monthly pay. If the net profit margin falls within the range between 0% and 5%, no bonus payments are made.

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 paragraph 9 of IAS 11.

The Company applies the above rules to account for commercial contracts related to the Company's core business whose performance term exceeds 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 by 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 a 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 cooperator costs not yet invoiced, provided that all of the following conditions are met:

a) such costs can be measured reliably,
b) the value of the cooperation contract exceeds PLN 500,000,
c) the contract performance term is longer than three months.

The revenue as at the end of the reporting period is determined by reference to the stage 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 sales revenue 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 and invoiced in accordance with VAT regulations 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.

Revenue

Revenue from export sales is recognised at the time when products are dispatched from the Company's warehouses.

In the reporting period, the method of making estimates relating to long-term contracts was changed with regard to the time when the contracts are accounted for. Final accounting for long-term contracts no longer takes place at the time of recognition of sales revenue (i.e. when products are dispatched from warehouses), but on the date when the final acceptance certificate is signed.

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 Judgment

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 Company'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 judgments as at December 31st 2009 were made with respect to contingent liabilities and provisions for claims.

V. Changes in Accounting Policies

Below are presented new standards and IFRIC interpretations which have been published by the International Accounting Standards Board and are effective for reporting periods beginning on or after January 1st 2009.

- IFRS 8 *Operating Segments*

IFRS 8 was issued by the International Accounting Standards Board on November 30th 2006 and is effective for annual periods beginning on or after January 1st 2009. IFRS 8 replaces IAS 14 *Segment Reporting*. The standard defines new requirements regarding segment reporting and disclosure of information on products and services, geographical areas in which the entity operates, and main customers. IFRS 8 requires a management approach to reporting on financial performance of operating segments.

- Amendment to IFRS 2 *Share-Based Payments*

The amendment to IFRS 2 was published by the International Accounting Standards Board on January 17th 2008 and is effective for annual periods beginning on or after January 1st 2009. The amendment deals with two matters: (1) it clarifies that vesting conditions are service conditions and performance conditions only, while other features of a share-based payment are not vesting conditions and (2) it specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment

- Revised IAS 23 *Borrowing Costs*

Revised IAS 23 was published by the International Accounting Standards Board on March 29th 2007 and is effective for annual periods beginning on or after January 1st 2009. The amendment requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that takes a substantial period of time to get ready for its intended use or sale). Under the revised standard, it is no longer possible to expense borrowing costs immediately in the period in which they are incurred.

- IFRIC 13 *Customer Loyalty Programmes*

IFRIC 13 was issued by the International Financial Reporting Interpretations Committee on June 28th 2007 and is effective for annual periods beginning on or after January 1st 2009. The Interpretation addresses how companies that grant their customers credits or points under loyalty schemes or card programmes should account for transactions under such schemes and programmes. In particular, IFRIC 13 shows the correct way of accounting for the obligation to provide free or discounted goods or services if and when the customers redeem the points.

- IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 14 was issued by the International Financial Reporting Interpretations Committee on July 9th 2007 and is effective for annual periods beginning on or after January 1st 2009. The Interpretation addresses how entities should determine the limit placed by IAS 19 on the amount of a surplus of the fair value of assets in a defined benefit plan over the present value of the defined benefit obligations which they can recognise as an asset. Moreover, IFRIC 14 addresses how the minimum statutory or contractual funding requirements may affect the amount of an asset or obligation under a defined benefit plan.

- Revised IAS 1 *Presentation of Financial Statements*

Revised IAS 1 was published by the International Accounting Standards Board on September 6th 2007 and is effective for annual periods beginning on or after January 1st 2009. The changes introduced by the Company relate mainly to the presentation of items of income and expenses, as the Company decided to present two separate income statements (a statement of comprehensive income and a statement of comprehensive income) and to the presentation of equity. These changes were introduced to help users of financial statements to analyse and compare the information.

- Amendments to IAS 32 *Financial Instruments: Disclosure and Presentation*, and to IAS 1 *Presentation of Financial Statements*

Amendments to IAS 32 and IAS 1 were published by the International Accounting Standards Board on February 14th 2008 and are effective for annual periods beginning on or after January 1st 2009. The amendments address the issue of accounting for particular types of financial instruments that have characteristics similar to equity instruments but are at present classified as financial liabilities. Under the amended standard, financial instruments such as puttable financial instruments and instruments that impose on entities an obligation to deliver to another party a share of the net assets of the entity only on liquidation should be classified as equity, provided they meet specific conditions.

- Improvements to IFRSs 2008

In May 2008, the International Accounting Standards Board issued Improvements to IFRSs – a collection of amendments to 20 standards. The amendments involve accounting changes for presentation, recognition and measurement purposes as well as terminology and editorial changes. Most of the amendments are effective for annual periods beginning on or after January 1st 2009.

- Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards*, and to IAS 27 *Consolidated and Separate Financial Statements*

Amendments to IFRS 1 and IAS 27 were published by the International Accounting Standards Board on May 22nd 2008 and are effective for annual periods beginning on or after January 1st 2009. The amended standards allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment to IAS 39 *Eligible Hedged Items* was published by the International Accounting Standards Board on July 31st 2008 and is effective for annual periods beginning on or after July 1st 2009. The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations. The amendment prohibits designating inflation as a hedgeable component of a fixed rate debt instrument. It also forbids including time value in the one-sided hedged risk when designating options as hedges.

- Amendments to IFRS 7 *Financial Instruments: Disclosures*

The amendments to IFRS 7 *Financial Instruments: Disclosures* were published by the International Accounting Standards Board on March 5th 2009 and are effective from January 1st 2009. The amendments introduce a three-level fair value disclosure hierarchy and require additional disclosures about the relative reliability of fair value measurements. Moreover, the amendments clarify and enhance existing disclosure requirements concerning liquidity risk.

The Management Board does not expect the above standards and interpretations to have any significant effect on the accounting policies followed by the Company, other than 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.

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 effective for the current reporting period.

- Revised IFRS 3 *Business Combinations*

Revised IFRS 3 was published by the International Accounting Standards Board on January 10th 2008 and is effective prospectively for annual periods beginning on or after July 1st 2009. The revised standard continues to apply the acquisition method of accounting for business combinations, however with some significant changes. For instance, all payments to purchase a business should be recognised at their acquisition-date fair value, with contingent payments classified as debt subsequently remeasured through profit or loss. Additionally, the revised standard defines new rules of applying the acquisition method, including a requirement to recognise acquisition-related costs as expenses in the period in which they are incurred. Moreover, there is a choice to measure the minority interest (non-controlling interest) in an acquiree either at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The Company will apply the revised IFRS 3 starting from the annual financial statements for the period that begins on January 1st 2010.

- Revised IAS 27 *Consolidated and Separate Financial Statements*

Revised IAS 27 was published by the International Accounting Standards Board on January 10th 2008 and is effective for annual periods beginning on or after July 1st 2009. The standard requires that the effects of transactions with minority shareholders be presented within equity as long as the entity remains under the control of the existing parent. The standard provides also a more detailed guidance on disclosure in the event of loss of control over a subsidiary, i.e. it requires that the residual holding be remeasured to fair value and the difference recognised in profit or loss.

The Company will apply the revised IAS 27 prospectively to transactions with minority shareholders (holders of non-controlling interest) starting from the annual financial statements for the period that begins on January 1st 2010.

- Amendments to IFRIC 9 and IAS 39 *Embedded Derivatives*

The amendments to IFRIC 9 and IAS 39 *Embedded Derivatives* were published by the International Accounting Standards Board on March 12th 2009 and are effective for annual periods ended on or after June 30th 2009.

The amendments constitute an improvement on the amendments to IFRIC 9 and IAS 39 issued in October 2008 concerning embedded derivatives. The amendments clarify that on reclassification of a financial asset out of the "at fair value through profit or loss" category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements.

The Company will apply amendments to IFRIC 9 and IAS 39 from January 1st 2010.

- Improvements to IFRSs 2009

On April 16th 2009, the International Accounting Standards Board published Improvements to IFRSs 2009 – a collection of amendments to 12 standards. The amendments involve accounting changes for presentation, recognition and measurement purposes as well as terminology and editorial changes. Most of the amendments are effective for annual periods beginning on or after January 1st 2010.

- Amendments to IFRS 1 *First-Time Adoption of IFRSs*

Amendments to IFRS 1 *First-Time Adoption of IFRSs* were published by the International Accounting Standards Board on July 23rd 2009 and are effective for annual periods beginning on or after January 1st 2010. The amendments introduce additional exemptions from asset valuation as at the date of first-time adoption of the IFRSs for entities operating in the oil and gas sectors.

- Amendments to IFRS 2 *Share-Based Payments*

Amendments to IFRS 2 *Share-Based Payments* were published by the International Accounting Standards Board on June 18th 2009 and are effective for annual periods beginning on or after January 1st 2010. The amendments clarify the accounting for group cash-settled share-based payment transactions. The amendments specify the scope of IFRS 2 and regulate the interaction of IFRS 2 and other standards. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 and IFRIC 11.

- IFRIC 12 *Service Concession Arrangements*

Interpretation IFRIC 12 was issued by the International Financial Reporting Interpretations Committee on November 30th 2006 and is effective for annual periods beginning on or after March 29th 2009. The interpretation provides guidance for application of the existing standards by entities participating in service concession arrangements between the private and the public sector. IFRIC 12 applies to contracts under which the grantor controls the kind of services that the operator provides using the infrastructure, as well as the recipient and price of these services.

The Company will apply IFRIC 12 starting from the annual financial statements for the period that begins on January 1st 2010.

- IFRIC 15 *Agreements for the Construction of Real Estate*

Interpretation IFRIC 15 was issued by the International Financial Reporting Interpretations Committee on July 3rd 2008 and is effective for annual periods beginning on or after January 1st 2010. The Interpretation provides guidance on how to determine whether an agreement for the construction of real estate should fall within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* for the purpose of presentation in financial statements. Moreover, IFRIC 15 clarifies when to recognise the revenue from provision of construction services.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Interpretation IFRIC 16 was issued by the International Financial Reporting Interpretations Committee on July 3rd 2008 and is effective for annual periods beginning on or after July 1st 2009. The interpretation provides guidance on how to determine whether risk arises from the foreign currency exposure to the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements. Moreover, IFRIC 16 clarifies which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and in particular whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument. IFRIC 16 explains also how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment.

The Company will apply IFRIC 16 starting from the annual financial statements for the period that begins on January 1st 2010.

- IFRIC 17 *Distributions of Non-Cash Assets to Owners*

Interpretation IFRIC 17 was issued by the International Financial Reporting Interpretations Committee on November 27th 2008 and is effective for annual periods beginning on or after July 1st 2009. The interpretation provides guidance on the moment of recognition of dividend, measurement of dividend and recognition of the difference between the value of dividend and the carrying amount of the distributed assets.

The Company will apply IFRIC 17 starting from the annual financial statements for the period that begins on January 1st 2010.

- IFRIC 18 *Transfer of Assets from Customers*

Interpretation IFRIC 18 was issued by the International Financial Reporting Interpretations Committee on January 29th 2009 and is effective for annual periods beginning on or after July 1st 2009. The interpretation provides guidance on the recognition of transfer of assets from customers, namely it clarifies the circumstances in which the definition of an asset is met, the identification of the separately identifiable services (services in exchange for the transferred asset), the recognition of revenue and the accounting for transfers of cash from customers.

The Company will apply IFRIC 18 starting from the annual financial statements for the period that begins on January 1st 2010.

Alternative Approaches under the IFRSs Chosen by the Company

Some IFRSs allow application of alternative methods for the measurement or recognition of assets and liabilities. The table below provides information on the approaches chosen by the Company:

Standard	Alternative approach applied by the Company
IAS 2 *Inventories*	Inventories are measured at cost, determined using the weighted average cost method.
IAS 16 *Property, Plant and Equipment*	Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.
IAS 38 *Intangible Assets*	Intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses.

SECO/WARWICK S.A.

ADDITIONAL NOTES AND EXPLANATIONS TO

THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2009

Note 1. SALES REVENUE

As provided for under IAS 18, revenue from sale 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	2009	2008
Sale of products	74,029	145,109
Sale of goods for resale and materials	488	516
TOTAL sales revenue	**74,517**	**145,625**
Other operating income	1,804	1,235
Finance income	1,210	1,094
TOTAL revenue and income	**77,531**	**147,954**

The Company did not carry any revenue from discontinued operations.

Note 2. OPERATING SEGMENTS

IFRS 8 *Operating Segments*, which has superseded previously binding IAS 14 *Segment Reporting*, is effective as of January 1st 2009. The new standard introduces the “management approach” to segment disclosures and requires that segment information be presented based on those components of the entity that management monitors in making decisions about operating matters. An operating segment is a component of an entity for which discrete financial information is available and whose operating results are reviewed regularly by the entity’s chief decision maker to make decisions about resources to be allocated to the segment and assess its performance. This change in accounting standards has had no impact on the Company’s segment reporting.

The SECO/WARWICK Company’s business comprises the following segments:

Vacuum Furnaces

Vacuum furnaces have multiple applications in a number of industries, including the machine tool, aviation, energy, electrical engineering, medical equipment, automotive and specialised industries. The vacuum furnace solutions may be used in a wide variety of processes such as heat treatment of steel and alloys, brazing, sintering, and degassing. Vacuum furnaces are not only economically efficient but also environmentally friendly.

Controlled Atmosphere Aluminum Brazing (CAB)

The CAB systems are used primarily in the automotive industry for brazing heat exchangers mounted in passenger cars and trucks (charge air coolers, air conditioning evaporators and condensers, oil coolers, etc.). Outside the automotive sector, CAB processes are used in the manufacture of IC radiators, steam condensers for CHP plants, exhaust gas heat exchangers for power generators, etc.

Aluminium Process

The SECO/WARWICK Group specialises in a selected range of aluminium heat treat processes which generally offer a plethora of applications. The aluminium process solutions offered by the Group are used in the production of aluminium sheet for the automotive and aviation industries, as well as for the manufacturing of packaging foil for multiple applications. In addition, the aluminium process systems are used to heat treat aluminium castings.

Melting Furnaces

The metallurgy applications of the vacuum melting furnaces include alloying, melting and purifying specialty metals, including reactive metals (e.g. titanium, zirconium) and heat-resistant metals (e.g. tantalum). Due to their physical properties, specialty metals may only be treated with the use of advanced technological solutions under high vacuum conditions.

The different types of melting furnaces include melting and holding furnaces used for the manufacture of precision castings (such as components of jet engines, power turbines, and medical implants).

Melting furnaces may also be used as an element of the globally-unique processes involving disposal of hazardous waste (such as nuclear by-products).

Other

Reportable geographical segments, delineated based on the geographical location of the respective sales markets, are as follows:

- domestic market (Poland),
- the EU market (excluding Poland),
- the market of Russia and former USSR countries (Russia and former USSR countries)
- the US market,
- the Turkish market (Turkey),
- other countries.

Segment reporting covers only revenues and income, costs and expenses, and the financial result of a given operating segment. It is impracticable for the Company to allocate assets to the particular segments as its plant and equipment (including buildings and structures) is common to all the segments.

OPERATING SEGMENTS IN 2009

Item	Continuing operations					Discontinued operations	Unallocated items	Total operations
	Vacuum Furnaces	*CAB*	*Aluminium Process*	*Melting Furnaces*	*Total*			
Total segment revenue	29,147	24,032	6,058	5,311	64,548		9,969	**74,517**
External sales, including:	29,147	24,032	6,058	5,311	64,548		9,969	74,517
- sales to customers who account for 10% or more of total segment revenue	19,570	19,322	6,068	4,670	49,630		3,530	53,160
Inter-segment sales								
Total costs and expenses	(22,105)	(11,728)	(5,483)	(3,368)	(42,684)		(7,581)	**(50,265)**
General and administrative expenses							(13,415)	(13,415)
Selling costs							(3,837)	(3,837)
Operating income							1,804	1,804
Operating expenses							(1,615)	(1,615)
Profit (loss) on continuing operations before tax and finance expenses	**7,042**	**12,304**	**575**	**1,943**	**21,864**			**7,189**
Finance income							1,210	1,210
Net finance expenses							(7,084)	(7,084)
Share of profits of associates								
Pre-tax profit (loss)								**1,315**
Income tax							(1,835)	(1,835)
Net profit (loss) for period								**(520)**

OPERATING SEGMENTS IN 2008

Item	Continuing operations					Discontinued operations	Unallocated items	Total operations
	Vacuum Furnaces	*CAB*	*Aluminium Process*	*Melting Furnaces*	*Total*			
Total segment revenue	56,368	51,423	10,516	19,963	138,270		7,355	**145,625**
External sales, including:	56,368	51,423	10,516	19,963	138,270		7,355	145,625
- sales to customers who account for 10% or more of total segment revenue	8,165	30,466	8,489	19,956	67,076		2,149	69,225
Inter-segment sales								
Total costs and expenses	(42,660)	(39,344)	(8,962)	(13,515)	(104,481)		(5,553)	**(110,034)**
General and administrative expenses							(12,947)	(12,947)
Selling costs							(5,140)	(5,140)
Operating income							1,235	1,235
Operating expenses							(1,726)	(1,726)
Profit (loss) on continuing operations before tax and finance expenses	**13,708**	**12,079**	**1,554**	**6,448**	**33,789**			**17,013**
Finance income							1,503	1,503
Net finance expenses							(14,804)	(14,804)
Share of profits of associates								
Pre-tax profit (loss)								**3,711**
Income tax							(812)	(812)
Net profit (loss) for period								**2,899**

GEOGRAPHICAL SEGMENTS IN 2009

Item	*Poland*	*EU*	*Russia and former USSR*	*US*	*Turkey*	*Other*	**Total**
Total segment revenue	11,637	46,068	540	1,844	4,776	9,652	**74,517**
External sales – continuing operations, including:	11,637	46,068	540	1,844	4,776	9,652	**74,517**
- sales to customers who account for 10% or more of total segment revenue	6,491	22,639	533	1,796	4,405	7,888	43,752
External sales – discontinued operations	0		0	0	0	0	
Total assets	155,452						
Segment non-current assets	91,746						
Capital expenditure	7,244						

GEOGRAPHICAL SEGMENTS IN 2008

Item	*Poland*	*EU*	*Russia and former USSR*	*US*	*Turkey*	*Other*	**Total**
Total segment revenue	*38,201*	*60,514*	*7,554*	*14,204*	*9,228*	*15,924*	**145,625**
External sales – continuing operations, including:	38,201	60,514	7,554	14,204	9,228	15,924	**145,625**
- sales to customers who account for 10% or more of total segment revenue	24,440	33,415	7,003	14,204	9,103	12,647	100,812
External sales – discontinued operations	0		0	0	0	0	
Total assets	179,473						
Segment non-current assets	89,576						
Capital expenditure	4,772						

Note 3. OPERATING EXPENSES

COSTS BY TYPE	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Depreciation and amortisation	2,598	2,151
Raw materials and energy used	32,631	80,099
Contracted services	12,779	19,386
Taxes and charges	336	213
Salaries and wages	15,590	20,261
Social security and other benefits	2,921	4,109
Other costs by type	5,766	6,841
Total costs by type, including:	**72,621**	**133,060**
Selling costs	-3,837	-5,140
General and administrative expenses	-13,415	-12,947
Change in products	-1,159	-1,711
Cost of products and services for own needs	-4,302	-3,631
Cost of products and services sold	**49,908**	**109,631**

DEPRECIATION/AMORTISATION AND IMPAIRMENT LOSSES RECOGNISED IN THE INCOME STATEMENT	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Items recognised in cost of sales:	**1,266**	**902**
Depreciation of tangible assets	1,155	789
Impairment of property, plant and equipment	-	-
Amortisation of intangible assets	111	113
Items recognised in selling costs:	**268**	**177**
Depreciation of tangible assets	178	101
Amortisation of intangible assets	90	76
Cost of operating leases	-	-
Items recognised in general and administrative expenses:	**1,050**	**1,060**
Depreciation of tangible assets	915	924
Amortisation of intangible assets	135	136
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 2009	Jan 1 – Dec 31 2008
Salaries and wages	15,590	20,261
Social security benefits	2,371	3,161
Retirement benefits	-	-
Other post-employment benefits	-	-
Share-based payment scheme	-	-
Other employee benefits	549	948
Total employee benefits, including:	**18,511**	**24,370**
Items recognised in cost of sales	9,977	14,601
Items recognised in selling costs	1,601	2,622
Items recognised in general and administrative expenses	6,933	7,147

Note 4. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Reversal of impairment losses on receivables	79	44
Reversal of impairment losses on inventories	157	
Release of provisions	-	-
Gain on sale of property, plant and equipment	3	3
Release of provision for penalties		105
Compensation/damages received	488	31
Settlement of stock-taking surpluses		3
Income from lease of tangible assets and investment property	673	813
Other	404	236
Total other operating income	**1,804**	**1,235**

OTHER OPERATING EXPENSES	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Provision for penalties	-	-
Impairment loss on receivables	499	189
Revaluation of inventories		157
Loss on sale of property, plant and equipment		
Court expenses, compensation/damages, penalties	3	464
Cost of discontinued production	268	
Cost of lease of tangible assets	361	479
Donations	40	58
Liquidation of inventories	110	259
Other	334	120
Total other operating expenses	**1,615**	**1,726**

Note 5. FINANCE INCOME AND EXPENSES

FINANCE INCOME	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Interest income	219	398
Investment income	-	-
Revaluation of investments	991	
Net foreign exchange gains	-	1,105
Dividends received	-	-
Total finance income	**1,210**	**1,503**

FINANCE EXPENSES	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Interest expenses	79	312
Finance charge in finance leases		
Loss on derivative instruments at maturity	2,656	3,019
Balance-sheet valuation of derivative instruments	-	11,473
Net foreign exchange losses	4,349	-
Total finance expenses	**7,084**	**14,804**

Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main items of the Company's tax expense for the annual periods ended December 31st 2009 and December 31st 2008 were as follows:

INCOME TAX DISCLOSED IN THE INCOME STATEMENT	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Current income tax	**0**	**2,189**
Current income tax expense	0	2,189
Adjustments to current income for previous years		
Deferred income tax	**1,835**	**-1,377**
Related to origination and reversal of temporary differences	1,835	-1,377
Related to lowering of income tax rates		
Income tax benefit arising from transactions involving items of equity		
Tax expense disclosed in the income statement	**1,835**	**812**

INCOME TAX RECOGNISED IN EQUITY	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Current income tax	**0**	**0**
Current income tax expense		
Deferred income tax	**0**	**519**
Tax on net gain/(loss) on revaluation of cash flow hedges	0	519
Income tax benefit /(expense) recognised in equity	**0**	**519**

CURRENT INCOME TAX	2009	2008
Pre-tax profit	**1,315**	**3,302**
Non-taxable income	2,283	8,043
Previous years' costs reducing tax base		
Non-tax-deductible costs	-11,159	212
Previous years' income increasing tax base		
Taxable income	**-7,561**	**11,557**
Deductions from income – donation, loss		34
Tax base	**-7,561**	**11,523**
Income tax at 19% rate	-	2,189
Effective tax rate (share of income tax in pre-tax profit)	**-**	**0.66**

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 2009		Dec 31 2008	
	carrying amount	*amount disclosed in the income statement*	*carrying amount*	*amount disclosed in the income statement*
Deferred tax liabilities				
Accelerated tax depreciation/amortisation	1,765	58	1,707	115
Fair-value remeasurement of investment property	-	-	-	-
Leases – net value	22	22		
Fair-value remeasurement of financial assets available for sale	-	-	-	-
Fair-value remeasurement of currency forwards (cash flow hedges)	-	-	-	-
Foreign exchange gains	205	(736)	941	418
Adjustments to long-term contracts	1,852	42	1,810	240
Fair-value adjustments on acquisition of companies				
Deferred tax liabilities	**3,844**	**(614)**	**4,458**	**773**
Deferred tax assets				
Provision for old-age and disability retirement severance pays	24	(2)	26	6
Provision for length-of-service awards and bonuses	48	48	-	(336)
Provision for unused holidays	53	8	45	(28)
Provision for land reclamation	-	-	-	-
Provision for losses on contracts	25	25	-	(28)
Provision for warranty repairs	198	(48)	246	(26)
Fair-value remeasurement of currency forwards (cash flow hedges)	-	-	-	-
Assets arising under long-term contracts	303	(353)	656	656
Fair-value remeasurement of interest rate swap (fair value hedge)	-	-	-	-
Deductible temporary differences	74	11	63	(288)
Subsidy for purchase of tangible assets	1	-	1	
Salaries, wages and social security contributions payable in subsequent periods	110	(282)	392	32
Lease liabilities	18	18	-	-
Impairment losses on inventories	-	(30)	30	30
Impairment losses on receivables	-	-	-	(48)
Valuation of financial instruments	337	(1,843)	2,180	2,180
Deferred tax assets	**1,190**	**(2,448)**	**3,638**	**2,151**

Item	Dec 31 2009		Dec 31 2008	
	carrying amount	*amount recognised in equity*	*carrying amount*	*amount recognised in equity*
Valuation of financial instruments – equity component		(519)	519	519
Deferred tax assets	**-**	**(519)**	**519**	**519**

Note 7. DISCONTINUED OPERATIONS

No operations have been discontinued at the Company.

In the period January 1st – December 31st 2009, the Company carried no assets or liabilities classified as held for sale.

Note 8. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for a given period attributable to holders of ordinary shares by the weighted average number of outstanding ordinary shares in that period.

Diluted earnings per share are calculated by dividing the net profit for a given period attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible to ordinary shares) by the weighted average number of outstanding ordinary shares in that period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible to ordinary shares).

Item	Dec 31 2009	Dec 31 2008
Net profit from continuing operations attributable to shareholders	(520)	2,899
Loss on continuing operations attributable to shareholders		
Net profit attributable to owners of the parent	(520)	2,899
Interest on redeemable preference shares convertible to ordinary shares		
Net profit attributable to ordinary shareholders, used to calculate diluted earnings per share	**(520)**	**2,899**
Weighted average number of outstanding ordinary shares, used to calculate basic earnings per share	9,572,003	9,572,003
Dilutive effect:		
Stock options		
Redeemable preference shares		
Adjusted weighted average number of ordinary shares, used to calculate diluted earnings per share	9,572,003	9,572,003
Earnings per share	(0.06)	0.31

All the material events subsequent to the balance-sheet date have been reported in current reports, which can be viewed at www.secowarwick.com.pl

Note 9. DIVIDENDS PROPOSED OR APPROVED BY WAY OF RESOLUTION BY THE DATE OF APPROVAL OF THESE FINANCIAL STATEMENTS

No dividends were paid in 2009 or in 2008. By the date of publication of these financial statements, no resolutions concerning dividend were adopted.

Note 10. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment (by type) – between January 1st and December 31st 2008:

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Other tangible assets	Total
Gross carrying value as at Jan 1 2008	**830**	**10,716**	**8,635**	**2,093**	**1,220**	**23,493**
Increase, including:	**10**	**725**	**2,937**	**644**	**167**	**4,483**
assets acquired	-	725	2,937	644	167	4,473
assets generated internally	-	-	-	-	-	-
lease agreements concluded	-	-	-	-	-	-
other	10	-	-	-	-	10
Decrease, including:	**-**	**-**	**252**	**68**	**26**	**346**
disposal	-	-	31	64	-	95
liquidation	-	-	221	4	26	251
revaluation	-	-	-	-	-	-
other	-	-	-	-	-	-
Gross carrying value as at Dec 31 2008	**840**	**11,440**	**11,320**	**2,668**	**1,361**	**27,629**
Cumulative depreciation as at Jan 1 2008	**-**	**1,118**	**2,216**	**769**	**366**	**4,470**
Increase, including:	**-**	**423**	**909**	**329**	**151**	**1,812**
depreciation	-	423	909	329	151	1,812
revaluation	-	-	-	-	-	-
other	-	-	-	-	-	-
Decrease, including:	**-**	**-**	**243**	**65**	**15**	**323**
sale	-	-	61	61	-	122
liquidation	-	-	182	4	15	201
revaluation	-	-	-	-	-	-
Cumulative depreciation as at Dec 31 2008	**-**	**1,541**	**2,882**	**1,033**	**502**	**5,958**

Impairment loss as at Jan 1 2008	-	-	-	-	-	-
Increase:	-	-	-	-	-	-
Decrease:	-	-	-	-	-	-
Impairment loss as at Dec 31 2008	-	-	-	-	-	-
Net carrying value as at Dec 31 2008	**840**	**9,899**	**8,438**	**1,635**	**859**	**21,671**

Changes in property, plant and equipment (by type) – between January 1st and December 31st 2009:

Item	Land	Buildings and structures	Plant and equipment	Vehicles	Other tangible assets	Total
Gross carrying value as at Jan 1 2009	**840**	**11,440**	**11,320**	**2,668**	**1,361**	**27,629**
Increase, including:	**-**	**611**	**137**	**141**	**20**	**909**
assets acquired	-	611	137	141	20	**909**
assets generated internally	-	-	-	-	-	**-**
lease agreements concluded	-	-	-	-	-	**-**
other	-	-	-	-	-	**-**
Decrease, including:	**-**	**-**	**27**	**113**	**-**	**140**
disposal	-	-	9	18	-	**27**
liquidation	-	-	18	95	-	**113**
revaluation	-	-	-	-	-	**-**
other	-	-	-	-	-	**-**
Gross carrying value as at Dec 31 2009	**840**	**12,051**	**11,430**	**2,696**	**1,381**	**28,398**
Cumulative depreciation as at Jan 1 2009	**-**	**1,541**	**2,882**	**1,033**	**502**	**5,958**
Increase, including:	**-**	**465**	**1,312**	**333**	**139**	**2,249**
depreciation	-	465	1,312	333	139	**2,249**
revaluation	-	-	-	-	-	**-**
other	-	-	-	-	-	**-**
Decrease, including:	**-**	**-**	**15**	**67**	**-**	**82**
sale	-	-	3	18	-	**21**
liquidation	-	-	12	49	-	**61**
revaluation	-	-	-	-	-	**-**

Cumulative depreciation as at Dec 31 2009	**-**	**2,006**	**4,179**	**1,299**	**641**	**8,125**
Impairment loss as at Jan 1 2009	**-**	**-**	**-**	**-**	**-**	**-**
Increase, including:	-	-	-	-	-	-
Decrease, including:	-	-	-	-	-	-
Impairment loss as at Dec 31 2009	**-**	**-**	**-**	**-**	**-**	**-**
Net carrying value as at Dec 31 2009	**840**	**10,045**	**7,251**	**1,397**	**740**	**20,273**

OWNERSHIP STRUCTURE – net value	Dec 31 2009	Dec 31 2008
Owned	20,156	21,671
Used under lease, tenancy or similar contract	117	
Total	**20,273**	**21,671**

As at December 31st 2009 the Company assessed, based on external and internal sources of information, if there was rationale in testing the assets for impairment. As the assessment revealed no such rationale, the impairment test was not performed.

The gross value of tangible assets whose net value was equal to zero but which were still in use as at December 31st 2009 amounted to PLN 1,027 thousand (PLN 494 thousand, as at December 31st 2008).

Tangible Assets under Construction:

Tangible assets under construction as at Jan 1 2008	*Expenditure incurred in the financial year*	*Accounting for expenditure*					*Balance as at Dec 31 2008*
		Buildings, premises and civil engineering structures	*Plant and equipment*	*Vehicles*	*Other tangible assets*	*Intangible assets*	
1,161	**5,295**	725	4,115	644	178	87	**708**

Tangible assets under construction as at Jan 1 2009	*Expenditure incurred in the financial year*	*Accounting for expenditure*					*Balance as at Dec 31 2009*
		Buildings, premises and civil engineering structures	*Plant and equipment*	*Vehicles*	*Other tangible assets*	*Intangible assets*	
708	**3,948**	611	137	141	20	238	**3,509**

Tangible assets under construction	Dec 31 2009	Dec 31 2008
Modular line	2,135	555
Test furnace	1,372	
Other	2	153
Total	**3,509**	**708**

As at December 31st 2009 and December 31st 2008, the Company carried no tangible assets held for sale.

Value and Area of Land Held in Perpetual Usufruct:

Address	Number of Land and Mortgage Register Entry	Lot No.	Surface area [m2] as at Dec 31 2009	Value as at Dec 31 2009	Surface area [m2] as at Dec 31 2008	Value as at Dec 31 2008
Świebodzin, ul. Sobieskiego 8	KW 1306	95/7	5,098	289	5,098	289
Świebodzin, ul. Sobieskiego 8	KW 9562	94/4	2,467	140	2,467	140
Świebodzin, ul. Sobieskiego 8	KW 9444	94/16	285	97	285	97
Świebodzin, ul. Sobieskiego 8	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	
Świebodzin, ul. Sobieskiego 8	KW 9507	94/21	2,645	150	2,645	150
Świebodzin, ul. Sobieskiego 8	KW 19319	94/19	214	12	214	12
Świebodzin, ul. Sobieskiego 8	KW 9507	94/8	110	6	110	6
Świebodzin, ul. Sobieskiego 8	KW 39300	94/25	1,279	73	1,279	73
Świebodzin, ul. Świerczewskiego 76	KW 40641	195/80	11,605	23	11,605	23
Świebodzin, ul. Świerczewskiego 76	KW 41410	195/94	221	1	221	1
Świebodzin, ul. Sobieskiego 8	KW 9507	94/6	1,121	10	1,121	10
		Total	**26,579**	**808**	**26,579**	**808**

Note 11. INTANGIBLE ASSETS

OWNERSHIP STRUCTURE – net value	Dec 31 2009	Dec 31 2008
Owned	7,619	4,204
Used under lease, tenancy or similar contract		
Total	**7,619**	**4,204**

Changes in intangible assets (by type) – between January 1st and December 31st 2008:

Item	*Development expense*	**Patents and licences, software**	*Other intangible assets*	*Total*
Gross carrying value as at Jan 1 2008	**1,200**	**2,075**	**1,638**	**4,913**
Increase, including:	504	87	0	591
business combinations	-	-	-	-
acquisitions	-	87		87
revaluation	-	-	-	-
intangible assets under construction	504	-	-	504
other	-	-	-	-
Decrease, including:	-	-	-	-
disposal of subsidiary	-	-	-	-
disposals	-	-	-	-
liquidation	-	-	-	-
other	-	-	-	-
Gross carrying value as at Dec 31 2008	**1,704**	**2,162**	**1,638**	**5,504**
Cumulative amortisation as at Jan 1 2008	**45**	**498**	**433**	**976**
Increase, including:	60	189	75	324
amortisation	60	189	75	324
revaluation	-	-	-	-
other	-	-	-	-
Decrease, including:	-	-	-	-
liquidation	-	-	-	-
sale	-	-	-	-
revaluation	-	-	-	-
other	-	-	-	-
Cumulative amortisation as at Dec 31 2008	**105**	**687**	**508**	**1,300**
Impairment loss as at Jan 1 2008	-	-	-	-
Increase, including:	-	-	-	-
Decrease, including:	-	-	-	-
Impairment loss as at Dec 31 2008	-	-	-	-
Net carrying value as at Dec 31 2008	**1,599**	**1,475**	**1,130**	**4,204**

Changes in intangible assets (by type) – between January 1st and December 31st 2009:

Item	*Development expense*	**Patents and licences, software**	*Other intangible assets*	*Total*
Gross carrying value as at Jan 1 2009	**1,704**	**2,162**	**1,638**	**5,504**
Increase, including:	3,744	8	-	3,752
business combinations	-	-	-	-
acquisitions	-	8		8
revaluation	-	-	-	-
intangible assets under construction	3,744	-	-	3,744
other	-	-	-	-
Decrease, including:	-	-	-	-
disposal of subsidiary	-	-	-	-
disposals	-	-	-	-
liquidation	-	-	-	-
other	-	-	-	-
Gross carrying value as at Dec 31 2009	**5,448**	**2,170**	**1,638**	**9,256**
Cumulative amortisation as at Jan 1 2009	**105**	**687**	**508**	**1,300**
Increase, including:	74	188	76	338
amortisation	74	188	76	338
revaluation	-	-	-	-
other	-	-	-	-
Decrease, including:	-	-	-	-
liquidation	-	-	-	-
sale	-	-	-	-
revaluation	-	-	-	-
other	-	-	-	-
Cumulative amortisation as at Dec 31 2009	**179**	**875**	**584**	**1,638**
Impairment loss as at Jan 1 2009	-	-	-	-
Increase, including:	-	-	-	-
Decrease, including:	-	-	-	-
Impairment loss as at Dec 31 2009	-	-	-	-
Net carrying value as at Dec 31 2009	**5,269**	**1,295**	**1,054**	**7,619**

No intangible assets serve as security for liabilities.

As at December 31st 2007 and December 31st 2008, the Company carried no intangible assets held for sale.

As at December 31st 2009, the gross value of fully amortised intangible assets that were still used and controlled by the Company amounted to PLN 116 thousand (PLN 44 thousand as at December 31st 2008).

Development expense related to intangible assets under construction in the amount of PLN 3,744 thousand includes costs incurred in connection with two projects executed in collaboration with reputable Polish universities of technology ("Development of New Cost Efficient and Environmentally Friendly Nitriding Process" executed jointly with the Poznań University of Technology and "Development of High-Pressure Cooling Technology" executed jointly with the Technical University of Łódź). Due to their innovative character, the two projects are co-financed by the Polish Ministry of Science and Higher Education.

Note 12. 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 2009, the property generated lease income of PLN 54 thousand (PLN 54 thousand in 2008).

Item	Dec 31 2009	Dec 31 2008
Opening balance	**461**	**475**
Increase (subsequent expenditure), including:	**-**	**-**
modernisation	-	-
Decrease, including:	**13**	**14**
depreciation	13	14
sale	-	-
Closing balance	**448**	**461**

Item	Dec 31 2009	Dec 31 2008
Gross carrying value – opening balance	527	527
Increase, including:	**-**	**-**
acquisition	**-**	**-**
production	**-**	**-**
other	**-**	**-**
Decrease, including:	**-**	**-**
disposal	**-**	**-**
liquidation	**-**	**-**
other	**-**	**-**
Carrying value – closing balance	527	527
Cumulative depreciation – opening balance	**66**	**52**
Increase, including:	**13**	**14**
depreciation	**13**	**14**
other	**-**	**-**
Decrease, including:	**-**	**-**
sale	**-**	**-**
other	**-**	**-**
Depreciation – closing balance	**79**	**66**

Impairment loss – opening balance	**-**	**-**
Increase	**-**	**-**
Decrease	**-**	**-**
Impairment loss – closing balance	**-**	**-**
Net carrying value – closing balance	**448**	**461**

Item	Dec 31 2009	Dec 31 2008
Lease income	**54**	**54**

Cost of generating lease income	**22**	**20**
real property tax	9	6
depreciation	13	14

Note 13. INVESTMENTS IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Investments in subordinated undertakings valued at acquisition cost

Shares in subordinated undertakings	Dec 31 2009	Dec 31 2008
subsidiaries	29,635	29,635
jointly controlled entities	1,481	1,481
associates	27,592	27,592

Change of investments in subsidiaries

Item	2009	2008
As at beginning of period	**29,635**	**29,635**
Increase in the reporting period, including:		
Decrease in the reporting period, including:		
As at end of period	**29,635**	**29,635**

Change of investments in jointly controlled entities and associates

Item	2009	2008
As at beginning of period	**29,073**	**18,025**
Increase in the reporting period, including:	**-**	***11,048***
- acquisition of shares		11,048
Decrease in the reporting period, including:		
- sale of an associate		
As at end of period	**29,073**	**29,073**

In 2009, payments due to SECO/WARWICK ALLIED amounted to PLN 1,416 thousand (PLN 8,885 thousand in 2008.). As at the end of 2009, financial liabilities towards SECO/WARWICK ALLIED arising under the share purchase agreement involving shares in the company were estimated at PLN 1,142 thousand.

Investments in subsidiaries, jointly controlled entities and associates

Name	Carrying value of shares as at Dec 31 2009	% of share capital held	% of the total vote	Method of consoli-dation	Assets	Liabilities	Revenue	Net profit/ loss
LZT Elterma S.A.	7,657	100%	100%	full method	34,708	9,863	27,673	(2,510)
SECO/WARWICK Corporation	21,806	100%	100%	full method	24,596	13,476	23,365	(4,365)
SECO/WARWICK Moscow	172	100%	100%	full method	1,107	282	1,524	627
SECO/WARWICK Tianjin	1,481	50%	50%	propor-tional method	9,633	3,836	1,810	(1,424)
RETECH	16,597	50%	50%	equity method	35,824	10,738	116,929	13,603
SECO/WARWICK ALLIED	10,995	50%	50%	equity method	29,555	18,760	40,192	409

Name	Carrying value of shares as at Dec 31 2008	% of share capital held	% of the total vote	Method of consoli-dation	Assets	Liabilities	Revenue	Net profit/ loss
LZT Elterma S.A.	7,657	100%	100%	full method	51,176	23,822	72,667	5,041
SECO/WARWICK Corporation	21,806	100%	100%	full method	32,821	17,547	41,963	123
SECO/WARWICK Moscow	172	100%	100%	full method	678	474	461	6
SECO/WARWICK Tianjin	1,481	50%	50%	propor-tional method	13,261	5,882	7,443	1,197
RETECH	16,597	50%	50%	equity method	43,667	29,826	131,581	11,123
SECO/WARWICK ALLIED	10,995	50%	50%	equity method	30,681	21,314	22,966*	797*

***** for the period April 1st – December 31st 2008.

TEST FOR IMPAIRMENT OF SHARES

Book value of shares in the amount of PLN 21,806 thousand arose on acquisition of control over SECO/WARWICK Corporation by SECO/WARWICK S.A.

In order to test the book value of the shares for impairment, a market valuation of SECO/WARWICK Corporation was performed. The goodwill arising on the acquisition of SWC was allocated to a single cash-generating unit, being SECO/WARWICK Corporation.

Cash-Generating Unit

The recoverable value of the cash-generating unit was determined on the basis of its value in use, which in turn was calculated based on the cash flow projections derived from the financial budgets covering a period of ten years. The cash flow projections were discounted using a pre-tax discount rate of 9.0%; cash flows beyond the period of five years were estimated using a growth rate of 2%.

Key Assumptions Underlying Value-in-Use Calculation

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

• pre-tax margin;

• discount rates;

• market share in the budget period; and

• growth rate used to estimate cash flows beyond the budget period.

Pre-tax margin – pre-tax margin is based on the average values in the three years preceding the budget period.

Discount rate – discount rate reflects the management's assessment of the risk inherent in the company's operations. It is used by the management with a view to assessing the operating efficiency (performance) and future investment proposals. The discount rate was determined taking into account the yield on 10-year bonds as at the beginning of a budget year.

Assumptions regarding market share – such assumptions are material because – in addition to using industry data to determine the growth rate (as described below) – the management assesses how the company's assets and financial standing may change over the budget period relative to its peers. The management expects the Group's market share to remain stable over the budget period.

Estimated growth rate – growth rates are based on published findings of industry surveys.

Sensitivity to Changes of Assumptions

With respect to the estimation of the value in use of SECO/WARWICK Corporation, management believes that no reasonably possible change of any of the key assumptions referred to above could cause the carrying value of the shares in SECO/WARWICK Corporation to exceed their recoverable value. As at the balance-sheet date, the value in use of the cash generating unit was PLN 45,437 thousand, while the book value of the shares was PLN 21,806 thousand. Accordingly, no impairment loss on the book value of the shares in SECO/WARWICK Corporation was recognised.

Note 14. INVENTORIES

Item	Dec 31 2009	Dec 31 2008
Materials (at cost)	7,435	9,434
Semi-finished products and work in progress	925	1,219
Finished products	-	884
Goods for resale	-	-
Prepaid deliveries	-	-
Total inventories (carrying value)	**8,360**	**11,537**
Impairment loss on inventories		157
Inventories, gross	**8,360**	**11,694**

CHANGES IN IMPAIRMENT LOSSES ON FINISHED PRODUCTS

Item	Dec 31 2009	Dec 31 2008
Impairment losses at beginning of period	**157**	**-**
Increase, including:	**-**	**157**
- impairment losses recognised in correspondence with other operating expenses	-	157
- reclassifications	-	-
Decrease, including:	**157**	**-**
- impairment losses reversed in correspondence with other operating income	157	-
- impairment losses used	-	-
- reclassifications	-	-
Impairment losses on finished products at end of period	**-**	**157**

Note 15. LONG-TERM CONTRACTS

Item	Dec 31 2009	Dec 31 2008
Costs incurred under construction contracts, including recognised gains (net of recognised losses)	29,364	30,399
Advances received	9,845	13,935
Excess of received advances over revenue recognised using the percentage of completion method	229	2,785
Assets under construction contracts in progress, total	**19,748**	**19,248**

Note 16. TRADE AND OTHER RECEIVABLES

Item	Dec 31 2009	Dec 31 2008
a) from related undertakings	172	7,596
- trade receivables with maturities of	172	6,692
- up to 12 months	172	6,692
- over 12 months		
- other	172	904
b) from other undertakings	15,716	40,613
- trade receivables with maturities of	12,454	37,397
- up to 12 months	12,454	37,397
- over 12 months		
- taxes, subsidies, customs duties, social security and other benefits receivable	2,501	1,723
- other	761	1,493
- receivables under court proceedings		
Net trade and other receivables, total	**15,888**	**48,209**
c) impairment losses	744	399
Gross trade and other receivables, total	**16,632**	**48,608**

The Company pursues a policy of entering into sales agreements only with 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 the Company’s uncollectible trade receivables.

As at December 31st 2009, trade receivables of PLN 744 thousand (in 2008: PLN 399 thousand) were classified as unrecoverable and accordingly covered by a relevant impairment charge.

The changes in impairment losses on receivables were as follows:

Item	Dec 31 2009	Dec 31 2008
As at beginning of period	**399**	**254**
Increase	499	189
Impairment losses used (-)	-	-
Unused amounts written off (-)	(154)	(44)
Discount rate adjustment (-)		
As at end of period	**744**	**399**

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

Trade receivables maturing in	Dec 31 2009	Dec 31 2008
up to 1 month	3,361	7,112
more than 1 month to 3 months	4,484	19,496
more than 3 months to 6 months	4,394	6,523
more than 6 months to 1 year		8,693
more than 1 year		123
past due	1,131	2,541
Total trade receivables (gross)	13,370	44,488
Impairment loss on trade receivables	744	399
Total trade receivables (net)	**12,626**	**44,089**

Trade and other receivables (gross) by currency:

Item	Dec 31 2009		Dec 31 2008	
	in foreign currency	restated in PLN	in foreign currency	restated in PLN
PLN	-	4,841	-	14,249
EUR	2,468	10,096	6,093	25,410
USD	597	1,695	3,020	8,939
GBP	-	-	2	10
CHF				
Other		-		-
Total		**16,632**		**48,608**

Court proceedings involving SECO/WARWICK as at February 2009:

Lawsuit	Court	Court docket No.	Details
SECO/WARWICK vs. Jerzy Urbaniak ODLEWNIA METALI	District Court in Zielona Góra, 5th Commercial Division	V GNc 2771/08 GC 905/08/LI	Court settlement has been reached. Suit for payment of October 23rd 2008. Value of the claim: PLN 17,520.00. Payment order issued on October 29th 2008.
SECO/WARWICK vs. MINISTER OF FINANCE	Supreme Administrative Court in Warsaw	I FSK 1617/09	The case concerns individual interpretation of VAT regulations. The case is currently pending before the Supreme Administrative Court in Warsaw. The date of hearing is still to be set.
SECO/WARWICK S.A. vs. INTEGRAL SERWIS	District Court in Leszno, 5th Commercial Division	V GNc 2057/09/3	Suit for payment of December 18th 2009. Value of the claim: PLN 3,202.00.

SECO/WARWICK S.A. intends to bring court action against Nitrex Metal Inc. of Canada seeking payment of USD 268 thousand due for a PEGAT furnace delivered to the company.
Nitrex Metal Inc. claims that an amount of USD 299 thousand (as compensation for the furnace assembly work, which was covered by the contract for the delivery of the PEGAT furnace, as well as for other work necessary for the furnace start-up) should be set off against the due amount stated above.
Further, in October 2009 Nitrex Metal Inc. reported a defect involving corrosion of most of the 15 furnace charge bearing units of the PEGAT furnace. No agreement was reached by the parties as to which of them was to bear the costs of repair and how the furnace was to be repaired, one of the underlying reasons being different opinions as to the cause of the defect. As far as we know, Nitrex Metal Inc. has probably repaired the furnace itself, based on its own concept. We do not know however what were the costs of the repair and whether it proved successful. No claims have so far been raised by Nitrex Metal Inc. in this respect.
It should be noted that while the suit for payment as such is a relatively simple and straightforward issue, potential counterclaims that may be brought by Nitrex Metal Inc. as well as the evidence Nitrex has in connection with the case make the entire dispute extremely difficult and its outcome uncertain. This is connected with the ambiguities that exist in this dispute both regarding the facts of the case and the legal interpretation. A risk exists therefore that the final verdict may prove unfavourable to SECO/WARWICK. All things considered, the Management Board estimates the chances of winning the case at 60:40.

Contingent liabilities

Guarantees received as at December 31st 2009:

Company	Bank	Guarantee	Currency	Dec 31 2009	*Amount (PLN)*
SECO/WARWICK S.A.	PEKAO SA	WG	PLN	402	402
Total					**402**

Guarantees received as at December 31st 2008:

Company	Bank	Guarantee	Currency	Dec 31 2008	*Amount (PLN)*
SECO/WARWICK S.A.	Millenium	WG	PLN	100	100
	Millenium	WG	PLN	200	200
Total					**300**

WB→ warranty guarantee (guarantee of proper performance of obligations under warranty)

Note 17. OTHER FINANCIAL ASSETS AND LIABILITIES

Loans advanced (including loans advanced to members of the Management Board) – as at Dec 31 2008

No loans were advanced by SECO/WARWICK S.A. to members of the Management Board or the Supervisory Board in 2008.

	Dec 31 2009		Dec 31 2008	
	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments		1,772		14,203
Leases liabilities		98		

Total financial assets and liabilities at fair value through profit or loss	**0**	**1,870**	**0**	**11,473**
- non-current		44		
- current		1,826		11,473
Total financial assets and liabilities at fair value through equity	**0**	**0**		**2,729**
- non-current				
- current				**2,729**

Disclosures Concerning Derivative Financial Instruments which Meet the Hedge Accounting Criteria

In 2009, the Company hedged up to 75% of its export cash flows denominated in the euro and up to 90% of the cash flows denominated in the US dollar using currency forwards. The purpose was 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 in accordance with par. 88 of IAS 39 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 in equity 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 2009.

	Nominal amount of the contract (EUR '000)	Notional amount of the hedging instrument (EUR '000)	Fair value of the hedging instrument (PLN '000)	Amount recognised in the income statement (PLN '000)	Amount recognised in equity (PLN '000)	Date of expected cash flow
1	565	419	-290	-290		Jan 27 2010
2	303	225	35	35		Mar 31 2010
3	300	300	32	32		Jul 30 2010
4	229	150	10	10		May 31 2010
TOTAL	**1,397**	**1,094**	**-213**	**-213**	**0**	

	Nominal amount of the contract (USD '000)	Notional amount of the hedging instrument (USD '000)	Fair value of the hedging instrument (PLN '000)	Amount recognised in the income statement (PLN '000)	Amount recognised in equity (PLN '000)	Date of expected cash flow
1	652	400	-26	-26		Sep 30 2010
2	248	190	1	1		Sep 30 2010
3	190	140	-44	-44		Apr 30 2010
TOTAL	**1,090**	**730**	**-69**	**-69**	**0**	

Disclosures Concerning Derivative Financial Instruments Which Do not Meet the Hedge Accounting Criteria

On August 22nd 2008, the Company entered into a structured forward contract with Citibank Handlowy S.A. of Warsaw. As at the balance-sheet date, the Company is under the obligation to sell in aggregate EUR 2,550 thousand at the EUR/PLN exchange rate of 3.33. The purpose of entering into the transaction was to ensure that the budgeted exchange rate for contracts is met. As at the balance sheet-date, the fair value of the financial instrument was PLN -1,981 thousand as determined by the Bank which is party to the transaction.

On April 21st 2009, the Company entered into a zero-cost forward contract at WGT. Under the contract, the Company has the right to sell at the EUR/PLN exchange rate not lower than 4.20 and not higher than 4.66. As at the balance-sheet date, the Company is obliged to sell EUR 2,400 thousand. The purpose of entering into the transaction was to ensure that the budgeted exchange rate for contracts is met. As at the balance-sheet date, the fair value of the financial instrument was PLN 290 thousand.

On May 14th 2009, the Company entered into a zero-cost forward contract at WGT. Under the contract, the Company has the right to sell at the EUR/PLN exchange rate not lower than 4.20 and not higher than 4.84. As at the balance-sheet date, the Company is obliged to sell EUR 1,800 thousand. The purpose of entering into the transaction was to ensure that the budgeted exchange rate for a contract is met. As at the balance-sheet date, the fair value of the financial instrument was PLN 220 thousand.

On August 3rd 2009, the Company purchased a put option at WGT, under which the Company has the right to sell euro at the EUR/PLN exchange rate not lower than 4.6. The Company paid a premium on the purchased option in the amount of 0.505 grosz per each euro of the transaction value. As at the balance-sheet date, the Company is obliged to sell EUR 500 thousand. The purpose of entering into the transaction was to ensure that the budgeted exchange rate for a contract is met. As at the balance-sheet date, the fair value of the financial instrument was PLN -19 thousand.

Disclosures Concerning Expected Cash Flows and Maturities of Currency Forward Contracts (FX Forwards)

Dec 31 2009	Total notional amount of FX forwards (EUR ‘000)	Cash flows from signed contracts (EUR ‘000)
Jan 10	719	381
Feb 10	450	875
Mar 10	4,725	3,600
Apr 10	300	2,261
May 10	450	100
Jun 10	800	400
Jul 10	600	1500
Aug 10	300	560
TOTAL (EUR)	**8,344**	**9,677**
Dec 31 2009	**Total notional amount of FX forwards (USD ‘000)**	**Cash flows from signed contracts (USD ‘000)**
Apr 10	140	200
Sep 10	590	590
TOTAL (USD)	**730**	**790**

Note 18. PREPAYMENTS AND ACCRUED INCOME

Item	Dec 31 2009	Dec 31 2008
insurance policies	192	268
subscriptions	5	8
VAT to be settled in the following period	742	1,222
other	108	136
Total current prepayments and accrued income	**1,047**	**1,634**

Note 19. CASH AND CASH EQUIVALENTS

Item	Dec 31 2009	Dec 31 2008
Cash at banks and cash in hand	18,663	9,270
Short-term deposits		
Other cash equivalents		
Total cash and cash equivalents	**18,663**	**9,270**

CASH AND CASH EQUIVALENTS (BY CURRENCY):

Item	Dec 31 2009		Dec 31 2008	
	in foreign currency	restated in PLN	in foreign currency	restated in PLN
PLN	-	12,677	-	8,470
EUR	853	3,505	160	667
USD	858	2446	42	123
GBP	7	34	2	10
Total		**18,662**		**9,270**

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

Share Capital:

Item	*Dec 31 2009*	*Dec 31 2008*
Number of shares	9,572,003	9,572,003
Par value of shares	0.2	0.2
Share capital	1,914	1,914
Share capital restated using a hyperinflation index (IAS 19)	1,557	1,557
Share capital at end of period	**3,471**	**3,471**

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 (US)	none	-	1,726,174
ING NN OFE	none	-	723,199
PZU Asset Management S.A.	none	-	513,000
PKO TFI S.A.	none	-	577,716
Other	none	-	1,912,408
TOTAL			**9,572,003**

Changes in share capital:

Item	*Jan 1 – Dec 31 2009*	*Jan 1 – Dec 31 2008*
Share capital at beginning of period	1,914	1,914
Increases during the period		
Share capital increase		
Share capital restated using a hyperinflation index (IAS 19)	1,557	1,557
Decreases during the period		
Share capital at end of period	**3,471**	**3,471**

Other capitals:

Item	Statutory reserve funds	Other capitals	Capital reserve from revaluation of hedging derivatives	Total
Balance as at Jan 1 2008	**104,489**		**0**	**104,489**
Increase	**21,142**		**-**	**21,142**
Profit distributions	21,139			21,139
Liquidation of tangible assets	3			3
Decrease			**-2,211**	**2,211**
Capital reserve from revaluation of hedging derivatives			-2,211	
Balance as at Dec 31 2008	**125,631**	**-**	**-2,211**	**123,420**
Increase	**2,899**	**2**	**2,211**	**5,112**
Profit distributions	2,899			2,899
Capital reserve from revaluation of hedging derivatives			2,211	2,211
Valuation of management stock options		2		2
Decrease			**0**	**0**
Capital reserve from revaluation of hedging derivatives				
Balance as at Dec 31 2009	**128,530**	**2**	**0**	**128,532**

Note 21. RETAINED EARNINGS (DEFICIT)

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

Item	Dec 31 2009	Dec 31 2008
Amounts included in retained earnings	2,902	2,902

Note 22. FINANCIAL AND OTHER LIABILITIES

Item	Dec 31 2009	Dec 31 2008
Loans		1,296
Other financial liabilities:		
- valuation of financial instruments	1,772	14,203
- lease liabilities	98	
Total financial liabilities	**1,870**	**15,499**
- non-current	44	
- current	1,826	15,499

Loans and borrowings:

Item	Liability amount	Interest rate
	LOANS	
Dec 31 2009		
Total loans	**0**	**x**
Dec 31 2008		
BRE BANK S.A. Zielona Góra Branch, investment loan	1,296	**USD 1M LIBOR +1.2**
Total loans	**1,296**	**x**

Loans by maturity:

Item	*Dec 31 2009*	*De 31 2008*
Current loans and borrowings		1,296
Non-current loans and borrowings		
- repayable in more than 1 year to 3 years		
- repayable in more than 3 years to 5 years		
- repayable in more than 5 years		
Total loans and borrowings	**0**	**1,296**

Loans and borrowings by currency:

Item	Dec 31 2009		Dec 31 2008	
	in foreign currency	in PLN	in foreign currency	in PLN
PLN	-	-	-	1,296
EUR	-	-	-	-
USD	-	-	438	1,296
GBP				
CHF				
Total loans and borrowings	**x**	**x**	**x**	**1,296**

Non-Current and Current Loans and Borrowings as at December 31st 2008:

Lender's name and registered office	Loan/borrowing amount		Repayment date	Security
	PLN	Foreign currency (USD)		
Current				
BRE BANK S.A. Zielona Góra Branch, investment loan	1,296	438	Dec 31 2009	Ordinary mortgage (*hipoteka zwykła*) for the amount of USD 3,500,000 and security (deposit) mortgage (*hipoteka kaucyjna*) for the amount of USD 150,000 on the Company's real property at ul. Sobieskiego 8
Total	**1,296**	**x**	**x**	

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 under the lease agreement is PLN 140 thousand. The agreement term expires on January 13th 2012. As at the end of 2009, the lease liability amounted to PLN 98 thousand.

As at December 31st 2009, the future minimum lease payments under lease agreements and the net present value of the minimum lease payments were as follows:

Item	Dec 31 2009		Dec 31 2008	
	Minimum lease payments	Present value of the lease payments	Minimum lease payments	Present value of the lease payments
Up to 1 year	62	54		
From 1 year to 5 years	47	44		
Over 5 years				
Total minimum lease payments	**109**	**98**	**0**	**0**
Future interest expense	11	x		x
Present value of minimum lease payments, including:	**98**	**98**	**0**	**0**
current	54	54		
non-current	44	44		

OTHER LIABILITIES

Item	Dec 31 2009	Dec 31 2008
Other liabilities:	**1,142**	**2,154**
- current portion	736	1,095
- non-current portion	406	1,059

As at December 31st 2009, SECO/WARWICK S.A. had investment commitments towards SECO/WARWICK ALLIED Pvt. LTD in the amount of PLN 1,142 thousand arising under the share purchase agreement concerning purchase of shares in the company.

Note 23. TRADE PAYABLES AND OTHER LIABILITIES

TRADE PAYABLES AND OTHER LIABILITIES	As at Dec 31 2009	As at Dec 31 2008
a) trade payables maturing in:	4,650	8,565
- up to 12 months	4,650	8,565
- more than 12 months	0	0
b) prepaid deliveries	790	1,589
c) promissory notes payable	0	
d) taxes, customs duties, social security and other benefits payable (net of income tax)	1,177	2,235
e) salaries and wages payable	906	1,072
f) other	868	1,152
TOTAL	**8,391**	**14,613**

Trade payables and other current liabilities by currency:

Item	Dec 31 2009		Dec 31 2008	
	in foreign currency	restated in PLN	in foreign currency	restated in PLN
PLN		2,694		10,548
EUR	703	2,887	334	1,392
USD	562	1,602	493	1,461
GBP	14	66	6	28
INR	19,562	1,142	35,271	1,095
other				89
Total	**x**	**8,391**	**x**	**14,613**

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 2009	**10,154**	10,154					
Dec 31 2008	**5,440**	5,440					

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 2009	**4,460**	4,460					
Dec 31 2008	**2,951**	2,951					

Contingent Liabilities

Contingent liabilities under guarantees and sureties:

Dec 31 2009	**Bank Name**	**Type of guarantee**	**Currency**	***Dec 31 2009***	***AMOUNT IN PLN****
Guarantee 1	BRE	PBG	PLN	35	35
Guarantee 2	BH	CRB	USD	300	855
Guarantee 3	BRE	PBG	EUR	65	267
Guarantee 4	BRE	APG	EUR	409	1,679
Guarantee 5	BRE	PBG	EUR	200	822
Guarantee 6	BRE	APG	EUR	809	3,322
Guarantee 7	BRE	APG	PLN	268	268
Guarantee 8	BRE	PBG	EUR	184	757
Guarantee 9	BRE	PBG	EUR	140	575
Guarantee 10	BRE	APG	PLN	610	610
Guarantee 11	BRE	PBG	EUR	174	713
Guarantee 12	BRE	APG	EUR	144	592
Guarantee 13	BRE	PBG	EUR	12	48
Guarantee 14	BRE	APG	EUR	409	1,679
Guarantee 15	BRE	PBG	EUR	159	651

Guarantee 16	BRE	PBG	EUR	117	479
TOTAL					**13,352**

* The guarantees were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2009.

Dec 31 2008	**Bank Name**	**Type of guarantee**	**Currency**	***Dec 31 2008***	***AMOUNT IN PLN****
Guarantee 1	BRE	PBG	PLN	35	35
Guarantee 2	BRE	PBG	USD	119	352
Guarantee 3	BRE	PBG	EUR	62	257
Guarantee 4	BRE	APG	EUR	750	3,129
Guarantee 5	BRE	APG	EUR	41	173
Guarantee 6	BRE	APG	EUR	41	173
Guarantee 7	BH	CRB	USD	300	889
Guarantee 8	BRE	PBG	EUR	65	271
Guarantee 9	BRE	APG	EUR	409	1,705
Guarantee 10	BRE	APG	EUR	260	1,086
Guarantee 11	BRE	APG	EUR	260	1,086
Guarantee 12	BRE	APG	EUR	409	1,705
Guarantee 13	BRE	APG	EUR	152	634
Guarantee 14	BRE	PBG	EUR	67	277
Guarantee 15	BRE	PBG	EUR	100	417
Guarantee 16	BRE	APG	USD	762	2,256
Guarantee 17	RCB	APG	EUR	316	1,318
Guarantee 18	BRE	APG	EUR	152	634
Guarantee 19	BRE	PBG	EUR	37	153
Guarantee 20	RCB	APG	PLN	644	644
TOTAL					**17,195**

**The guarantees were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2008.

APG → advance payment guarantee
CRG → credit repayment guarantee
PBG → performance bond guarantee
CRB→ credit repayment bond

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 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 some 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 2009	Dec 31 2008
Total tangible assets contributed to the Fund	-	-
Loans advanced to employees	17	72
Cash	80	41
Liabilities to the Fund		
Net balance	94	79
Contributions to the Fund during financial period	270	272

Investment Commitments

As at December 31st 2009, the capital commitments for property, plant and equipment amounted to PLN 25 thousand (as at December 31st 2008, the Company did not carry any capital commitments for property, plant and equipment). The amount has been earmarked for purchase of new machines and equipment.

Note 24. PROVISIONS

EMPLOYEE BENEFITS

Retirement Benefits and other Post-Employment Benefits

Retiring employees of the Company have been entitled to retirement severance pays in an amount established pursuant to the Polish Labour Code. Therefore, based on a valuation prepared by a qualified actuary, the SECO/WARWICK S.A. creates a provision for the present value the of the retirement severance pay obligations.

Provision for retirement severance pays and similar benefits

LONG-TERM PROVISION FOR RETIREMENT BENEFITS AND SEVERANCE PAYS	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
as at beginning of period	75	95
increase		
- provisions of acquired undertakings		
- provision created		
use		
release	-5	-20
as at end of period	**70**	**75**

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

Item	Dec 31 2009	Dec 31 2008
Discount rate (%)	6.20	5.50
Expected inflation rate (%)	2.50	2.50
Expected rate of growth of salaries and wages (%)	5.00	5.00

SHORT-TERM PROVISION FOR RETIREMENT AND SIMILAR BENEFITS (BY CATEGORY)	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
1. Provision for unused holidays	**235**	**235**
a) as at beginning of period		382
b) increase	277	236
- provisions of acquired undertakings		-
- provision created	277	236
c) use		375
d) release	235	8
f) as at end of period	**277**	**235**
2. Provision for bonuses		
a) as at beginning of period	-	1,767
b) increase	250	-
- provisions of acquired undertakings	-	-
- provision created	250	-
c) use		1,581
d) release		186
f) as at end of period	**250**	**-**
3. Provision for retirement severance pays		
a) as at beginning of period	62	9
b) increase	59	68
- provisions of acquired undertakings		-
- provision created	59	68
c) use	8	15
d) release	54	-
f) as at end of period	**59**	**62**

Other provisions

CHANGE IN OTHER SHORT-TERM PROVISIONS (BY CATEGORY)	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Provisions for expected losses/additional costs		
a) as at beginning of period	-	147
b) increase	108	-
- provision created	108	-
c) use	-	-
d) release		147
f) as at end of period	**108**	**0**
Provisions for warranty repairs		
a) as at beginning of period	1,295	1,430
b) increase	1,040	1,295
- provision created	1,040	1,295
c) use	1,295	1,286
d) release		144
f) as at end of period	**1,040**	**1,295**
Provisions for penalties		
a) as at beginning of period	-	105
b) increase	432	-
- provision created	432	-
c) use	-	-
d) release	-	105
f) as at end of period	**432**	**0**
Other provisions		
a) as at beginning of period	-	2,702
b) increase	-	-
- provision created	-	-
c) use	-	2,702
d) release	-	-
f) as at end of period	**0**	**0**

Note 25. LEASES

Operating Lease

In 2008–2009, SECO/WARWICK S.A. neither used nor made available for use any assets under operating lease agreements.

Finance Lease

SECO/WARWICK S.A. uses a SUBARU Tribeca passenger car under a finance lease agreement signed with BRE Leasing on February 20th 2009. For detailed information concerning the lease see Note 22.

SECO/WARWICK S.A. has not made available for use any assets under finance lease agreements.

Note 26. DEFERRED INCOME

Item	*Dec 31 2009*	*Dec 31 2008*
- subsidies to tangible assets	3	4
- subsidies from the Polish Ministry of Science and Higher Education	2,181	180
- excess of received advances over revenue recognised using the percentage of completion method	229	2,785
- cost of contracts – cooperating parties	310	3,395
- adjustment to income connected with the settlement of long-term contracts (invoiced amount exceeds revenue recognised using the percentage of completion method)	1,596	3,452
Total deferred income, including:	**4,319**	**9,816**
non-current	2,181	180
current	2,138	9,636

Note 27. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS

Item	*Dec 31 2009*	*Dec 31 2008*
Cash in the balance-sheet	**18,662**	**9,270**
exchange differences arising on balance-sheet valuation	(167)	(222)
monetary assets classified as cash equivalents for the needs of the statement of cash flows		
Total cash and cash equivalents disclosed in the statement of cash flows	**18,495**	**9,048**

Item	*Dec 31 2009*	*Dec 31 2008*
Amortisation and depreciation:	**2,598**	**2,151**
amortisation of intangible assets	337	325
depreciation of property, plant and equipment	2,248	1,813
depreciation of investment property	13	13
Change in provisions results from the following items:	**569**	**(2,267)**
balance-sheet change in provisions	(45)	(4,196)
provision for deferred payment for shares in RETECH SYSTEMS		2,702
exclusion of change in income tax liabilities	614	(773)
Change in inventories results from the following items:	**3,176**	**(1,139)**
balance-sheet change in inventories	3,176	(1,139)
Change in receivables results from the following items:	**31,743**	**(7,127)**
balance-sheet change in current receivables	32,320	(7,468)
exclusion of income tax receivable	(577)	341
Change in current liabilities (excluding financial liabilities) results from the following items:	**(5,889)**	**(2,694)**

balance-sheet change in current liabilities	(18,600)	12,442
exclusion of income tax liabilities		
adjustment for change in liabilities related to acquisition of property, plant and equipment	(25)	162
exclusion of change in lease liabilities	98	
valuation of derivative instruments	12,278	(14,203)
liability towards Allied	360	(1,095)
Change in accruals and deferrals results from the following items:	**(5,409)**	**4,724**
balance-sheet change in accruals and deferrals	(2,442)	1,977
exclusion of change in income tax assets	(2,967)	2,747

Note 28. RELATED PARTIES

Related party	*Year*	*Sales to the related party*	*Receivables from the related party*	*Liabilities towards the related party*
ELTERMA				
	2009	1,264	746	704
	2008	2,243	2,729	723
SECO/WARWICK Corporation				
	2009	552		
	2008	552	1,018	187
ELTUS				
	2009	12		3
	2008			5
SECO MOSCOW				
	2009			
	2008		2	
RETECH				
	2009	98		
	2008	13,473	3,478	123
SECO CHINA				
	2009	20	9	
	2008	143		
SECO/WARWICK ALLIED				
	2009	20	121	
	2008	533	270	

Other Related Parties

Employment contract between SECO/WARWICK S.A. and Bartosz Klinowski
Under the contract of December 31st 2005, Bartosz Klinowski is obliged to provide work to the Company as a full-time electrical design engineer. The contract was concluded for an unspecified term and contains standard provisions, which comply with the Polish Labour Code. As of March 1st 2008, Bartosz Klinowski assumed the position of Deputy Head of the Electrical Division. Bartosz Klinowski 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.

Employment contract between SECO/WARWICK S.A. and Piotr Zawistowski
Under the contract of February 1st 2007, Piotr Zawistowski is obliged to provide work to the Company as a junior service 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 unspecified 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 and on February 1st 2010 he became Deputy Head of the Vacuum Division in charge of LPC technology. 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 is obliged to provide work to the Company as a human resources management specialist. The contract was concluded for an unspecified 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 is 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 specified term. The contract contains standard provisions, which comply with the Polish Labour Code. As of 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 is 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 specified term. The contract contains standard provisions, which comply with the Polish Labour Code. As of 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	2009	2008
Short-term employee benefits (salaries, wages and overheads)	276	311
Length-of-service awards		
Post-employment benefits		
Termination benefits		
Share-based payments		

Note 29. KEY PERSONNEL REMUNERATION

The table below presents total remuneration paid or payable to members of the Management and Supervisory Boards of SECO/WARWICK S.A.:

Item	Dec 31 2009	Dec 31 2008
Management Board of SECO/WARWICK S.A.	**1,705**	**1,440**
Short-term employee benefits (salaries, wages and overheads)	1,705	1,440
Length-of-service awards		
Post-employment benefits		
Termination benefits		
Share-based payments		
Supervisory Board of SECO/WARWICK S.A.	**132**	**138**
Short-term employee benefits (salaries, wages and overheads)	132	138
Length-of-service awards		
Post-employment benefits		
Termination benefits		
Share-based payments		
Total	**1,837**	**1,578**

The table below presents total remuneration paid or payable to other members of key management personnel:

Item	Dec 31 2009	Dec 31 2008
Short-term employee benefits (salaries, wages and overheads)	984	1,025
Length-of-service awards		
Post-employment benefits		
Termination benefits		
Share-based payments		
Total remuneration paid to key management personnel (other than members of the Management and Supervisory Boards)	**984**	**1,025**

MANAGEMENT BOARD REMUNERATION:

Name	Base pay	Other benefits	Total
MANAGEMENT BOARD			
Dec 31 2009			
Leszek Przybysz	439		439
Andrzej Zawistowski	235		235
Witold Klinowski	396		396
Józef Olejnik	324		324
Wojciech Modrzyk	311		311
Total	**1,705**		**1,705**
Dec 31 2008			
Andrzej Zawistowski	400		400
Witold Klinowski	396		396
Józef Olejnik	324		324
Jeffrey William Boswell			
Wojciech Modrzyk	320		320
Total	**1,440**		**1,440**

SUPERVISORY BOARD REMUNERATION:

Name	*Dec 31 2009*	*Dec 31 2008*
Marek Górny		4
Artur Grygiel	24	24
Piotr Kowalewski	30	30
Piotr Kula	24	24
Henryk Pilarski	36	36
Robert Legierski	8	20
Andrzej Libold	10	
Total	**132**	**138**

Note 30. FINANCIAL ASSETS

Item	Category (IAS 39)	Carrying value		Fair value	
		Dec 31 2009	Dec 31 2008	Dec 31 2009	Dec 31 2008
Financial assets					
Investments in related undertakings	Financial assets classified as held for sale	58,707	58,707	58,707	58,707
Financial assets available for sale (non-current)	Financial assets classified as held for sale				0
- *Loan revenue bonds*	Financial assets classified as held for sale				0
Other financial assets (non-current)	Financial assets classified as held for sale				0
- loans advanced	Loans and receivables				0
Trade and other receivables	Loans and receivables	15,888	48,209	15,888	48,209
Derivative financial instruments	Financial assets at fair value through profit or loss				0
Cash and cash equivalents	Loans and receivables	18,662	9,270	18,662	9,270
Financial liabilities					
Current				0	
Overdraft facility				0	0
Interest-bearing loans and borrowings, including:	Other financial liabilities at amortised cost			0	
- *overdraft facility*	Other financial liabilities at amortised cost			0	0
- *current loans*	Other financial liabilities at amortised cost		1,296		1,296
- *finance lease liabilities (current)*	Other financial liabilities at amortised cost	54		54	0
Trade payables and other liabilities	Other financial liabilities at amortised cost	7,214	12,379	7,214	12,379
- *currency forwards*	Financial liabilities at fair value through profit or loss	1,772	11,473	1,772	11,473
Non-current					
- *non-current loans*	Other financial liabilities at amortised cost			0	0
Other liabilities	Other financial liabilities at amortised cost			0	0
Trade payables and other liabilities	Other financial liabilities at amortised cost	-	-	-	-
- Finance lease liabilities (non-current)	Other financial liabilities at amortised cost	44		44	

Note 31. EMPLOYMENT STRUCTURE

Item	*Dec 31 2009*	*Dec 31 2008*
Blue-collar employees	113	140
White-collar employees	159	169
Employees on parental leaves		1
Total	**272**	**310**

Note 32. CAPITAL MANAGEMENT

The primary objective behind the Company's capital management is to maintain good credit rating and safe capital ratios, in order to support the Company's operations and enhance its shareholder value.

The Company manages its capital structure and modifies it in response to changes in the economic environment. To maintain or adjust its capital structure, the Company may make changes regarding dividend distributions, return capital to the shareholders or issue new shares. During the year ended December 31st 2009, there were no changes regarding the capital structure management objectives, policies and processes.

In monitoring its capital, the Company uses the leverage ratio calculated as net debt divided by total equity plus net debt. The Company's net debt includes interest-bearing loans and borrowings, trade payables and other liabilities, less cash and cash equivalents. Equity includes convertible preference shares and equity attributable to equity holders of the parent, less capital reserve from unrealised net gains.

Note 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

In the course of its operating and financing activities, the Company 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 risk management is to offset 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 Finance Department of the Company, 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 regularly updated reports on the type and extent of exposure to a given risk.

33.1 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 formulated and periodically reviewed by the Management Board. In 2009, the following strategy was applied to manage currency risk:

- Hedging of cash flows that are certain to occur (payments, executed contracts)

Each contract executed by the Company is hedged by means of a forward transaction so as to ensure that as a minimum 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 contract 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 "recycled" 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.

- Hedging of planned cash flows

Additionally, the Company's Finance Department may hedge up to 40% of its planned future foreign currency inflows to ensure meeting the budgeted exchange rate. The Company hedges such inflows by means of option strategies, e.g. zero-cost collars.

Planned foreign currency cash flows are calculated on the basis of estimated cash flows under the existing contracts that are not hedged with forward transactions, taking into account any additional cash flows under new contracts as determined on the basis of historical data.

Hedge accounting is not applied to these transactions. The valuation of financial instruments related to planned foreign currency cash flows is recognised in the income statement at the end of each quarter.

Analysis of sensitivity to fluctuations in PLN/USD and PLN/EUR exchange rates

Assuming a 10% decrease in the value of the US dollar against the złoty as at December 31st 2009 (with all other factors remaining unchanged), both net earnings for the financial year 2009 and equity would be lower by PLN -660 thousand (for 2008, net earnings and equity would be lower by PLN -1,000 thousand and PLN -962 thousand, respectively). Conversely, assuming a 10% increase in the value of the US dollar against the złoty (all other factors remaining unchanged), both net earnings for the financial year 2009 and equity would be higher by PLN +660 thousand (for 2008: PLN +1,000 thousand and PLN +962 thousand, respectively).

Assuming a 10% decrease in the value of the euro against the złoty as at December 31st 2009 (with all other factors remaining unchanged), both net earnings for the financial year 2009 and equity would be lower by PLN -5,000 thousand (for 2008, net earnings and equity would be lower by PLN -9,600 thousand and PLN -9,420 thousand, respectively). Conversely, assuming a 10% increase in the value of the euro against the złoty (with all other factors remaining unchanged), both net earnings for the financial year 2009 and equity would be higher by PLN +5,000 thousand (for 2008: PLN +9,600 thousand and PLN +9,420 thousand, respectively).

Assumptions adopted for 2009:

- average USD/PLN exchange rate used to translate items of the income statement: 3.1111
- average EUR/PLN exchange rate used to translate items of the income statement: 4.3277
- USD/PLN exchange rate as at the end of the period used to translate items of the balance sheet: 2.8503

- EUR/PLN exchange rate as at the end of the period used to translate items of the balance sheet: 4.1082

Assumptions adopted for 2008:

- average USD/PLN exchange rate used to translate items of the income statement: 2.4115
- average EUR/PLN exchange rate used to translate items of the income statement: 3.5321
- USD/PLN exchange rate as at the end of the period used to translate items of the balance sheet: 2.9618
- EUR/PLN exchange rate as at the end of the period used to translate items of the balance sheet: 4.1724
- average EUR/PLN exchange rate as at the end of the period used to translate items of the balance sheet: 3.582

33.2 Interest Rate Risk

The Company's exposure to interest rate risk is not material, due to the fact that the share of interest-bearing debt in the Company's total financing structure is relatively low.

33.3 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 offer preparation stage, each piece of equipment is priced using the current prices of materials and labour. In addition, the fixed costs incurred by the Company and the assumed margin on the equipment are taken into account. As a result, in the opinion of 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 Management Board believes that SECO/WARWICK S.A. is now engaged in a number of activities to strengthen its market position and increase its competitive lead 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.

33.4 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,
- quick ratio – over 1.

The capital management policy adopted by the Company requires it to maintain a degree of 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 adopted dividend policy.
Capital management is also centred around the goal of maintaining a predetermined level of liquidity which allows the Company both to pay 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 as need arises.

33.5 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.

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 table below presents the Company's financial liabilities by maturity as at December 31st 2009 and December 31st 2008, based on contractual undiscounted payments.

Dec 31 2009	**Payable on demand**	**up to 1 year**	**1–5 years**	**Over 5 years**	**Total**
Interest-bearing loans and borrowings	-	-	-	-	**0**
Trade payables	-	5,440	-	-	**5,440**
Other liabilities	-	4,776	450	-	**5,227**
TOTAL		**15,910**	**-**		**10,666**
Dec 31 2008	**Payable on demand**	**up to 1 year**	**1–5 years**	**Over 5 years**	**Total**
Interest-bearing loans and borrowings	-	1,296	-	-	**1,296**
Trade payables	-	10,154	-	-	**10,154**
Other liabilities	-	18,662	1,059	-	**19,721**
TOTAL		**30,112**	**1,059**	**0**	**31,171**

36.6 Credit Risk

The Company pursues a policy of entering into sales agreements only with 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. There are no past due receivables that would not be classified as uncollectible.

Item	Dec 31 2009	Dec 31 2008
up to 1 month	3,361	7,112
more than 1 month to 3 months	4,484	19,496
more than 3 months to 6 months	4,394	6,523
more than 6 months to 1 year		8,693
more than 1 year		123
past due	1,131	2,541
Total trade receivables (gross)	13,370	44,488
Impairment loss on trade receivables	744	399
Total trade receivables (net)	**12,626**	**44,089**

34. MANAGEMENT STOCK OPTIONS

On April 29th 2009, the General Shareholders 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 plans to implement the Incentive Scheme in the years 2009-2011, while the subscription warrants distributed among 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 that 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 at each reporting date from the grant date until final settlement,
- 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.

Based on the foregoing, the cost of the management stock option scheme as at December 31st 2009 has been estimated as follows:

Share price as at December 31st 2009	PLN 19.00
Exercise price in 2009	PLN 18.96
Option intrinsic value	PLN 0.04

Number of the management stock options	300,000
Vesting period	3 years
Portion of vesting period lapsed at the reporting date	1/3
Estimated number of options granted	100%x1/3
Option intrinsic value	PLN 0.04
Cost for the period	PLN 4,460

Date: April 20th 2010

Leszek Przybysz
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