

**ZAKŁADY AUTOMATYKI “POLNA”
SPÓŁKA AKCYJNA**

**THE MANAGEMENT BOARD’S REPORT FROM THE
COMPANY’S ACTIVITY IN 2009**

PRZEMYŚŁ, MARCH 2010

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CHAPTER I.

BASIC INFORMATION ABOUT THE COMPANY

1. NAME AND REGISTERED SEAT

- Zakłady Automatyki "POLNA" S.A.
- 37-700 Przemyśl, ul. Obozowa 23
- tel. no. 0-16/678-66-01
- fax: 0-16/678-65-24, 678-37-10

2. COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD AND CHANGES IN THE REPORT PERIOD

The composition of the Management Board:

- Jan Zakonek – President of the Management Board / General Director
- Jacek Lechowicz – Member of the Management Board / Marketing and Sales Director

In the report period, no changes occurred in the composition of the Management Board

The composition of the Supervisory Board:

- Mr Wiesław Piwowski – President,
- Mr Adam Świetlicki vel Węgorek – Vice-President,
- Mr Władysław Wojtowicz – Secretary,
- Mr Jarosław Iwaniec – Member,
- Ms Grażyna Kotar – Member.

In the report period, no changes occurred in the composition of the Supervisory Board

3. LEGAL FORM

The Company is a public limited company, quoted on the main market of the Warsaw Stock Exchange in the fixed quotation system, conducting activity pursuant to the Commercial Companies Code, registered on 12/02/2002 by the District Court in Rzeszów, XII Economic Division of the National Court Register, with the KRS number 00000173, managing a firm with the registered business name Zakłady Automatyki "POLNA" S.A. in Przemyśl.

4. THE COMPANY'S CAPITALS

As of the day 31st December 2009, the Company's equity capitals reached the value of PLN 39,667 thousand. The share capital amounted to PLN 9,823 thousand and was divided into 2,585,026 shares of nominal value PLN 3.80 each, including:

- 564,010 series A shares,
- 168,412 series B shares,
- 81,000 series C shares,
- 19,000 series D shares,
- 1,664,844 series E shares,
- 87,760 series F shares.

5. THE COMPANY'S SHAREHOLDERS

According to the Company's knowledge, the Company's share ownership on the day of issuing the annual report was the following:

	Number of shares / votes	Participation in the share capital
Zbigniew Jakubas	780,179 shares	(30.18%)
Affiliated entity Wartico Invest Sp. z o. o.	384,474 shares	(14.87%)
<u>Affiliated entity Multico Sp. z o.o.</u>	<u>46,079 shares</u>	<u>(1.78%)</u>
Zbigniew Jakubas and affiliated entities jointly	1,210,732 shares	(46.83%)
Radosław Kamiński with a close companion	140,405 shares	(5.43%)
Other shareholders	1,233,889 shares	(47.74%)
Total	2,585,026 shares	(100.00%)

6. THE OBJECT OF ACTIVITY

In accordance with Art. 7 of the Charter, the Company's object of activity is:

- 24.5 Metal founding;
- 28.12.Z Production of hydraulic and pneumatic drive equipment;
- 28.13.Z Production of other pumps and compressors;
- 28.14.Z Production of other cocks and valves;
- 38.21.Z Processing and utilization of waste other than dangerous;
- 38.32.Z Recycling of raw materials from sorted materials;
- 46.69.Z Wholesale trade of other machines and equipment;
- 46.90.Z Non-specialized wholesale trade;
- 46.77.Z Wholesale trade of waste and scrap.

CHAPTER II.

BASIC ECONOMIC AND FINANCIAL NUMBERS OF THE COMPANY

AND THE FACTORS HAVING A SIGNIFICANT INFLUENCE ON THE ECONOMIC ACTIVITY AND THE RESULTS OBTAINED

7. THE COMPANY'S FINANCES

Since 1st January 2009, pursuant to the Resolution of the Annual General Shareholders Meeting No. 32/2008 of 30th June 2008, "POLNA" S.A. has been making unitary financial statements in compliance with the International Financial Reporting Standards accepted by the European Commission.

For reliable and clear presentation of the firm's financial and property standing, the Company applies the principles included in the Company's accounting policy and described in the **Introduction to the financial statement**. The book records system is computerized. The Company has a company account scheme and a list of accounting books. The adopted scheme of synthetic and analytical accounts allows for grouping of data in sections necessary to make financial statements. The system enables to obtain current information on the result of economic activity and the financial condition.

The presented data (shown above) for the previous periods have been transformed so as to retain the comparability principle.

7.1. BALANCE SHEET

The Company's balance sheet for 31st December 2009 was closed with the amount of PLN 46,579 thousand on the side of assets and liabilities. The Company's net assets (book value) amounted to PLN 39,667 thousand, which is PLN 15.34 for one share.

Assets

- **Fixed assets**

At the end of the year 2009, fixed assets amounted to PLN 30,748 thousand and constituted 66.0% of the Company's assets. Changes in the amount and structure of individual fixed assets in the accounting period are illustrated by the following tables.

Table 1. Changes in fixed assets, in PLN thousand

Detailed list	31/12/2009		31/12/2008		Change (%)
	Value	Participation (%)	Value	Participation (%)	
Total fixed assets, including:	30 748	100,0%	31 548	100,0%	-2,5%
Tangible fixed assets	29 756	96,8%	31 136	98,7%	-4,4%
Real property and	0	0,0%	0	0,0%	0,0%

investments					
Company's goodwill	0	0	0	0,0%	0,0%
Other intangible values	58	0,2%	44	0,1%	31,8%
Financial assets	0	0,0%	0	0,0%	0,0%
Loans	0	0,0%	0	0,0%	0,0%
Deferred income tax assets	934	3,0%	368	1,2%	153,8%
Other prepayments and accrued income	0	0,0%	0	0,0%	0,0%

In the year 2009, the value of total fixed assets decreased by 2.5% in comparison to the end of the previous year. The value of fixed assets depends on tangible fixed assets (96.8%), which decreased by 4.4% as a result of the amortization, sales and liquidation.

The increase of other intangible values (by 31.8%) occurred due to purchasing computer software.

Deferred income tax assets increased by PLN 566 thousand in comparison to the end of 2008, due to a reduction of the write-off for assets regarded as uncertain. By paying off currency options, the Company achieved surety of generating tax income, sufficient to deduct temporary differences and clearing the tax loss from 2009 over the next years.

Table 2. Structure of tangible fixed assets, in PLN thousand

Detailed list	31/12/2009		31/12/2008		Change (%)
	Value	Participation (%)	Value	Participation (%)	
Total tangible fixed assets, including:	29 756	100,0%	31 136	100,0%	-4,4%
- land (including perpetual usufruct of land)	1 621	5,5%	1 621	5,2%	0,0%
- buildings and structures	13 386	45,0%	13 693	44,0%	-2,2%
- technical equipment and machines	12 926	43,4%	13 592	43,7%	-4,9%
- means of transport	365	1,2%	411	1,3%	-11,2%
- other fixed assets	1 458	4,9%	1 819	5,8%	-19,8%

In 2009, there was a total decrease in tangible fixed assets by 4.4% in comparison to the end of the year 2008. The Company's property is mostly buildings and structures (45.0%) and machines and equipment (43.4%).

The greatest decrease in tangible fixed assets was noted in the group of ‘other fixed assets’ (19.8%), ‘means of transport’ (11.2%) and ‘technical equipment and machines’ (4.9%).

Current assets

At the end of the year 2009, current assets reached the amount of PLN 15,831 thousand and constituted 34.0% of the value of the Company’s assets.

In the year 2009, there was a total decrease of the current assets value by 10.4% in comparison to the end of the year 2008. The greatest items of current assets are cash and cash equivalents (54.0%), supplies (22.9%) and trade receivables and other receivables (22.5%).

The greatest increase in the value of current assets for the end of the year 2009 was noted in the ‘cash and cash equivalents’ item (by 49.2%), which was related to increasing the position of cash on bank accounts.

There was also an increase in the financial assets item (by 46.7%) in comparison to the end of 2008, caused by revaluation of prices of the owned shares.

Fixed assets earmarked for sale, existing for the end of 2008 in the amount of PLN 540 thousand, were partly sold and liquidated within 2009, and the remaining ones were returned to use.

There was a significant decrease in the item ‘trade receivables and other receivables’, by 43.8% in comparison to the end of 2008, and in the value of supplies, by 27.2%, and it mostly referred to reduction of materials and finished products.

Table 3. Changes in current assets, in PLN thousand

Detailed list	31/12/2009		31/12/2008		Change (%)
	Value	Participation (%)	Value	Participation (%)	
Total current assets, including:	15 831	100,0%	17 666	100,0%	-10,4%
Supplies, including:	3 625	22,9%	4 982	28,2%	-27,2%
materials	2 009	12,7%	3 028	17,1%	-33,7%
production in progress final products goods	1 337	8,4%	1 455	8,2%	-8,1%
	277	1,7%	498	2,8%	-44,4%
	2	0,0%	1	0,0%	100,0%
Trade receivables and other receivables	3 563	22,5%	6 336	35,9%	-43,8%
Income tax receivables	0	0,0%	0	0,0%	0,0%
Financial assets	44	0,3%	30	0,2%	46,7%
Loans	0	0,0%	0	0,0%	0,0%

Cash and cash equivalents	8 547	54,0%	5 729	32,4%	49,2%
Prepayments and accruals	52	0,3%	49	0,3%	6,1%
Fixed assets earmarked for disposal	0	0,0%	540	3,1%	-100,0%

Equity and liabilities

- *Equity capital*

As of the end of 2009, equity capital constituted 85.2% of the total sum of equity and liabilities and amounted to PLN 39,667 thousand. Changes in the value and structure of the capital are presented in the following table.

Table 4. Amount and structure of equity capital, in PLN thousand

Detailed list	31/12/2009		31/12/2008		Change (%)
	Value	Participation (%)	Value	Participation (%)	
Total equity capital, including:	39 667	100,0%	37 085	100,0%	7,0%
Core capital	9 823	24,8%	9 823	26,5%	0,0%
Revaluation capital	0	0,0%	0	0,0%	0,0%
Other capitals	7 511	18,9%	7 498	20,2%	0,2%
Retained profits	20 157	50,8%	19 750	53,3%	2,1%
Net profit (loss)	2 176	5,5%	14	0,0%	15 442,9%

The increase of equity capital by 7.0% was a result of net profit noted in 2009, amounting to PLN 2,176 thousand.

- *Long-term and short-term liabilities*

Long-term liabilities amounted to PLN 4,271 thousand and constituted 9.2% of the total equity and liabilities position. Changes in the value and structure of the individual elements of equity and liabilities are presented in the following table.

Table 5. Changes in long-term liabilities, in PLN thousand

Detailed list	31/12/2009		31/12/2008		Change (%)
	Value	Participation (%)	Value	Participation (%)	
Total long-term liabilities, including:	4 271	100,0%	5 612	100,0%	-23,9%
Loans and credits	0	0,0%	0	0,0%	0,0%
Deferred income tax reserve	3 420	80,1%	3 821	68,1%	-10,5%
Long-term reserves for liabilities	548	12,8%	1 007	17,9%	-45,6%
Leasing liabilities	303	7,1%	784	14,0%	-61,4%
Other long-term liabilities	0	0,0%	0	0,0%	0,0%
Prepayments and accruals	0	0,0%	0	0,0%	0,0%

In the audited period, there was a decrease (by 23.9%) of long-term liabilities in comparison to the end of the year 2008 and referred to all the item of that group of liabilities.

The greatest decrease was in leasing liabilities (61.4%) and was related to the repayment of those liabilities. A significant decrease (45.6%) occurred in the item 'reserves for liabilities' and was related to actuarial valuation of employees reserves done at the end of the year.

Short-term liabilities amounted to PLN 2,641 thousand and constituted 5.7% of the total equity and liabilities. The changes and structures of particular items are presented by the following table.

Table 6. Changes in short-term liabilities, in PLN thousand

Detailed list	31/12/2009		31/12/2008		Change (%)
	Value	Participation (%)	Value	Participation (%)	
Total short-term liabilities, including:	2 641	100,0%	6 517	100,0%	-59,5%
Liabilities due to deliveries and services and other liabilities	1 385	52,4%	5 316	81,6%	-73,9%
Short-term loans and credits	0	0,0%	69	1,1%	-100,0%
Current income tax liabilities	0	0,0%	18	0,3%	-100,0%
Leasing liabilities	482	18,3%	354	5,4%	36,2%
Short-term reserves	762	28,9%	760	11,7%	0,3%
Prepayments and accruals	12	0,5%	0	0,0%	0,0%

In the audited period, there was a decrease (by 59.5%) in short-term liabilities in comparison to the end of the year 2008.

The decrease referred to most of the items of short-term liabilities. An increase referred to leasing and was related to a re-booking of long-term liabilities to short-term liabilities.

7.2 PROFIT AND LOSS ACCOUNT

- ***Income from sales***

Net income from sales and equalized to it amounted to PLN 26,918 thousand in the year 2009 and decreased by 21.9% in comparison to the year 2008.

Table 7. Net income from sales and equalized to it, in PLN thousand

Detailed list	01/01/2009 – 31/12/2009	01/01/2008 – 31/12/2008	Change (%)
Net income from sales and equalized to it, including:	26 918	34 455	-21,9%
- income from sales of products and services	26 700	34 466	-22,5%
- income from sales of materials and goods	210	356	-41,1%
- change in position of products	-198	-1 014	80,5%
- costs of services for the Company's own needs	206	647	-68,2%

The decrease of income from sales resulted both from the economic situation in the country and from the recession in the world economy. Preventive marketing and organizational activities, carried out in the Company due to the deterioration in the economic situation in the industry sector, resulted in a reduction of the decrease in sales.

- ***Other operating income***

Other operating income in the year 2009 amounted to PLN 409 thousand. In the group, the following had a significant importance: adjustments of write-offs revaluing non-financial assets, amounting to PLN 215 thousand (supplies, materials and production in progress amounting to PLN 159 thousand, receivables amounting to PLN 37 thousand, fixed assets amounting to PLN 19 thousand). Furthermore, other operating income included: income from sales of waste and containers, amounting to PLN 68 thousand and income from materials and products scrapping, in the amount of PLN 58 thousand.

- **Financial income**

Financial income at the end of 2009 amounted to PLN 619 thousand. That value was mostly made up with a positive balance of exchange rate differences (PLN 198 thousand), interest on receivables and interest on cash accumulated on bank accounts (PLN 407 thousand) and revaluation of investments, amounting to PLN 14 thousand.

- **Costs of operating activity**

Costs of operating activity incurred in the year 2009 amounted to PLN 24,518 thousand and were lower by 18.7% in comparison to 2008.

Table 8. Costs of operating activity, in PLN thousand

Detailed list	01/01/2009 - 31/12/2009		01/01/2008 - 31/12/2008		Change (%)
	Value	Participation (%)	Value	Participation (%)	
Costs of operating activity, including:	24 518	100,0%	30 150	100,0%	-18,7%
Amortization	2 505	10,2%	2 636	8,7%	-5,0%
Materials and power consumption	11 271	46,0%	14 049	46,6%	-19,8%
Outsourcing	2 202	9,0%	2 244	7,4%	-1,9%
Taxes and other charges	772	3,1%	766	2,5%	0,8%
Remunerations	5 584	22,8%	8 061	26,7%	-30,7%
Social insurances and other benefits	1 436	5,9%	1 713	5,7%	-16,2%
Other costs by type	573	2,3%	415	1,4%	38,1%
Value of goods and materials sold	175	0,7%	266	0,9%	-34,2%

- **Other operating costs**

In the examined period, other operating costs amounted to PLN 907 thousand and were lower by 16.8% than in the previous year. The level of operating costs was mostly

influenced by: revaluation of non-financial assets, i.e. supplies and receivables, in the amount of PLN 490 thousand, costs of materials scrapping, production in progress and products, amounting to PLN 163 thousand and a loss from disposal of non-financial fixed assets, amounting to PLN 155 thousand.

- **Financial costs**

Financial costs for the end of 2009 amounted to PLN 906 thousand and were lower by 76.8% in comparison to the costs in 2008. The main item was losses on financial instruments concerning conducted currency transactions in the amount of PLN 771 thousand, as well as interest on leasing agreements and liabilities, amounting to PLN 92 thousand, fees connected with securities trade, amounting to PLN 31 thousand and bank commissions amounting to PLN 10 thousand.

- **Financial results**

Financial results of the Company in individual segments of its activity are the following.

Table 9. Financial results, in PLN thousand

Detailed list	01/01/2009 - 31/12/2009	01/01/2008 - 31/12/2008	Change (%)
Profit / loss from sales	2 400	4 305	-44,3%
Profit / loss from operating activity	1 902	4 396	-56,7%
Gross profit / loss	1 615	1 130	42,9%
Net profit / loss	2 176	14	15 442,9%

As for the basic activity, in the year 2009, the Company noted a profit from sales amounting to PLN 2,400 thousand, i.e. by 44.3% lower than in 2008 (PLN 4,305 thousand).

On account of other operating activity in 2009, the Company noted a loss amounting to PLN 498 thousand (income: PLN 409 thousand, costs: PLN 907 thousand), and in the previous year, the Company had a profit of PLN 91 thousand.

The Company's financial activity in 2009 resulted in a loss of PLN 287 thousand (income: PLN 3,575 thousand, costs: PLN 3,862 thousand), mainly due to currency contracts held. In the previous year, the Company had a loss amounting to PLN 3,266 thousand.

From overall activity in 2009, the Company achieved a net profit of PLN 2,176 thousand, and in 2008 the net profit was PLN 14 thousand. Income tax had the decisive influence on its value. In 2009, it increased the gross result by PLN 561 thousand (the deferred part), and in 2008, it decreased the gross result by PLN 1,116 thousand (the current and deferred part).

7.3 RATIO ANALYSIS

The following financial ratios illustrate the Company's condition in the last two years.

Table 10. Financial ratios

Detailed list	31/12/2009	31/12/2008
EBIT profitability <u>profit / loss from operating activity</u> income from sales and equalized to it	7,1%	12,8%
EBITDA profitability <u>profit / loss from operating activity + amortization</u> income from sales and equalized to it	16,4%	20,4%
Net profitability of sales <u>net profit (loss)</u> income from sales and equalized to it	8,1%	0,04%
Profitability of equity capital (ROE) <u>net profit (loss)</u> equity capital	5,5%	0,04%
Current liquidity ratio <u>current assets</u> short-term liabilities	6,0	2,7
Quick ratio <u>current assets – supplies</u> short-term liabilities	4,6	1,9
Supplies cycle in days <u>supplies x number of days in the period</u> income from sales and equalized to it	49	53
Receivables cycle in days <u>receivables x number of days in the period</u> income from sales and equalized to it	48	67
Short-term liabilities cycle in days <u>short-term liabilities x number of days in the period</u> income from sales and equalized to it	36	69
Total liabilities / total equity and liabilities	14,8%	24,6%
Total liabilities / equity capital	17,4%	32,7%

The ratio analysis shows that in the reporting period there occurred changes in terms of shaping of individual economic ratios.

In 2009, the EBIT and EBITDA profitability ratios reached a lower level in comparison to the respective period of the previous year due to a greater decrease of income from sales and from operating activity in relation to decrease in costs of operating activity and

other operating activity. As for net profitability and ROE ratios, they were on a much higher level than in the previous year due to a much higher level of net profit.

Financial liquidity ratios in 2009 had a higher level because of a high value of cash and a lower level of short-term liabilities in comparison to the previous year.

In the examined period, all the ratios of efficiency of activity lowered, which is a desirable phenomenon.

Debt ratios were significantly reduced in comparison to the previous year. Foreign capital participation in financing the Company's activity for the end of the year 2009 fell to the level of 14.8% (from 24.6% at the end of 2008), indicating a rising participation of equity capital in the Company's equity and liabilities. That fact directly resulted in a reduction of equity capital's indebtedness from 32.7% at the end of 2008 to 17.4% at the end of 2009. The reduction of indebtedness ratios results from a substantial decrease in the Company's long-term and short-term liabilities.

8. BASIC INFORMATION ON THE MARKETS, PRODUCTS AND GOODS

Zakłady Automatyki „POLNA” S.A. is one of a dozen or so Polish manufacturers of automatic industrial process control equipment. The Company's production also covers heat engineering products. Other kinds of production are force-feed central lubrication equipment and laboratory equipment.

The Company's products can be divided into a few assortment groups, within which a few kinds of products are manufactured.

Table 11. Products sales divided into groups, in PLN thousand

Detailed list	01/01/2009 - 31/12/2009		01/01/2008 - 31/12/2008		Change (%)
	Value	Participation (%)	Value	Participation (%)	
Total income from products sales, including:	26 700	100,0%	34 466	100,0%	-22,5%
Automatic industrial process control equipment	18 389	68,9%	23 795	69,0%	-22,7%
Heat engineering equipment	2 308	8,6%	2 728	7,9%	-15,4%
Central lubrication equipment	1 463	5,5%	1 979	5,8%	-26,1%
Hydraulics machinery	472	1,8%	902	2,6%	-47,7%
Laboratory equipment	846	3,2%	1 250	3,6%	-32,3%

Casts	2 576	9,6%	2 967	8,6%	-13,2%
Others	646	2,4%	845	2,5%	-23,6%
Income from sales of materials and goods	210	100,0%	357	100,0%	-41,2%
Total income from sales of products, goods and materials	26 910	100,0%	34 823	100,0%	-22,7%

The Company's sales in 2009 reached the value of PLN 26,910 thousand and was lower by 22.7% than in 2008.

The decrease in sales was caused by the general economic situation, as in the face of the crisis, investors approached new investments very carefully or even defensively. New investments were withheld or postponed to the next years, which affected the Company's sales. The leading assortment group in the Company's sales is automatic industrial process control equipment – regulation valves, pneumatic servos and their complementations.

The main groups are:

Automatic industrial process control equipment:

They are devices used to change the intensity of medium flow, retaining the required characteristics. The main elements of those devices are regulating units whose aim is to change the resistance for the flowing factor and drives (servos), whose aim is to supply mechanical power necessary to switch the regulating units. Because of the fact that valves constitute the biggest group of regulating units, those two expressions are used interchangeably.

In that group, we differentiate:

- control valves
- regulatory dampers
- coolers
- servos for valves

The value of turnover in this group of products in 2009 was PLN 18,389 thousand and fell by 22.7% in comparison to the previous year. That decrease mainly resulted from shrinking in market volume caused by the general economic situation.

Heat engineering equipment:

The most numerous group is direct action regulators for regulation of the required pressure in technological installations connected with the outlet of the regulator's valve. They are used in heating systems, industrial processes at cold and hot water, water vapour, air and non-flammable gases flow. In that group, there are also block and needle valves aimed at

assembling, starting and servicing of converters, manometers and other equipment in measurement and regulatory systems of industrial automation control plants. What complements that is throttle valves enabling throttling pressure, regulation of flow intensity and complete shut-off of a factor, as well as filters installed in front of regulatory equipment, aimed at cleaning the factor flowing through it. The detailed division of products from that group is the following:

- direct action regulators,
- needle valves,
- block valves,
- throttle valves,
- locking valves,
- filters.

The value of turnover in this group of products in 2009 was PLN 2,308 thousand. In comparison to 2008, it fell by 15.4%. The observed fall in this product group results from overlapping of the effects of foreign competing companies' activity and the deterioration in the economic situation in the country, which caused stopping of investments in the heat industry sector.

Central lubrication equipment:

The devices and elements being part of the current production programme of Zakłady Automatyki „POLNA” S.A. enable constructing a large number of basic kinds of central lubrication, used in various branches of industry. They are two-way, multi-way and progressive systems, used for lubrication of links in chains of horizontal transport conveyors, devices equipping lubrication posts in vehicle and machine service stations and other oiling systems for special applications.

Two-way force-feed oiling systems are mostly recommended for lubrication of high-load machines and devices, operating in difficult conditions, with a high number of rubbing loops, located in great distances and requiring intensive lubrication. So far, those systems have been used in ironworks, steelworks and non-ferrous metals smelting plants, in open-cast mines, underground mining excavations, cement plants, sugar factories, forges and other places with similar equipment and similar working conditions.

Multi-way force-feed oiling systems are often used in the same objects as two-way systems. Sometimes they complement the two-way systems, but in comparison to them, they have a smaller range of lubrication points served and areas covered. They are recommended in places where continuous supply of little amounts of oil is needed.

As for central lubrication systems, the Company also offers making complete designs of central lubrication equipment and its assembly.

The value of turnover in this group of products in 2009 was PLN 1,463 thousand.

In this group of products, there was a decrease in sales by 26.1% (at the participation in the Company's total income on the level of 5.5%) in comparison to 2008. Just like in the

case of heat engineering products, such a great decrease results from the economic crisis and stopping of investments in the heavy industry, which is the main recipient of products from this group (cement plants, metallurgical works, mines and sugar factories).

Water distillation equipment

Water distillation equipment is used to clean water from dissolved mineral salts and gases with the use of distillation method. The quality of received distilled water complies with the norms of Farmakopea Polska V.

In that group, we can differentiate the following products:

- distillers
- re-distillers.

The value of turnover in this group of products in 2009 was PLN 846 thousand.

Sales in the group of laboratory equipment noted a decrease by 32.3% in comparison to 2008. The traditional method of water distillation with high temperature, used in the equipment manufactured by the Company, is being displaced by modern equipment realizing the distillatory functions by means of reverse osmosis. New kinds of equipment are driving away traditional distillers and re-distillers.

Casts, Hydraulics machinery and Others

As part of its production activity, the Company offers casts from grey cast iron and spheroid cast iron, as well as from cast carbon steel made in the foundry department.

The value of turnover in the group 'Casts' in 2009 was PLN 2,576 thousand and was lower by 13.2% in comparison to the previous year.

The turnover decrease by 47.7%, to PLN 472 thousand, in the Hydraulics machinery group results from the fact that this group has few recipients, with the majority of one big company in the turnover – a company which in 2009 faced lack of orders and was at risk of bankruptcy.

The Company provides services in mechanical detail processing and hardening, and produces casting equipment. It also provides post-warranty service (item 'Others' in the table).

In the group of income from sales of materials and goods, there was a decrease in sales by 41.2%. The value of goods and materials trade depends on current demand for complementations for the manufactured products with elements from other producers and results from the specificity of orders.

Table 12. Products sales divided into geographical areas, in PLN thousand

Detailed list	01/01/2009 31/12/2009	-	01/01/2008 31/12/2008	-	Change (%)
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	Value	Participation (%)	Value	Participation (%)	
Total income from products sales, including:	26 700	100,0%	34 466	100,0%	-22,5%
Territory of Poland	19 568	73,3%	22 618	65,6%	-13,5%
Export, including:	7 132	26,7%	11 848	34,4%	-39,8%
Intra-community delivery of goods within the EU	6 263	23,5%	9 230	26,8%	-32,1%
Export beyond the European Union	869	3,3%	2 618	7,6%	-66,8%

The year 2009 was a year when the Company greatly felt the effects of the global crisis. Export sales of the Company to a great extent reflects the worse condition of economies of the EU countries and countries beyond the EU in comparison to previous years. The observed decrease in sales amounted to, respectively, 32.1% and 66.8%.

A decrease of domestic sales by 13.5% (relatively low, comparing to accounts from the market) was a result of intensive marketing and sales activities on the domestic market.

The general decrease of sales from PLN 34,466 thousand to PLN 26,700 thousand amounted to 22.5% and its main cause was the bad condition of domestic economy and economies of the countries where we export our products.

In the examined period, the Company did not have recipients which achieved at least 10% of total income from sales in 2009.

Summing up the year 2009 in terms of the achieved result, it is necessary to observe a relatively low decrease of sales on the domestic market, which means that the Company has an important position on the market and its activities oriented at receiving orders prove to be effective. The crisis concerned to a greater extent the economies of such countries as Germany and the USA, which belong to important recipients of the Company's products.

In 2010, the Company is going to carry out a number of activities aiming at improving contacts with clients, by means of modifications of the existing computer system. Modern tools and methods of getting to customers, e.g. a newsletter, are going to be used in marketing activities.

The technical development plan for 2010 provides for an analysis of possibilities to introduce new products and modifications of the existing ones so as to obtain greater profitability and functionality.

The Company is looking for new customers both on the domestic market and abroad.

The Company holds all the necessary certificates allowing it to function on the market. Among others, they are:

- ISO 9001:2000 Certificate issued by TUV Rheinland InterCert. Kft.,
- Quality Assurance System Certificate according to European Directive 97/23/EC module H (certificate for pressure equipment manufacturers) issued by TUV

- Rheinland,
- GOST R Certificate,
- Quality Assurance System Certificate according to European Directive 97/23/EC, Annex I, Par. 4.3 (certificate for manufacturers of materials for main pressure elements – castings made from grey cast iron and spheroid graphite cast iron, as well as cast carbon steel),
- Certificate of compliance with the PN-M-42069:2007 norm for ZSN and ZSG regulators (used as construction products – Safety Mark B).

9. BASIC SOURCES OF MATERIALS, GOODS AND SERVICES SUPPLY

The wide range of products offered for sale, as well as realization of individual orders of innovative construction and technological solutions make the Company's purchase policy to be constantly adjusted to the current market requirements.

The need to quickly react to the needs arising on the market causes material and raw materials "deliveries on time" to be the dominant form of the purchases carried out.

The process of looking for alternative sources of supplies is continuous and makes it possible to become independent from monopolistic companies.

The following raw materials and other materials are strategic from the point of view of the Company operating correctly:

- Casts from cast carbon steel and highly-alloyed casts,
- Highly processed ironworks products,
- Vulcanized rubber products,
- Sheet metal drawpieces
- Springs,
- Control and setting elements of valves (completion equipment).

The possibility of supply diversification in casts from cast carbon steel and cast steel and the introduced process of melt of cast carbon steel in the Company's own foundry allows for quick reaction and the possibility to manufacture within 4-6 weeks. However, a problem insoluble so far has been a lack of alternative suppliers for drawpieces manufacture, whose producer is Huta Stalowa Wola.

As for materials supplies, the following companies had the greatest participation in 2009:

- Foundry "Chemar" Sp. z o.o. Kielce – cast steel casts,
- AUMA Polska Sp. z o.o. Kielce – electric servos,
- "CONTROLMATICA ZAP-PNEFAL" Sp. z o.o. Ostrów Wielkopolski – completion equipment.
- "Demark" Sp. jawna Toruń – acid-proof iron works products,
- DBN Sp. z o.o. Mikołów – carbon ironworks materials,

No supplier of goods or materials had a participation in the value of purchase amounting to 10% of the total income from sales.

10. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND THREATS

There are a number of threats influencing the Company's economic activity, both internal and external, which are decisive for its financial and property situation.

The significant risk factors and threats are:

- unstable situation in domestic and world economy,
- remaining low demand for the Company's products,
- uncertainty of investment directions and timing of recipients of the Company's products and services,
- aggressive activity of competing companies on the Polish market,
- lack of possibility to conclude long-term contracts, which is connected with the character of conducted activity and the product offer,
- rising production costs, i.e. prices of materials, raw materials and media, accompanied by limited possibility of transferring the increase of prices to final products, which may result in lowering of profitability of the products sold,
- lowering of currency exchange rates, mainly of EUR and USD, in relation to zloty, which has an impact on the profitability level of export sales,
- pressure from the Company's employees to raise salaries and wages, making production less profitable
- low participation of young employees in the Company's workforce, ageing of the workforce,
- low percentage of highly educated employees, lack of reserve management staff and highly qualified specialists.

CHAPTER III.

ANNUAL REPORT CONCERNING THE USE OF CORPORATE GOVERNANCE IN THE YEAR 2009

11. Indication of the corporate governance set of principles which the issuer is subject to and the place where the text of that set of principles is available for everybody

Dobre Praktyki Spółek Notowanych na GPW (Good practices of companies quoted on WSE) www.corp-gov.gpw.pl

12. Indication of the corporate governance principles which were not

implemented or implemented in a limited scope

Good practices for Management Boards of quoted companies

1. Rule II, item 1.6: “1. A company should operate a corporate website and publish annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board”.

In the Company’s Supervisory Board no committees functioned in 2008, therefore the report from the Supervisory Board’s activity will not be able to take that condition into account. Besides, the Management Board of the Company has no knowledge of potential creation of specific committees by the Supervisory Board in the future.

What is more, that rule is implemented in a limited scope, as the annual report of the Supervisory Board includes only those evaluations whose making is required by Article 395 Paragraph 2 on account of Article 382 Paragraph 3 of Code of Commercial Companies.

Good practices for Supervisory Boards Members

2. Rule III, item 1: “In addition to its responsibilities laid down in legal provisions the Supervisory Board should: once a year prepare and present to the Ordinary General Meeting a brief assessment of the company’s standing including an evaluation of the internal control system and the significant risk management system.”

That rule is implemented in a limited scope, as the annual report of the Supervisory Board includes only those evaluations whose making is required by Article 395 Paragraph 2 on account of Article 382 Paragraph 3 of Code of Commercial Companies.

Rule III, item 7: “The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board.”

As it has already been explained (Rule II, item 1.6), in the Company’s Supervisory Board no committees have been created. However, in accordance with the adopted practice, in the cases subject to an audit committee, the Company’s Supervisory Board takes decisions jointly.

4. Rule III, item 8: “Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors... should apply to the tasks and the operation of the committees of the Supervisory Board.”

The above-mentioned rule is not and will not be implemented, because Rule III item 7 is not implemented. No committees function within the Supervisory Board.

Good practices of Shareholders

5. Rule IV, item 1: “Presence of representatives of the media should be allowed at General Meetings.”

The rule is not and will not be implemented. Only entitled persons and persons rendering services for GSMs participate in General Shareholders Meetings. The Company does not see any necessity to introduce additional obligations for shareholders concerning special allowing representatives of the media to participate in GSMs. Binding provisions of the law, including the Regulation of the Minister of Finance referring to current and periodical reports made public by issuers of securities sufficiently regulate information obligations imposed on public limited companies in terms of openness and transparency of issues discussed by GSMs.

13. Description of the main characteristics of the internal control and risk management systems used in the issuer’s company with reference to the process of making financial statements.

The Company has an internal control system, which ensures correctness, relevance, completeness and validity of financial and management information and compliance of the financial reports to the binding regulations. The internal control system is specified in:

- ISO Management System 9001:2000,
- Internal Control Rules,
- Internal regulations and orders,
- Stocktaking instructions,
- Accounting policy.

The Chief Accountant is responsible for the policy of accounting in the Company. The adopted principles of accounting are implemented continuously, which ensures comparability of financial statements. Financial statements of the Company are audited by authorized entities. The Supervisory Board selects the entities to conduct the audits of financial statements.

The Company carries out an analysis of risk areas connected with the Company’s activity.

Individual kinds of risk are analyzed by the units responsible for the activities which may trigger the risks. The activities whose aim is to monitor and manage risk and, consequently, limit the influence of uncertainty on realization of the Company’s tasks, are specified in the frameworks of activities for individual services and internal instructions and regulations of the Company.

14. Indication of shareholders holding directly or indirectly considerable blocks of shares and indication of number of shares held by those entities, their percentage participation in the share capital, number of votes arising from that and their percentage participation in the total number of votes at the General Shareholders Meeting.

The Company's share ownership, together with indication of the number of shares held by them and their percentage participation in the share capital:

Shareholder	Number of shares	Share in the capital (%)	Number of votes at GSM	Share in the total number of votes at GSM (%)
Zbigniew Jakubas	780 179	30,18	780 179	30,18
Affiliated entity – Wartico Invest Sp. z o.o.	384 474	14,87	343 474	14,87
Affiliated entity – Multico Sp. z o.o.	46 079	1,78	46 079	1,78
Zbigniew Jakubas and affiliated entities jointly	1 210 732	46,83	1 210 732	46,83
Radosław Kamiński with a close companion	140 405	5,43	140 405	5,43

15. Indication of holders of any securities giving special control rights and description of those rights.

The Company's securities do not give the shareholders any additional rights.

16. Indication of any limitations concerning exercising the right to voting, such as limitation of exercising the right to voting by holders of a specified portion or number of votes, time limitations or provisions stating that, at the Company's collaboration, capital rights concerning securities are separate from the securities held.

The Company's securities have no limitations to executing the right to vote.

17. Indication of any limitations concerning transfer of property rights to the issuer's securities.

There are no limitations concerning transfer of property rights to the issuer's securities.

18. Description of principles concerning appointing and revoking managing persons and their rights, in particular the right to take the decision of emission or purchase of shares.

The principles concerning appointing and revoking managing persons and their rights are described in the Company's Charter.

The Company's Charter is available on the website: www.polna.com.pl.

19. Description of rules of changing the issuer's Charter or Articles of Association.

The rules of changing the Company's Charter are described in the Company's Charter. The Company's Charter is available on the website: www.polna.com.pl.

20. The General Shareholders Meeting's mode of activity and its basic powers, as well as description of the shareholders' rights and the way of exercising them, in particular the principles arising from the rules of General Shareholders Meeting, if such rules have been adopted, unless the information referring to the above-mentioned issues arise directly from provisions of law.

The General Shareholders Meeting's mode of activity is described in the Company's Charter and in the Rules of the General Shareholders Meeting.

The above-mentioned documents are available on the website: www.polna.com.pl.

21. The personal composition of the managing and supervisory bodies of the issuer and their committees, changes occurring in them in the last accounting year and description of the bodies' activity.

The personal composition of the managing and supervisory bodies of the issuer and their committees and changes occurring in them in the last accounting year were presented in Chapter I item 2 and did not change over the last accounting year.

The principles of activity of the managing and supervising bodies are specified in the Rules of the Management Board and the Rules of the Supervisory Board, whose contents is available on the Company's website: www.polna.com.pl.

CHAPTER IV

OTHER INFORMATION

22. AGREEMENTS IMPORTANT FOR THE COMPANY'S ACTIVITY

22.1 DISTRIBUTION AGREEMENTS

The Company was represented on the market by the following distributors:

- Biuro Handlu Zagranicznego „Emet – Impex-I” Sp. z o.o., Gliwice;
- Eko – System, Bydgoszcz;
- Firma Handlowo-Usługowa „Control Process 2” Sp. z o. o., Tarnów;
- Inwestprojekt Lublin S.A., Lublin,
- “Polna Śląsk” Sp. z o.o., Katowice;
- Polna Wielkopolska Sp. z o.o., Poznań;
- Przedsiębiorstwo Produkcyjno-Handlowo-Usługowe „Inwestor” Ltd. Sp. z o.o., Katowice;
- Przedsiębiorstwo Usługowo-Produkcyjne „Skamer – ACM” Sp. z o. o., Tarnów;
- “Termer – MCM” Sp. z o. o., Bełchatów;
- “Transmedium” Tadeusz Macha, Bielsko-Biała;
- Zakład Automatyki Przemysłowej INTEC Sp.j. W. Codrow, P. Czeczenikow, Wrocław.

On the foreign market, the Company was represented by:

- Polna corp. s.r.o. Trinec, Czech Republic,
- EMSR-Tech GmbH, Germany,
- Kurenta UAB Konsultacine Firma LT, Lithuania,
- PRAYD, Ukraine,
- KOMIMPEKS, Ukraine.

22.2 AGREEMENTS WITH BANKS

On the day 8th July 2009, the Company concluded an agreement with Podkarpacki Bank Spółdzielczy for working capital credit in a current account for the amount of PLN 2,000 thousand to be used for the purposes of settling current payments in the case of temporary shortages of funds on the current account.

Since the moment of granting the credit, the Company has not used the funds granted.

The terms and conditions included in the credit agreement are listed in the table below.

Table 13. Terms and conditions of credit agreement

Registered name	No. of agreement and date of concluding	Amount of credit remaining to be paid	Interest terms	Maturity date	Collateral
Podkarpacki Bank Spółdzielczy seated in Sanok, branch in Przemyśl	Agreement no. 36/RB/2009 of 08/07/2009	PLN 2000 thousand	variable interest rate equal to a variable WIBOR rate for a one-month period, increased by 1.98 percentage point	31/05/2010	a bail mortgage amounting to PLN 2,500 thousand on a real property, assignment of rights from an insurance policy on the property, a blank bill of exchange and a promissory note declaration, power of attorney giving authorization to make use of bank accounts in PBS

22.3 LEASING AGREEMENTS

For the day of making this report, the Company has the following leasing agreements, concluded in the year 2007:

1. Agreement No. POLNASA/LU/39778/2007 of 02/01/2007, concluded with BRE Leasing Sp. z o.o. for financing of purchase of a C13 MBH/2000 lathe, including equipment, from Bulmach Sp. z o. o., total gross value – PLN 252,125.
2. Agreement No. O/RZ/2007/05/0414 of 30/05/2007, concluded with Bankowy Fundusz Leasingowy S.A. (BFL) for financing of purchase of a TAE 30N digital lathe from Andrychowskie Fabryki Maszyn S.A., total gross value – PLN 371,725.
3. The Company concluded three leasing agreements with BRE Leasing for financing of purchase of four PEUGEOT cars, total gross value – PLN 285,475.
4. Agreement No. POLNASA/LU/50300/2007, concluded with BRE Leasing Sp. z o.o. for financing of purchase of a HP-63P processing centre from the supplier, Maszyny Obrabiarki Centra – Mechanicy Pruszków Sp. z o.o., total gross value – PLN 1,380,288.
5. Agreement No. POLNASA/LU/50307/2007, concluded with BRE Leasing Sp. z o.o. for financing of purchase of a TUX-63BM/1500 universal lathe from the supplier, PONER Sp. z o.o., total gross value – PLN 164,564.

22.4 INSURANCE AGREEMENTS

In the report period, the Company concluded the following insurance agreements:

1. Towarzystwo Ubezpieczeń i Reasekuracji „Warta” S.A. – public liability insurance on account of conducted activity and possessed property and introducing product to the market; sum insured: PLN 10,000 thousand, premium: PLN 32.4 thousand, insurance period from 01/01/2010 to 31/12/2010.
2. Towarzystwo Ubezpieczeń i Reasekuracji „Warta” S.A. – all-risks property insurance; sum insured: PLN 90,666.4 thousand, total premium: PLN 11.0 thousand, insurance period from 04/09/2009 to 03/09/2010.
3. Chartis Europe Spółka Akcyjna Oddział w Polsce – claims towards members of company’s bodies insurance, sum insured: PLN 3,000 thousand, total annual premium: PLN 10.6 thousand, insurance period from 08/12/2009 to 07/12/2010.
4. Motor insurances.

23. STAFF AND STAFF BENEFITS

In the year 2009, the average employment in positions was 223 employees, including 148 employees on production positions (66.4%) and 75 employees on white-collar positions (33.6%). The core of the Company’s staff is composed of workers with a lot of professional experience and considerable length of service. Employees aged from 36 to 55 constitute 71.7% of the total staff. As for qualifications, workers with vocational education constitute the biggest group (42.6%), while employees with secondary education constitute 32.3%.

In the year 2009, the staff fluctuation reached 20%. The Company laid off 39 people. The main grounds for lay-offs were reasons unrelated to employees, termination by mutual agreement and termination of agreements concluded for specific times.

The principles of remunerating employees are specified in the Rules of remunerating, which provide for making a fund of motivation awards. The release of an award depends on carrying out the sales plan and retaining the Company’s financial liquidity.

The average gross remuneration for the year 2009 amounted to PLN 2,134.15 and decreased by 5.3% in comparison to the respective period of the previous year.

In the year 2009, total labour costs amounted to PLN 5,584 thousand and constituted 22.8% of the operating activity costs; they were lower by 30.7% than in 2008. Employee benefits costs amounted to PLN 1,436 thousand and constituted 5.9% of operating activity costs. They were lower by 16.2% than in the comparative period of 2008.

One of the forms of benefits is training workshops. The training policy was based on the Training Schedule devised for 2009, which included obligatory training workshops, training concerning the quality management system, professional training and postgraduate courses. In 2009, expenses connected with educating employees amounted to PLN 44 thousand; 151 people were trained. Those people were directed to various training companies in Poland. Some of them were trained within the Company (118 hours).

There are Rules of Social Benefits for the Company's employees, whose preliminary estimate for 2009 covered private holidays, swimming pool tickets, Christmas presents for employees' children and emergency aids.

The Company has an agreement concluded with "Mała Gastronomia" company, which supplies prophylactic meals for the employees working in difficult conditions.

The Company also has a long-lasting, open-ended agreement with Wojewódzka Przychodnia Medycyny Pracy (A voivodeship occupational medicine clinic). The object of that agreement is health service, provided in the form of preventive care of the workers.

Two trade unions operate within the Company:

- NSZZ „Solidarność”,
- Związek Zawodowy Pracowników „Polna” S.A.

In the period discussed, no strikes or collective disputes occurred.

24. INVESTMENTS AND INVESTMENT PLANS

The plan of investments for the year 2009 provided for investment expenditure for fixed tangible assets of PLN 2,403 thousand.

The capital expenditure incurred in 2008 referred to the following:

- purchase of production machines and equipment	PLN 1,314 thousand
- purchase of non-production machines and equipment	PLN 345 thousand
- purchase of computers	PLN 60 thousand
- purchase of instrumentation	PLN 120 thousand
- purchase of low-value fixed assets	PLN 84 thousand
- modernization of electrical grid	PLN 480 thousand.

The main focus of investments was on improving the efficiency of functioning of the foundry division.

As part of the realization of the plan, in 2009 the incurred expenditure amounted to PLN 728 thousand and constituted 30.3% of the amount planned for 2009.

In 2009, the main investment tasks included:

- purchase of production machines and equipment	PLN 481 thousand
- electric grid modernization	PLN 209 thousand.

The aim of the investments planned for realization in the year 2010, of the total amount of PLN 1,134 thousand, is:

A – achievement of an increase in production capability of the Company concerning production of casts, necessary for successive introducing of casts from cast carbon steel and acid-proof steel, accompanied by reduction of purchase of those casts,

B – retaining repeatable quality of cast irons and steels both of kinds covered by the certificate of manufacturer of pressure equipment materials, which the Company holds in accordance with the 97/23/EC Directive, and of kinds used for external customers of the foundry, as well as the quality of casts production,

C – retaining the level of the Company's infrastructure, appropriate for correct realization of processes and products,

D – increasing the capability of expenses management in the Company.

As part of this plan, the following main projects are going to be realized:

- Purchase of production machines and equipment PLN 698 thousand
(modernization of the moulding lines with general overhauls of moulding machines, general overhaul of a radial drilling machine, purchase of a stream-abrasive cleaner, purchase of a device for determining moulding sand humidity, purchase of a marking device, purchase of an electric driver)
- Purchase of non-production machines and equipment PLN 274 thousand
(modernization of the testing machine, modernization of electric power measuring systems, purchase of a spectrometer, purchase of a grinding machine for making metallographic specimens for microscopic tests).

Financing of investment expenditure in 2010 is partly scheduled to be done with the means obtained from the issuance of series E and series F shares (within the framework of specific purposes), and partly with the Company's own funds.

In terms of capital investments, the Management Board of the Company is conducting activities concerning purchase of shares in a limited liability company. Analyses of that company's financial standing are scheduled for the period from January to September 2010. For October 2010, the Management Board of the Company is planning to take 100% of shares. That purchase will be financed in half with the means obtained from the issuance of series E and series F shares and in the other half, with the Company's own funds.

25. RESEARCH, DEVELOPMENT AND NEW PRODUCTS

The dominant group of products of "POLNA" S.A. is control valves of various kinds and sizes. For the last few years, a growing customer interest in non-standard valves (not from catalogues), adjusted to specific customer needs, has been observed.

In the plant, construction and production works are conducted concerning realization of various non-standard orders for valves, elements of reduction and vapour cooling stations, regulatory valves DN150-250 for pressures over PN 100 or valves designed for lowered temperatures.

Apart from manufacturing non-standard valves, in the Technological Development Plan for 2010 the greatest emphasis was placed on finishing the issues started in the previous year, concerning: servo P6/R6-250, 400, 630, and starting of development of new products: direct acting governors ZSU with a collar terminal, small direct acting governors ZSC, cut-off valves and check valves, as well as triple eccentric entry guides.

The products listed will extend the Company's product offer and, according to the Marketing Department, they will have demand on the domestic and foreign markets.

Carrying out works extending the market offer of the Company results from the needs signaled by the customers and will enable the Company to continue on the market as a well-known manufacturer of valves and laboratory equipment.

The group of products being prepared to put into operation includes: regulatory valves DN150-250 for working pressures over PN100, elements of reduction and vapour cooling stations, pneumatic servos with an integrated electro-pneumatic regulator P5/R5-250, 400, 630 and a minimal flow valve ZM-1.

All those works are conducted with the Company's own workforce and financed with own funds. The Company does not receive any external support. Deadlines and phases of realization of individual works result from production capacity of working teams engaged in the works.

26. ENVIRONMENT PROTECTION

The Company has a regulated formal and legal status as regards environment protection. It has the following decisions:

Permission for producing waste,

Permission for releasing gases and dusts to the air,

Water permit.

In its production process, "Polna" S.A. does not use technologies that are particularly harmful for the environment.

The Company has the right to use the "Cleaner Production" logo, awarded by the chapter of the Polish Register of Cleaner Production, obtained upon verification of the Environment Management System, functioning in the company. That system is based on the preventive Cleaner Production strategy, in accordance with the international Declaration CP UNEP and the UN document "Global Compact".

The Company carries out the process of continuous modernization of its products and technologies of their production in terms of environment protection.

27. OTHER INFORMATION

27.1 Indication of proceedings taking place before the court, competent arbitration body or public administration body.

No proceedings concerning liabilities or other obligations, meeting the criteria of the Regulation of the Minister of Finance of 19th February 2009, Art. 91, section 5, item 5, were or are taking place before the court, competent arbitration body or public administration body.

27.2 Information on organizational or capital relations between the issuer and other entities and description of its main investments

The issuer is not related to any entities and did not make any investments in Poland or abroad, including capital investments.

27.3 Making by the issuer or their subsidiary important transactions with affiliated entities on terms other than market conditions, meeting the criteria specified in the Regulation of the Minister of Finance of 19th February 2009, Art. 91, section 6, item 5

There were no such transactions.

27.4 Agreements concerning loans and credits, contracted or terminated in the accounting year.

In July 2009, the Company concluded an agreement for working capital credit in a current account. That information is described in detail in item 11.2 – Bank Agreements.

In the reporting period, no loans were contracted and no agreements concerning loans and credits were terminated.

27.5 Information on loans granted by the issuer in the accounting year.

In the year 2009, the Company did not grant any loans.

27.6 Information on guarantees and warranties granted and received in the accounting year.

In the year 2009, the Company did not grant any warranties or guarantees to other entities; neither did it receive any warranties or guarantees.

27.7 Description of the use by the issuer of the income from issuance until the moment of making the statement of activity

At the end of the year 2008, the Company issued series E and series F shares. The obtained

financial means (PLN 6,660 thousand), reduced by issuance expenses, amounted to PLN 6,304 thousand. In 2009, the Company used PLN 1,235 thousand out of the funds from issuance. Until the day of making the report, the Company has used the income in the value of PLN 2,429 thousand, for the following purposes:

- Investments and machine repairs and improving the Company's infrastructure – PLN 1,801 thousand
- Repayment of leasing liabilities connected with acquiring machines – PLN 458 thousand
- Taking over another entity from the industry – PLN 170 thousand.

The remaining funds are still on the Company's bank accounts.

In November 2008, temporarily unused funds from issuance were allocated for repayment of a credit (PLN 1,000 thousand).

27.8 Differences between the financial results and the results forecast for the year 2009.

The Management Board of the Company did not issue any forecasts of financial results for 2009.

27.9 Description of factors and untypical events influencing the result from activities in the year 2009.

On 20/07/2009, the Company made the final clearance of currency options, by which the option transaction agreement of 8th August 2008, concluded with ING Bank Śląski S.A. for 104 currency options, was terminated. The total cost of the agreement amounted to PLN 4,101 thousand. The current year's financial result due to currency contracts held was charged by PLN 770 thousand (the difference between the reserve made at the end of 2008, amounting to PLN 2,956 thousand, and real expenses incurred between January and July 2009, amounting to PLN 3,726 thousand).

27.10 Prospects for development of the Company's activity in the nearest accounting year.

The Company intends to continue its current activity. The world economy crisis and slowing down of the domestic economy development has an impact on lowering of demand for the products manufactured by the Company, which depends on projects and investments realized in industries the Company provides for (petrochemical industry, chemical industry, gas industry and power industry). Due to a decrease in demand for the

Company's products, systematic monitoring of expenses is carried out and then activities aiming at restructuring of expenses are taken.

The Company is forecasting a greater demand for its products from the 2nd half of the year 2010.

The Company has funds obtained from issuance of series E and series F shares, deposited on bank accounts.

In September 2009, the Management Board of "POLNA" S.A. received from Ponar S.A. and signed a letter of intent in which Zakłady Automatyki "POLNA" S.A. expressed its interest in the possibility of investment engagement in the company Ponar S.A.

However, no agreement was reached so "POLNA" S.A. and Ponar S.A. withdrew from further negotiations, and "POLNA" S.A. stepped back from investment engagement in Ponar S.A. with registered seat in Wadowice.

Over the year 2010, the Company is going to use effectively the funds it owns (capitals investments described in item 24).

27.11 Changes in basic principles of management of the issuer's company

There were no such changes.

27.12 Agreements concluded between the issuer and managing persons.

Labour contracts have been concluded with the Members of the Management Board, which state that the Members of the Management Board, in the event they are not appointed for another term of office or revoked during the term, are entitled to a termination pay amounting to a multiple of a single monthly basic pay for each six months of work; however, it may not exceed the amount of six times that remuneration. The termination pay is a product of a monthly basic pay and the number of six-month employment periods. In the case of the President of the Management Board, the periods of work on the position of a Member of the Management Board, and in the case of a Member of the Management Board, the periods of work on the position of the Marketing and Sales Director before the implementation of these rules, are taken into consideration when calculating the six-months periods.

One is entitled to the termination pay after having worked for six months.

The right to termination pay does not apply:

- for the work period for which the Members of the Management Board did not receive approval from the General Shareholders Meeting,
- as a result of members of the Management Board's resignation from fulfilling the function; however, revoking due to permanent loss of capacity to fulfill the function (death, disability or long-lasting illness preventing one from fulfilling the function in accordance with a medical certificate) is not regarded as resignation from the function.

27.13 The value of remunerations, awards and benefits, also arising from staff motivation or bonus programmes, paid or due, for each managing and supervising person separately.

The managing persons' remuneration is presented in the following table:

Table 14. The Management Board's remuneration, in PLN

Management Board	Function in 2009	Basic salary for 2009	Annual Management Board bonus paid for 2008	Additional benefits	Annual Management Board award calculated for 2008	Annual Management Board bonus calculated for 2009	Total
Lechowicz Jacek	Member of Management Board – Marketing and Sales Director	169 893	16 438	17 489	-	17.381	221.201
Jan Zakonek	President of Management Board – General Director	233 190	49 313	17 489	9 498	52.145	361.635
Total			403 083	65 751	34 978	9 498	69.526

The supervising persons' remuneration is presented in the following Table:

Table 15. The Supervisory Board's remuneration, in PLN

Item no.	Supervisory Board	Function in 2009	Basic salary for 2009
1.	18 374	18 374	21 437
2.	19 906	19 906	97 997
3.	18 374	18 374	21 437
4.	19 906	19 906	97 997
5.	18 374	18 374	21 437
Total			19 906

27.14 Total number and nominal value of all the shares (stocks) held by the managing and supervising persons, for each person separately.

On the day of making this report, the Total number and nominal value of all the shares (the nominal value of one share is PLN 3.80) held by the managing persons is the following:

	Number of shares	Nominal value
Jan Zakonek	8,892	PLN 33,789.60
Jacek Lechowicz	7,000	PLN 26,600.00

According to the Company's knowledge, the supervising persons do not hold any shares of the Company.

27.15 Information on agreements known to the issuer, which may cause changes in the ration of shares held by the current shareholders in the future

As of the day of issuing this report, the Company does not know of any agreements which may cause changes in the ratio of shares held by the current shareholders in the future.

27.16 Information on the system of control of employees shares programmes.

By General Shareholders Meeting resolution No. 24/2008 of 30th June 2008, the Company's Charter was modified by introducing Article 9a, which:

- authorized the Management Board to increase the share capital by an amount not higher than PLN 1,140,000 (target capital) by 31st December 2010,
- within the limits of the target capital, it authorized the Management Board to make further increases of the Company's share capital by means of further emissions of shares, with the restriction that beginning with the accounting year 2008, the Management Board shall be authorized to make one increase of the share capital per accounting year, in the amount not exceeding:

PLN 380,000 (three hundred and eighty thousand) in the year 2008,
PLN 380,000 (three hundred and eighty thousand) in the year 2009,
PLN 380,000 (three hundred and eighty thousand) in the year 2010,

- authorized the Management Board to offer the shares issued within the target

capital to the Company's employees, upon prior approval of the "Rules of allocation of shares issued within the target capital to entitled employees of the Company" by the Supervisory Board.

The Supervisory Board controls the employee shares programme by means of each time approval of the Management Board's decisions concerning emission of shares by resolution.

The 1st block parcel of shares for the accounting year 2008, amounting to PLN 333,488.00 (87,760 shares) was realized in 2008.

Each employee signing an agreement for taking up shares was obliged to work for the Company for twelve months, counting from the day of concluding the agreement. In the case of failure to do so, the employee is obliged to pay a contractual fine.

The 2nd block parcel of shares, amounting to PLN 380,000.00 (100,000 shares) was not realized in 2009, because the required conditions were not met.

27.17 The date of concluding the agreement with the entity authorized to audit the issuer's financial statements and the total amount of remuneration provided for in that agreement.

On 4th May 2009, the Supervisory Board of the Company chose the auditor to audit the financial statement for 2009. The selected auditor is Misters Audytor Spółka z o.o., 22/30 Stępińska Street, 00-739 Warsaw, entered into the list of entities authorized to conduct audits under the no. 63 and entered into the National Court Register (KRS) in the District Court for the Capital City of Warsaw, XIII Economic Division of the National Court Register with the KRS number 0000090834.

On 29th May 2009, an agreement was signed with Misters Audytor Spółka z o.o. for the period from 27/07/2009 to 11/03/2010 for making a review and audit of the financial statement for the year 2009. The total net remuneration arising out of the agreement is PLN 25,700, including PLN 15,700 for the annual audit and PLN 10,000 for the review.

In 2008, the total net remuneration for making a review and audit of the financial statement was PLN 25,000, including PLN 15,000 for the annual audit and PLN 10,000 for the review.

For the year 2008, the Company did not calculate and pay any other remunerations in favour of the entity authorised to audit financial statements.

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Jacek Lechowicz
Member of the Management Board

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Jan Zakonek
President of the Management Board

Przemyśl, 18th March 2010