Grupa KĘTY S.A. Group

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
31 DECEMBER 2005 PREPARED
IN ACCORDANCE WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ADOPTED
BY THE EUROPEAN UNION

(TRANSLATION)

Contents: Page

Grupa KĘTY S.A. Group

Consolidated balance sheet as at 31 December

in PLN thousand

ASSETS	Note	2005	2004
I. Non-current assets		**514,425**	**458,901**
Property, plant and equipment	3	491,707	441,451
Intangibles	4	8,873	9,644
Investment property	5	13,838	7,799
Other investments		7	7
II. Current assets		**344,651**	**293,865**
Inventories	7	129,192	120,600
Income tax receivable		5,325	498
Trade and other receivables	8	179,914	151,838
Assets classified as held for sale		708	708
Derivative and financial instruments	9	5,118	37
Cash and cash equivalents	10	24,394	20,184
Total assets		**859,076**	**752,766**

EQUITY AND LIABILITIES	Note	2005	2004
I. Equity		**614,628**	**563,554**
Issued capital	11	66,964	80,179
Treasury shares		0	(71,108)
Share premium	11	0	43,453
Other reserve capital		0	750
Retained earnings	11	545,783	508,361
Translation reserve		(56)	47
Equity attributable to shareholders of the parent		**612,691**	**561,682**
Minority interest		1,937	1,872
II. Non-current liabilities		**19,926**	**31,716**
Interest bearing loans and borrowings	12	1,930	17,389
Provisions	15	1,859	608
Employee benefits	14	11,421	8,779
Government grants		101	84
Deferred tax liabilities	6	4,615	4,856
III. Current liabilities		**224,522**	**157,496**
Interest bearing loans and borrowings	12	119,371	56,537
Current tax payable		2,504	4,781
Trade and other accounts payable	13	95,295	84,612
Provisions	15	3,988	7,421
Derivative and financial instruments	9	3,339	4,134
Government grants		25	11
Total equity and liabilities		**859,076**	**752,766**

Grupa KĘTY S.A. Group

Consolidated income statement for the year ended 31 December

in PLN thousand

INCOME STATEMENT	Note	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Total operating revenues including:		**752 445**	**781 645**
Revenue from sales	16	740 820	767 183
Other operating revenue	17	11 625	14 462
Change in finished products and work in progress		(5 972)	611
Costs of manufacturing products for internal use		5 477	4 085
Total operating expenses including:		**(657 775)**	**(668 592)**
Depreciation		(36 948)	(34 640)
Materials and energy		(463 616)	(481 585)
External services		(43 695)	(39 331)
Taxes and charges		(6 676)	(6 187)
Employee benefits		(85 982)	(83 576)
Other operating expenses	18	(20 858)	(23 273)
Profit on sales		**94 175**	**117 749**
Financial revenues	19	12 534	4 677
Financial costs	20	(3 681)	(11 057)
Profit before tax		**103 028**	**111 369**
Income tax	21	(14 336)	(15 113)
Net profit		**88 692**	**96 256**
Attributable to minority interest		676	1 185
Attributable to the shareholders of the parent		**88 016**	**95 071**
Basic and diluted earnings per share	22	**9,54**	**10,31**

See accompanying notes to the consolidated financial statements

Grupa KĘTY S.A. Group

Consolidated changes in equity for the year ended 31 December 2005

in PLN thousand

	Attributable to the shareholders of the parent								
	Share capital	**Treasury shares**	**Share premium**	**Other reserves**	**Retained earnings**	**Translation reserve**	**Total**	**Minority interest**	**Total equity**
As at 1 January 2004	**80,179**	**(71,108)**	**43,453**	**0**	**440,087**	**0**	**492,611**	**10,207**	**502,818**
Foreign exchange differences on translation of foreign subsidiaries	0	0	0	0	0	47	47	0	47
Profit for the period	0	0	0	0	95,071	0	95,071	1,185	96,256
Total recognised income and expenses for the period	**0**	**0**	**0**	**0**	**95,071**	**47**	95,118	**1,185**	**96,303**
							0		0
Issuance of shares in "D" series	0	0	0	750	0	0	750	0	750
Profit allocation for dividend payout	0	0	0	20	(20)	0	0	0	0
Dividend payout	0	0	0	(20)	(26,777)	0	(26,797)	(1,200)	(27,997)
Purchase of shares from minority shareholders	0	0	0	0	0	0	0	(1,798)	(1,798)
Disposal of subsidiaries	0	0	0	0	0	0	0	(6,522)	(6,522)
As at 31 December 2004	**80,179**	**(71,108)**	**43,453**	**750**	**508,361**	**47**	**561,682**	**1,872**	**563,554**

	Attributable to the shareholders of the parent								
	Share capital	**Treasury shares**	**Share premium**	**Other reserves**	**Retained earnings**	**Translation reserve**	**Total**	**Minority interest**	**Total equity**
As at 1 January 2005	**80,179**	**(71,108)**	**43,453**	**750**	**508,361**	**47**	**561,682**	**1,872**	**563,554**
Foreign exchange differences on translation of foreign subsidiaries	0	0	0	0	0	(103)	(103)	0	(103)
Profit for the period	0	0	0	0	88,016	0	88,016	676	88,692
Total recognised income and expenses for the period	**0**	**0**	**0**	**0**	**88,016**	**(103)**	**87,913**	**676**	**88,589**
Registration of shares in "D" series	750	0	0	(750)	0	0	0	0	0
Redemption of treasury shares	(13,965)	71,108	(43,453)	0	(13,690)	0	0	0	0
Profit allocation for dividend payout	0	0	0	20	(20)	0	0	0	0
Dividend payout	0	0	0	(20)	(36,903)	0	(36,923)	0	(36,923)
Purchase of shares from minority shareholders	0	0	0	0	0	0	0	(574)	(574)
Acquisitions	0	0	0	0	0	0	0	(37)	(37)
Other	0	0	0	0	19	0	19	0	19
As at 31 December 2005	**66,964**	**0**	**0**	**0**	**545,783**	**(56)**	**612,691**	**1,937**	**614,628**

See accompanying notes to the consolidated financial statements

Grupa KĘTY S.A. Group

Consolidated cash flow for the year ended 31 December 2005

in PLN thousand

Cash flow	Note	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Cash flows from operating activities			
Profit before tax		**103,028**	**111,369**
Total adjustments:		**29,656**	**38,241**
Depreciation and amortization	3, 4	36,949	34,638
Impairment loss (reversal)		(1,543)	2,195
(Gain) on f/x differences		(947)	(593)
(Gain) on investment activities		(5,511)	(850)
(Gain) / loss on disposal of fixed assets	17, 18	(126)	2,059
Interest and dividends received, net		1,047	3,060
Other items net		(213)	(2,268)
Cash flows from operating activities before change in working capital		***132,684***	***149,610***
Change in inventory position		(5,637)	(24,891)
Change in balance of receivables, net		(46,454)	(8,604)
Change in short-term liabilities, excluding borrowings		11,971	(26,269)
Change in provisions		(472)	(3,446)
Change in deferred income		(27)	(82)
Net cash generated from operating activities		***92,065***	***86,318***
Income tax paid		(20,485)	(14,477)
Net cash from operating activities		**71,580**	**71,841**
Cash flows from investing activities			
(+) Inflows:		*6,870*	*11,549*
Disposal of intangible and tangible fixed assets		1,680	2,279
Disposal of financial assets		4,167	9,257
Dividends received		0	1
Other inflows		1,023	12
(-) Outflows:		*(79,868)*	*(86,758)*
Acquisition of intangible and tangible fixed assets		(77,326)	(80,060)
Acquisition of financial assets		(2,516)	(886)
Acquisitions of susbsidiaries	2	(26)	0
Other outflows		0	(5,812)
Net cash from investing activities		**(72,998)**	**(75,209)**
Cash flows from financing activities			
(+) Inflow:		114,920	25,680
Net proceeds from shares issue		0	750
Proceeds from borrowings		114,906	24,930
Other inflow		14	0
(-) Outflow:		(118,168)	(38,263)
Dividends and other payments due to owners		(36,774)	(28,188)
Other outflow due to distribution of profit, other than payments to owners		(20)	(20)
Repayment of borrowings		(79,170)	(6,824)
Finance lease payments		(624)	0
Interest paid		(1,268)	(3,231)
Other outflow		(312)	0
Net cash from financing activities		**(3,248)**	**(12,583)**
Total net cash flow:		**(4,666)**	**(15,951)**
- effects of exchange rate changes on cash		(43)	882
Opening balance of cash and cash equivalents	**10**	**17,423**	**32,492**
Closing balance of cash and cash equivalents	**10**	**12,714**	**17,423**

See accompanying notes to the consolidated financial statements

1 Group overview and significant accounting policies

(A) Background

Grupa Kęty S.A. with its headquarters located in Kęty, Kościuszki Street 111 is the parent Company ("the Company", „the parent Company") in Grupa Kęty S.A. Group.

The parent Company was established as a result of transformation of state-owned company Zakłady Metali Lekkich Kęty, seated in Kęty, into a sole shareholder company of State Tresury based on the notary deed dated 3 March 1992. The Company was registered by the Regional Court in Bielsko-Biała, VI Commercial Department under the number RHB 1768/92 at 1 April 1992. On 9 July 2002 the Regional Court for Kraków-Śródmieście, XII Commercial Department registered the Company into the National Court Register under the number 0000121845. The tax identification number NIP 549-000-14-68 was assigned by the Tax Office in Oświęcim.

In the year 1995, the Company's shares commenced trading on the Warsaw Stock Exchange. In accordance with the classification of the Warsaw Stock Exchange the Company operates in the metallurgical sector.

The Company' activity includes primarily: manufacturing, trade and rendering of services related to aluminum and its alloys processing as well as the production and trade activity related to the manufacturing of plastic and paper packaging materials including trade, supply and marketing and other intermediation.

The consolidated financial statements as at and for the year ended 31 December 2005 comprises the parent Company and its subsidiaries ("the Group", "the Capital Group").

(in PLN thousand unless stated otherwise)

The background information about the subsidiaries, which formed the Group as at 31 December 2005, is presented in the table below.

No.	Name	Seat	Core activities	Parent Company	Share in equity and in voting rights	Controlled by Group since
1.	Alupol Sp. z o.o.	Tychy, Polska	Manufacturing and trade activity relating to plastic packaging	Grupa Kęty S.A.	100.00%	04/1998
2.	Metalplast – Bielsko S.A.	Bielsko-Biała, Polska	Manufacturing of industrial carpentry	Grupa Kęty S.A.	100.00%	06/1998
3.	Alutech Sp. z o.o.	Kęty, Polska	Manufacturing, trade and services	Grupa Kęty S.A.	100.00%	03/1999
4.	Dekret Sp. z o.o.	Kęty, Polska	Accounting services	Grupa Kęty S.A.	100.00%	09/1999
5.	ZRE "Metalplast-Bielsko" Sp. z o.o.	Bielsko-Biała, Polska	Services	Metalplast-Bielsko S.A.	69.55%	09/1999
6.	Celtech Sp. z o.o.	Kęty, Polska	Services	Alutech sp. z o.o..	100.00%	12/1999
7.	Metalplast-Ukraina Sp. z o.o.	Kijów, Ukraina	Trade activity	Metalplast-Bielsko S.A.	100.00%	01/2000
8.	Aluform Sp. z o.o.	Kęty, Polska	Manufacturing	Grupa Kęty S.A.	100.00%	04/2000
9.	„Metalplast-Zalur"Kft	Budapeszt, Węgry	Manufacturing and trade	Metalplast-Bielsko S.A.	100.00%	07/2000
10.	Metalplast-Stolarka sp. z o.o.	Bielsko-Biała, Polska	Manufacturing of industrial carpentry	Metalplast-Bielsko S.A.	100.00%	07/2000
11.	Alupol LLC Sp. z o.o.	Borodianka, Ukraina	Manufacturing of aluminium profiles	Grupa Kęty S.A.	100.00%	12/2004
12	„Run-Pak" Sp. z o.o.	Toruń, Polska	Manufacturing of packaging	Grupa Kęty S.A.	99.88%	02/2005
13	Metalplast-Deutschland" GmbH	Dusseldorf, Niemcy	Trade activity relating to aluminium systems	Metalplast-Bielsko S.A.	100.00%	02/2005
14	Metalplast-Romania s.r.l.	Bukareszt, Rumunia	Trade activity relating to aluminium systems	Metalplast-Bielsko S.A.	100.00%	05/2005
15	Mertz s.r.o.	Ostrawa, Czechy	Trade activity relating to aluminium and PCV carpentry	Metalplast Stolarka sp. z o.o.	100.00%	05/2005
16	Impet sp. z o.o.	Chorzów, Polska	Trade activity relating to steel systems	Metalplast-Bielsko S.A.	70.00%	06/2005

(in PLN thousand unless stated otherwise)

(B) Statement of compliance

The consolidated financial statements of Grupa KĘTY S.A. Group have been prepared in accordance with International Financial Reporting Standards and its interpretations as adopted by the European Union („IFRS UE"), and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, and the Decree of the Ministry Council dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 26 October 2005, no.184, item 1539).

The consolidated financial statements were approved by the Board of Directors on 10 April 2006. The consolidated financial statements of Grupa KĘTY S.A. Group will be published together with unconsolidated financial statements of Grupa KĘTY S.A. on 11 April 2006.

This consolidated financial statement has been prepared in accordance with IFRS UE for the first time and IFRS 1 has been applied. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in notes 28 and 29.

IFRS UE contain all International Accounting Standards, International Financial Reporting Standards as well as related Interpretations except for the below listed Standards and Interpretations which are awaiting for an approval of the European Union as well as those Standards and Interpretations which have been approved by the European Union but are not yet effective.

The Group did not early adopt any of those standards and interpretations.

Of those pronouncements, potentially, the following may have an impact on the Group's financial statements. The Group has not yet completed its analysis of the impact of the new standards and interpretations.

Standards and Interpretations awaiting the European Union approval as well as those adopted by European Union but which have not come into effect	**Effective date for periods beginning on or after**
IFRS 7 *Financial Instruments: Disclosures* The Standard will require increased disclosure in respect of the Company's financial instruments. It supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and is applicable to all entities that prepare financial statements in accordance with IFRS.	1 January 2006

(in PLN thousand unless stated otherwise)

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts* Financial Guarantee Contracts The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition	1 January 2006
Amendments to IAS 1 *Presentation of Financial Statements – Capital Disclosure* As a complimentary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect of the Group's capital.	1 January 2006
Amendments to IAS 19 *Employee Benefits:* Actuarial Gains and Losses, Group Plans and Disclosures The amendment includes an option for actuarial gains and losses to be recognized in full as they arise, outside of the income statement in a statement of recognized income and expense	1 January 2006
Amendments to IAS 39 *Financial Instruments:-Recognition and Measurement* – Cash Flow Hedge Accounting of Forecast intragroup Transactions The amendment allows the foreign currency risk of highly probable forecast intragroup transaction to qualify as a hedged item if certain criteria are met.	1 January 2006
Amendments to IAS 39 *Financial Instruments: Recognition and Measurement (including related amendments to IAS 32 and IFRS 1)* – P fair value measurement (including the amendments to IAS 32 and IFRS 1). The amendment restricts the designation of financial instruments as "at fair value through profit and loss".	1 January 2006
Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operations* The amendment clarifies in which circumstances a loan may form part of a reporting entity's net investment in a foreign operation, and the currency in which such an item may be denominated.	1 January 2006
IFRIC 4 *Determining whether an Arrangement contains a Lease (including the amendments to IFRS 1)* The interpretation requires to disclosure certain agreements as leasing even when they do not have legal leasing form.	1 January 2006

IFRIC 8 *Scope of IFRS 2* The interpretation clarifies that the accounting standard IFRS 2 *Share-based Payments* applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration	1 May 2006
IFRIC 9 *Reassessment of Embedded Derivatives* The interpretation clarifies that the treatment of an embedded that the treatment of embedded derivatives ism assessed by the entity when the entity first becomes a party to the contract, and that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract	1 June 2006

(C) The basis of financial statements preparation

The functional and presentation currency of the consolidated financial statements are Polish zloty (PLN); rounded to the nearest thousands. The financial statements have been prepared on the historical cost basis except for property, plant and equipment that had been revalued to fair value at transition date, ie. 1 January 2004, being the deemed cost, and except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as available-for-sale, financial instruments measured at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS UE requires management to make judgment, estimates and assumptions that affect reported amounts in the financial statements. Most of estimates and associated assumptions are based on the analysis and the best knowledge of the management. Although, the assumptions and estimates are based on the management's best knowledge of the current activities and events, the actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by the management in the application of IFRS UE that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the future years are discussed in note 26.

The accounting principles set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS UE balance as at 1 January 2004 for the purpose of the transition to IFRS UE. The accounting principles have been applied consistently by all Group entities.

(D) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The acquisitions of subsidiaries are accounted for using the purchase method. The financial statements of subsidiaries are included in the consolidated financial statements from the date of control commences until the date that control ceases.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

(E) Foreign currency transactions

Transactions in foreign currencies are translated into the Polish złoty at the foreign exchange rate ruling at the date of the transaction applied by the bank whose services the company uses. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the Polish currency at the foreign exchange closing rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using NBP average exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to polish zloty at NBP average exchange rate ruling at the dates the fair value was determined.

Financial statements of foreign operations (subsidiaries)

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to polish zloty at NBP average exchange rate ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to polish zloty at an average exchange rate during the period. Foreign exchange differences arising on retranslation are recognised directly in a separate component in equity.

(F) Derivative financial instruments

The Company uses derivative financial instruments, such as forwards and currency options, to hedge its exposure to foreign exchange arising from operational, investment and financial activities.

Derivative financial instruments are recognized initially at cost and valued at the balance sheet date at fair value. They are presented as financial assets or as financial liabilities in the financial statements. The gain or loss on re-measurement to fair value is recognized immediately in profit and loss.

The fair value of options and not quoted forward contracts is valued by using net present value of future cash flows relating to these contracts. Valuation of quoted forward contracts is based on current exchange rates. Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments.

(G) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost, deemed cost or production cost less accumulated depreciation and impairment losses.

The cost includes the purchase price of an item of an asset taxes and charges (in case of imports) and costs directly related to the purchase and completion of the property so that it can be available for use, including the transport, loading, unloading and storing costs. Rebates, discounts and other similar reductions decrease the cost.

Certain items of property, plant and equipment that had been revalued to fair value on or priori to 1 January 2004, the date of transition to IFRS's, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

The production cost of property, plant and equipment or assets under construction includes the total cost incurred by the entity in the period of their construction, assembly, adjustment and modernization till the date of their transfer to use (or up to the balance sheet date, if the item of property was not transferred to use before this time), including non-deductible VAT and excise tax. The production cost also includes the preliminary estimation of the cost of dismantling and removing the items and the cost of the property restoration.

Property that is being constructed or developed for future use as investment property is classified as tangible fixed assets and stated at cost until construction or development is complete, at which time it is reclassified as investment property

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of tangible fixed assets.

When assessing the cost of the property the Company applies the alternative treatment allowed by IAS 23, under which the borrowing costs attributable to the acquisition, construction or production of a fixed asset are capitalized as part of the cost of that asset.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy j).

Subsequent costs

The Company recognizes in the carrying amount of fixed assets the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other expenditures are recognized in the income statement as an expense as incurred.

Depreciation
Depreciation of property, plants and equipment or their significant components is charged to the income statement on a straight-line basis over the estimated useful live with respect to the residual value. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

Buildings:	25 - 75	years
Machinery and equipment, including:	10 - 40	years
- *significant components*	15 - 25	years
Vehicles	7 - 15	years
Other tangible assets	5 - 10	years

The useful lives, depreciation methods and residual values are reassessed annually.

(H) Intangible assets

Goodwill and negative goodwill

Goodwill and negative goodwill represent amounts arising on acquisition of subsidiaries. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated At cost less any accumulated impairment losses. Goodwill is tested annually, and whenever there is an indication that the goodwill may be impaired.

The excess of net fair value of identifiable assets, liabilities and contingent liabilities over the cost of the business combination, after the reassessment of identification and measurement is recognised directly in profit and loss.

Other

Other intangible assets (including software) that are acquired by the Group are stated at cost less accumulated amortization (see below) and impairment losses. Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Other intangible assets are amortized from the date they are available for use. The estimated useful lives are as follows:

• manufacturing technology, patents	6 – 10 years
• software	5 – 7 years
incl. management system	10 years
• capitalized development costs	10 years

(I) Investment properties

Investment properties are properties, which are held either to earn rental income or for capital appreciation.

Investment properties are stated at fair value estimated annually by an independent valuation company. The fair value is based on current, market values of similar properties. Any gain or loss arising from a change in fair value is recognized in the income statement.

Rental income from investment property is accounted for as described in accounting policy u below.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognized directly in equity if it is a gain or in the income statement, if it is a loss. Upon disposal of the item the gain recognized previously in equity, is transferred to retained earnings.

(J) Trade and other receivables

Trade and other receivables are stated at their amortized cost using effective interest rate less impairment losses (see accounting policy m below).

(K) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less discounts, the estimated costs of completion and selling expenses.

The inventory of materials and merchandise are stated at cost based on the the first –in- first-out principle. Finished goods and work in progress are stated at production cost.

The costs include expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In case of finished goods and work in progress, costs include an appropriate share of overheads based on normal operating capacity.

(L) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(M) Impairment

The carrying amount of the Group's assets, except for inventories (see accounting policy k) and deferred tax assets (see accounting policy v), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. For intangible assets that have an indefinite useful life and assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement except for the cases when the impairment relates to the assets re-valued and for which the revaluation reserve has been established. In such situation the allowances reduce the revaluation reserve capital in relation to certain asset and then it is recognized in the profit and loss account.

The allowances for trade and other receivables are established when there is objective evidence that the Company will not be able to collect all amounts receivable. If there is objective evidence that an impairment loss on receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset carrying value and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the loss is recognized in the income statement.

<u>*Calculation of recoverable amount*</u>

The recoverable amount in relation to the Group's held-to-maturity investment and receivables is estimated as the current value of future cash flows discounted with an effective interest rate (internal rate of return of a given asset).

The recoverable amount of other assets is the greater of their net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset which does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of allowances

The allowances are reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(N) Equity

By the end of 1996, the Group operated in the hyperinflation conditions. On the day of transition to IFRS, that is on 1 January, 2004, in accordance with the requirements of IAS 29 the Company made an adjustment of its equity items with the exception of profit or loss brought forward using the general price index, beginning from the dates when those equity items were contributed or were created in other efficient manner by 31 December 1996.

Share capital

The share capital is presented at a value resulting from the adjustment of the nominal value in accordance with IAS 29 described above.

Treasury shares

Treasury shares acquired are recognized at the purchase price increased by the transactions costs which can be directly attributable to the acquisition. The acquisition or redemption of treasury shares is presented as a change in equity. The acquired own shares are then presented as "own shares" and as a deduction from equity.

Share premium

The differences between the fair value received and the nominal shares value are recognized as share premium in reserve capital. In case of redemption, the amount paid for the shares is deducted from equity and is presented as own shares in the balance sheet. The value of reserve capital arising from the share premium which was established before 1 January 1997 was adjusted in accordance with the requirements of IAS 29 described above.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

(O) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

(P) Employee benefits

Contribution plan

Pursuant to legal regulations in force, the Group is obliged to pay contributions for pension benefits of their employees. These benefits, in accordance to IAS 19, are classified as national and defined benefit plan. Therefore, the liability of the Group for each period is measured on the basis of contributions payable for a given year.

Defined benefits plan – severance pay

Pursuant to legal regulations in force, the Group is obliged to pay severance pay based on the labor code regulations. Additionally, based on Collective Labor Agreement the pension benefits are increased depending on length of employment in the Company. The minimum level of pension benefits results from Labor Code being in force on day of payment of pension benefits. The maximum level of pension benefits can amount to four-time basic salary received by an employee in the month of retirement. The benefits are discounted to determine their present value.

The calculation is performed by a qualified actuary using the projected unit credit method. The rotation of employees is estimated on the basis of historical data and projections of the future level of employment.

Other long – term service benefits: jubilee awards

The Group's obligation in respect of long – term service benefits such as jubilee awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefits are discounted to determine their present value. The discount rate is the yield rate at the balance sheet date on Treasury State bonds. The calculation is performed by a qualified actuary using the projected unit credit method. The rotation of employees is estimated on the basis of historical data and projections of the future level of employment.

Share-based payments

The Group had in place a program of stock option plan for key employees. The plan was fully vested prior to the effective date of the IFRS 2 *Share based payments* and the date of transition into IFRS UE. According to the transitional provisions of IFRS 2, equity settled share based payments, vested prior to the effective date of the standard are not required to be accounted in compliance with IFRS 2.

(R) Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possibile outcomes against their associated probabilities.

(S) Trade and other payables

Trade and other payables are stated at amortized cost.

(T) Revenue

Sales of goods sold and services rendered

Revenues from the sale of goods are recognized when the significant risks and rewards of ownership have been transferred to the buyer, net of VAT and any discounts. Revenues from services are recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

Rental income

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of lease.

Government grants

A government grant is recognized in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with conditions attaching to it. Grants that compensate the Group for expenses incurred are recognized as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in the income statement as other operating income on a systematic basis over the useful life of the asset.

(U) Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognized in the income statement.

Interest income is recognized in the income statement as it accrues, using the effective interest method.

Dividend income is recognized in the income statement on the date the Group's right to receive payments is established which in the case of quoted securities is date.

The interest expense component of finance lease payments is recognized in the income statement using the effective interest method.

(V) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except for the amount relating to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax is calculated in accordance with tax regulations.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The reduced tax assets are increased to the extent that the income sufficient for taxation is probable to occur.

Income tax exemption of operations in the Special Economic Zone (SEZ)

One of the Group entities (Alupol Sp. z o.o.) operates in the Katowice Special Economic Zone, based on adequate permissions, which described the necessary conditions required for income tax exemption. These conditions comprised:

- the commencement of business operation by 31 July 1999 /permission No. 30/ and by 31 January 2000 /permission No. 48/,
- the employment of at least 120 persons by 31 December 2002,
- the total capital expenditure of PLN 47,700 thousand by 31 December 2002 /permission No. 30/ and PLN 20,300 thousand by 31 December 2003 /permission No. 48/,
- the value of all materials (components, raw materials, components and spare parts) manufactured outside the SEZ and services performed outside the SEZ for manufacturing of products should not exceed 70% and 80% respectively.

Alupol sp. z o.o. met all of the abovementioned conditions, which was confirmed during the inspection performed by the Katowice Special Ecnomic Zone in February 2003.

The permissions described above, entitled the entity to full corporate income tax exemption on the income earned on the licensed activities until 2008 and a possibility of further exemption of 50% until 2016. The income earned by the entity on activities, which are not included in the permission is subject to income tax in line with the general tax regulations.

Since 1 May 2004, the revised provisions relating to special economic zone apply, which resulted in loss of Alupol's priviligies presented above. Instead, as the initial permissions were granted prior to 1 January 2001, the entity's income is exempted from income tax based on the regulations of Article 5 Note 2 Point b, ie. a certain limit of public aid will be granted depending on the capital expenditure incurred by the entity during the period from the effective permission date till 31 December 2006. The public aid is limitted to 75% of the capital expenditure.

According to the aforementioned regulations, Alupol changed the possessed permissions based on decision No. 269/PR/04 of 15 October 2004 and decision No. 272/PR/04 of 20 October 2004. The changes specified in those decisions comprised:

- the extension of the business activities covered by the permission,
- the liquidation of the azonal indicator,
- the minimum capital expenditure to be incurred until 31 December 2006 upon the permission No. 48 amounting to PLN 150,300 thousand.

Moreover, as a result of convertion of the permissions, the entity obtained a partial exemption from real estate tax based on the status of land, buildings and constructions, which constituted the basis for real estate tax for the year 2000.

The value of public aid is accounted for in accordance with IAS 12. The Group recognises the deferred tax assets in the amount that will be recoverable in the future periods and reassess the carrying value at each balance sheet date.

(W) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The primary format of segment reporting applied by the Group is reporting within business segments.

Note 2 Acquisition and disposal of subsidiaries

The dates and detailed information regarding the acquisitions of subsidiaries are presented in Note 1 (A). The remaining information is provided below. All business combinations are accounted for by applying the purchase method.

Acquisition of IMPET Sp. z o.o. by Metalplast-Bielsko S.A.

In June 2005, a Group throughout its subsidiary, Metalplast-Bielsko S.A. acquired a 70% shares in IMPET Sp. z o.o. seated in Chorzów for a total acquisition price of PLN 38 thousand. The main activities of IMPET Sp. z o.o. include trading of steel systems. The consideration paid for shares amounted to PLN 35 thousand. The entity is an official distributor of steel and profile systems of a Swiss company Forster belonging to AFG Arbonia-Forster-Group.

Has IMPET Sp. z o.o. belonged to the Group since the beginning of the year, the Group revenues would increase by PLN 206 thousand and net profit would decrease by PLN 128 thousand.

The fair value of identifiable assets and liabilities at the acquisition date was following:

Assets and liabilities	**Fair value of assets and liabilities** *(in PLN thousand)*
Tangible fixed assets	3
Inventory	143
Receivables	142
Cash	9
Liabilities and provisions	(420)
Net assets acquired	**(123)**
Less minority interest	37
Net assets acquired by the Group	**(86)**
Total consideration paid	38
Less cash (acquired)	9
Net cash outflow	27
Goodwill on acquisition	124

Acquisition of RUN-PAK Sp. z o.o.

In February 2005, the Group has established a subsidiary RUN-PAK Sp. z o.o. with a share capital of PLN 50 thousand. In March 2005, RUN-PAK Sp. z o.o. acquired an organised part of business from a private investor for own shares valued at PLN 10 thousand (20 shares with nominal value of PLN 500 each)

As a result, the Group recognised a negative goodwill on acquisition of that organised part of business. The fair value of net assets at acquisition date amounted to PLN 30 thousand, whereas the value of consideration paid (shares of RUN-PAK Sp. z o.o.) amounted to PLN 10 thousand. The remaining shares in RUN-PAK Sp. z o.o. of PLN 7,990 thousand were acquired by Grupa KĘTY S.A. in exchange for cash contribution. The shareholding of Grupa KĘTY S.A. amounts to 99.88%.

The fair value of identifiable assets and liabilities at the acquisition date was following:

Assets and liabilities	**Fair value of assets and liabilities** *(in PLN thousand)*
Tangible fixed assets	10,505
Intangible fixed assets	1,400
Inventory	1,325
Receivables	1,374
Cash	1
Loans	(748)
Liabilities	(13,827)
Net assets acquired by RUN-PAK Sp. z o.o.	**30**
Consideration paid (value of shares)	10
Negative goodwill on acquisition	**20**

The intangible fixed assets comprise mainly the trademark, which has been valued by an independent professional at the acquisition date. As at year end, the Group performed an impairment test, which resulted in the recognition of impairment loss of PLN 1,353 thousand. The details are provided in Note 4.

The negative goodwill arising on acquisition has been recognised in the income statements as other operating revenues.

As the financial statements of IMPET Sp. z o.o. and RUN-PAK Sp. z o.o. were maintained in accordance with it was impracticable to determine the carrying amounts of the assets and liabilities of those companies immediately prior to the acquisition in accordance with IFRS.

Other acquisitions

In December 2004, Alupol Sp. z o.o. seated in Borodianka, Ukraine, a 100% subsidiary of Grupa KĘTY S.A. has been registered. The initial share capital amounted to USD 50 thousand and was contributed in cash. The main activity of Alupol Sp. z o.o., Ukraine will comprise the manufacturing of steel profiles. Till 20 December 2005, the Group has paid in the amount of USD 900 thousand constituting 86% of shares in the increased share capital of Alupol Sp. z o.o., Ukraine. The total share capital of a subsidiary amounts to USD 1,050 thousand. The remaining balance will be contributed in cash before 31 January 2006.

In February 2005, Metalplast-Bielsko S.A. has registered its subsidiary Metalplast Deutschland GmbH seated in Dusselderofie with a share capital of EUR 25 thousand. The main activity of that subsidiary comprises trading of steel systems on German market. In June 2005, the share capital of Metalplast Deutschland GmbH was increase by Metalplast-Bielsko S.A. to EUR 85 thousand.

In May 2005, Metalplast Stolarka (a 100% subsidiary of Metalplast-Bielsko S.A. being a subsidiary of Grupa KĘTY S.A.) has registered its subsidiary MERTZ s.r.o. seated in

Ostrawa, Czech Republic, with a share capital of CZK 600 thousand (equivalent of PLN 84.7 thousand). The main activity of MERTZ comprises trading of steel and PCV carpentry on Czech market.

Moreover, in May 2005, the Metalplast Bielsko S.A. established a subsidiary Metalplasst Romania s.r.l. seated in Bukarest, Romania with a share capital of EUR 15 thousand. The main activity of Metalplast Romania s.r.l. comprises trading of steel systems on Romanian market.

In October 2005, Alutech Sp. z o.o. acquired its treasury shares from minority shareholders in order to redeem. The consideration paid amounted to PLN 312 thousand. After the redemption of shares, Grupa KĘTY S.A. will possess 100% sharholding in Alutech Sp. z o.o.

In 2004, Grupa KĘTY S.A. disposed all shares held in Flexpol Sp. z o.o. (60%). The net assets at the date of disposal amounted to PLN 16,304 thousand. The minority interest in net assets amounted to PLN 6,522 thousand.

Grupa KĘTY S.A. Group

Notes to the financial statements
(in PLN thousand unless stated otherwise)

Note 3 Property, plant and equipment

Property, plant and equipment	Balance as at 01.01.2005	Additions	Acquisitions	Disposals	Transfers	Transfer to investment properties	Exchange rate differences	Balance as at 31.12.2005
Property, plant and equipment at cost								
Land	2,622	0	436	0	1,050	(871)	8	3,245
Plant and buildings	124,269	0	4,203	(973)	21,631	(4,240)	7	144,897
Machinery & equipment	258,329	0	5,468	(1,865)	90,021	(48)	(7)	351,898
Vehicles	6,159	0	99	(916)	2,205	0	24	7,571
Other tangible assets	41,504	0	349	(2,491)	11,788	(4)	4	51,150
Assets under construction	52,291	83,229	0	(170)	(126,695)	0	6	8,661
	485,174	**83,229**	**10,555**	**(6,415)**	**0**	**(5,163)**	**42**	**567,422**
Depreciation								
Plant and buildings	4,699	4,938	0	(452)	0	(85)	1	9,101
Machinery & equipment	19,920	21,998	47	(379)	0	(3)	0	41,583
Vehicles	768	923	0	(288)	0	0	5	1,408
Other tangible assets	18,336	6,758	0	(1,466)	0	0	(5)	23,623
	43,723	**34,617**	**47**	**(2,585)**	**0**	**(88)**	**1**	**75,715**
Carrying amounts								
Land	2,622	0	436	0	1,050	(871)	8	3,245
Plant and buildings	119,570	(4,938)	4,203	(521)	21,631	(4,155)	6	135,796
Machinery & equipment	238,409	(21,998)	5,421	(1,486)	90,021	(45)	(7)	310,315
Vehicles	5,391	(923)	99	(628)	2,205	0	19	6,163
Other tangible assets	23,168	(6,758)	349	(1,025)	11,788	(4)	9	27,527
Assets under construction	52,291	83,229	0	(170)	(126,695)		6	8,661
	441,451	**48,612**	**10,508**	**(3,830)**	**0**	**(5,075)**	**41**	**491,707**

Grupa KĘTY S.A. Group

Notes to the financial statements
(in PLN thousand unless stated otherwise)

Note 3 Property, plant and equipment (continued)

Property, plant and equipment	Balance as at 01.01.2004	Additions	Acquisitions	Disposals	Transfers	Transfer to investment properties	Exchange rate differences	Balance as at 31.12.2005
Property, plant and equipment at cost								
Land	2,622	0	0	0	0	0	0	2,622
Plant and buildings	124,756	0	0	(1,458)	3,278	(2,292)	(15)	124,269
Machinery & equipment	238,095	0	0	(4,163)	24,426	0	(29)	258,329
Vehicles	4,606	0	0	(480)	2,079	0	(46)	6,159
Other tangible assets	33,209	0	0	(1,237)	9,553	0	(21)	41,504
Assets under construction	25,998	71,024	0	0	(39,336)	(5,389)	(6)	52,291
	429,286	**71,024**	**0**	**(7,338)**	**0**	**(7,681)**	**(117)**	**485,174**
Depreciation								
Plant and buildings	6	4,773	0	(28)	0	(52)	0	4,699
Machinery & equipment	665	20,159	0	(891)	0	0	(13)	19,920
Vehicles	109	789	0	(121)	0	0	(9)	768
Other tangible assets	12,535	6,343	0	(537)	0	0	(5)	18,336
	13,315	**32,064**	**0**	**(1,577)**	**0**	**(52)**	**(27)**	**43,723**
Carrying amounts								
Land	2,622	0	0	0	0	0	0	2,622
Plant and buildings	124,750	(4,773)	0	(1,430)	3,278	(2,240)	(15)	119,570
Machinery & equipment	237,430	(20,159)	0	(3,272)	24,426	0	(16)	238,409
Vehicles	4,497	(789)	0	(359)	2,079	0	(37)	5,391
Other tangible assets	20,674	(6,343)	0	(700)	9,553	0	(16)	23,168
Assets under construction	25,998	71,024	0	0	(39,336)	(5,389)	(6)	52,291
	415,971	**38,960**	**0**	**(5,761)**	**0**	**(7,629)**	**(90)**	**441,451**

Changs in the estimated economic useful life

During the year, the Group entities liquidated the fixed assets with carrying amount of PLN 1,579 thousand. The liquidation of assets was caused by faster utilization of fixed assets than estimated.

Collaterals

As at 31 December 2005, the net book value of property, plant and equipment used as collateral of bank loans granted to the parent Company amounted to PLN 80,252 thousand. These property, plant and equipment used as collaterals are described in note 11.

Capitalization of financing costs

In the reporting period, the Group capitalized to property, plant and equipment borrowing costs of PLN 354 thousand.

Commitments

As at the balance sheet date, contractual liabilities related to the acquisition of tangible assets amounted to PLN 1,768 thousand. These liabilities are related to projects realized in 2005 by the Segment of Extruded Products and refer to the construction of Anode Department amounting to PLN 825 thousand and the assembly of 1600 and 2800 calenders amounting to PLN 943 thousand. Moreover, the Group made advance payments in the amount of PLN 2,073 thousand related to the acquisition of the abovementioned tangible assets. These advance payments are presented as „other receivables".

Value of acquired fixed assets subject to finance tease agreements

The subsidiary RUN-PAK Sp. z o.o. utilizes the machinery that was contributed in kind and is subject to finance lease agreements valued at PLN 3,630 thousand. More information about the establishment and activities of a subsidiary are provided in Note 1A and Note 2.

Grupa KĘTY S.A. Group

Notes to the financial statements
(in PLN thousand unless stated otherwise)

Note 4 Intangible assets

Intangible assets	Balance as at 01.01.2005	Additions	Acquisitions	Disposals	Impairment charge	Transfers	Exchange rate differences	Balance as at 31.12.2005
Intangible assets at cost								
Goodwill	1,117	0	182	0	0	0	0	1,299
Trademark	882	0	0	0	0	424	0	1,306
Software licences	13,397	0	0	(146)	0	943	(4)	14,190
Other intangible assets	15	0	1,400	0	0	8	1	1,424
Intangible assets under construction	229	1,672	0	0	0	(1,375)	0	526
	15,640	**1,672**	**1,582**	**(146)**	**0**	**0**	**(3)**	**18,745**
Amortization								
Goodwill	650	0	0	0	341	0	0	991
Trademark	205	203	0	0	0	0	0	408
Software licences	5,138	2,032	0	(102)	0	0	(2)	7,066
Other intangible assets	3	50	0	0	1,353	0	1	1,407
	5,996	**2,285**	**0**	**(102)**	**1,694**	**0**	**(1)**	**9,872**
Carrying value								
Goodwill	467	0	182	0	(341)	0	0	308
Trademark	677	(203)	0	0	0	424	0	898
Software licences	8,259	(2,032)	0	(44)	0	943	(2)	7,124
Other intangible assets	12	(50)	1,400	0	(1,353)	8	0	17
Intangible assets under construction	229	1,672	0	0	0	(1,375)	0	526
	9,644	**(613)**	**1,582**	**(44)**	**(1,694)**	**0**	**(2)**	**8,873**

(in PLN thousand unless stated otherwise)

Note 4 Intangible assets (continued)

Intangible assets	Balance as at 01.01.2004	Additions	Acquisitions	Disposals	Impairment charge	Transfers	Exchange rate differences	Balance as at 31.12.2004
Intangible assets at cost								
Goodwill	1,106	11	0	0	0	0	0	1,117
Trademark	1,407	0	0	(525)	0	0	0	882
Software licences	12,623	1,022	0	(244)	0	0	(4)	13,397
Other intangible assets	4	11	0	0	0	0	0	15
Intangible assets under construction	229	5	0	0	0	(5)	0	229
	15,369	**1,049**	**0**	**(769)**	**0**	**(5)**	**(4)**	**15,640**
Amortization								
Goodwill	0	650	0	0	0	0	0	650
Trademark	533	212	0	(15)	(525)	0	0	205
Software licences	3,647	1,710	0	(218)	0	0	(1)	5,138
Other intangible assets	1	2	0	0	0	0	0	3
	4,181	**2,574**	**0**	**(233)**	**(525)**	**0**	**(1)**	**5,996**
Carrying value								
Goodwill	1,106	(639)		0	0	0	0	467
Trademark	874	(212)	0	(510)	525	0	0	677
Software licences	8,976	(688)	0	(26)	0	0	(3)	8,259
Intangible assets under construction	229	5	0	0	0	(5)	0	229
	11,188	**(1,525)**	**0**	**(536)**	**525**	**(5)**	**(3)**	**9,644**

(in PLN thousand unless stated otherwise)

Amortization of intangible assets

Amortization costs relating to intangible assets are fully presented as operational costs „Amortization” in the income statement.

Significant items of intangible assets

Significant composition of software is related to the business management system with the net book value at the balance sheet date of PLN 4,190 thousand and remaining estimated useful life of 5 years.

Impairment loss

During the year, the Group recognised an impairment loss amounting to PLN 1,353 thousand for trademark acquired by RUN-PAK Sp. z o.o. At the date of initial contribution (March 2005), the Run-Pak's trademark was valued at PLN 1,400 thousand. In December 2005, the Group decided to cease the utilization of that trademark.

Moreover, following the identification of impairment, the Group has written off the goodwill arising on consolidation of Metalplast Ukraine of PLN 341 thousand. In 2004, the Group has reversed the impairment write-off for production technology of aluminium heaters of PLN 525 thousand following the sale of an asset.

Note 5 Investment properties

	31.12.2005	**31.12.2004**
Gross carrying amount, beginning of the period	**7,799**	**170**
- assets classifed as held for sale or included in a disposal group classified as held for sale	0	0
Capital expenditure for investment properties	957	0
Transfer from/to property, plant and equipment	5,075	7,629
Fair value adjustments	7	0
Gross carrying amount, end of the period	**13,838**	**7,799**

The investment properties relate to the administrative and office building, plot of land and production buildings, which are rented to third parties.

The balance sheet value of investment properties is established based on the fair value estimated by an independent professional, possessing the experience in valuation of investment properties of similar characteristics and in same location. The fair value was established based on the rental income.

The administrative and office building belongs to Metalplast Bielsko S.A. and is currently leased to third parties. The fair value of the building was estimated at PLN 8,608 thousand, using the capitalization rate of 14% and effective monthly rental of PLN 381 thousand.

Metalplast Bielsko S.A. owns a plot of land in Trojaczkowice valued at PLN 170 thousand. The Group is going to obtain the economic benefits from the appreciation of its fair value.

Moreover, RUN-PAK Sp. z o.o. possesses property investments valued at PLN 5,060 thousand. The property comprises a plot of land (valued at PLN 871 thousand) and production buildings including the administration premisses (valued at PLN 4,189 thousand). The valuation was performed under the assumption of 14.2% capitalization rate and effective annual rental of PLN 717 thousand (PLN 59 thousand per month), which represent the market rentals achieved on a local market.

Grupa KĘTY S.A. Group

Notes to the financial statements
(in PLN thousand unless stated otherwise)

Note 6 Deferred income tax

Recognised deferred tax assets and liabilities are in respect of the following items:

	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	ASSETS		LIABILITIES		NET VALUE	
Property, plant and equipment	0	174	(30,175)	(29,975)	**(30,175)**	**(29,801)**
Intangible assets	199	299	0	0	**199**	**299**
Investment property	0	0	(4)	0	**(4)**	**0**
Other long -term investment	167	167	(48)	0	**119**	**167**
Inventories	893	1,064	0	0	**893**	**1,064**
Trade and other receivable	2,670	3,518	(432)	(421)	**2,238**	**3,097**
Short term investments	0	6	(1)	(8)	**(1)**	**(2)**
Provisions	2,441	1,872	0	0	**2,441**	**1,872**
Prepayments and accruals	392	391	0	0	**392**	**391**
Derivatives financial instruments	422	785	(764)	0	**(342)**	**785**
Tax losses carry forwards	267	0	0	0	**267**	**0**
Deferred tax assets/provision	17,755	16,668	0	0	**17,755**	**16,668**
Other	1,655	664	(52)	(60)	**1,603**	**604**
TOTAL DEFERRED INCOME TAX ASSSETS/(PROVISION)	**26,861**	**25,608**	**(31,476)**	**(30,464)**	**(4,615)**	**(4,856)**
Compensation	(26,861)	(25,608)	26,861	25,608		
TOTAL DEFERRED INCOME TAX ASSSETS/(PROVISION) IN BALANCE SHEET	**0**	**0**	**(4,615)**	**(4,856)**		

(in PLN thousand unless stated otherwise)

Income tax exemption of operations in the Special Economic Zone (SEZ)

The subsidiary (Alupol Sp. z o.o.) operates in Special Economic Zone. Alupol Sp. z o.o. obtained a right to income tax relief in the form of exemption from corporate income tax up to the amount of 75% of capital expenditure incurred by the entity during the period from effective permission date till 31 December 2006.

The entity might take advantage of the tax exemption if taxable income is achieved in the future and the exemption ceases in 2016.

The maximum amount of deferred tax assets that might have been recognised as at 31 December 2005 relating to the temporary differences arising on public aid amounted to PLN 110,384 thousand (31 December 2004: PLN 110,713 thousand).

The estimated value of public aid that is going to be utilised by Alupol Sp. z o.o. bases on a 3 year forecast of taxable income, representing the entity's financial planning period. As at 31 December 2005, a deferred tax asset of PLN 17,734 thousand has been recognized (31 December 2004: PLN 16,599 thousand).

Note 7 Inventories

	31.12.2005	31.12.2004
Raw materials	78,461	65,836
Work-in-progress	26,603	29,600
Finished goods	21,472	23,495
Merchandise	2,656	1,669
	129,192	**120,600**

Collaterals

As at 31 December 2005, the Group did not hold any inventories with limited disposal.

Allowances for inventories

The allowances for inventories have been recognized in "impairment of assets" position of the income statement. Reversals of allowances have been recognized as "other operating income" position of the income statement.

In the reporting period, the Company made write–downs of inventories to net realizable value of PLN 1,332 thousand and reversed PLN 827 thousand due to sale of inventories which had been written down in prior periods.

(in PLN thousand unless stated otherwise)

Note 8 Trade and other receivables

Trade and other receivables	31.12.2005	31.12.2004
At cost		
Trade receivables	194,246	171,102
Statutory receivables (excluding income tax)	15,676	4,802
Prepayments to suppliers (materials)	105	304
Prepayments to suppliers (fixed assets)	5,529	18,866
Receivables from employees	259	327
Other	4,694	8,055
	220,509	**203,456**
Allowances		
Trade receivables	38,262	44,694
Other	2,333	6,924
	179,914	**151,838**

Impairment losses of PLN 40,595 thousand as at 31 December 2005 and PLN 51,618 thousand as at 31 December 2004 were made based on the Company's assessment of debt collection from particular customers.

Note 9 Derivative financial instruments

Financial assets	31.12.2005	31.12.2004
Currency forward contracts	2,318	0
Currency option contracts	2,800	0
Currency future contracts	0	37
	5,118	**37**

Financial liabilities	31.12.2005	31.12.2004
Currency forward contracts	539	0
Currency option contracts	2,800	4,134
	3,339	**4,134**

As at 31 December 2005, the Group had open currency purchase transactions of notional value of USD 2,167 thousand and selling transaction of notional value of EUR 1,800 thousand. As at 31 December 2004, the Group had open currency positions on purchase of notional amounts: USD 13,500 thousand and sale of EUR 5,776 thousand and GBP 70 thousand. The above transactions were supposed to be an economical hedge of sales and purchases denominated in foreign currencies.

(in PLN thousand unless stated otherwise)

Note 10 Cash

	31.12.2005	31.12.2004
Cash at bank (current accounts, deposits)	11,708	19,053
Cash in hand	1,226	936
Other cash assets	11,460	195
Cash presented in balance sheet	24,394	20,184
Bank overdraft	(11,680)	(2,761)
Cash presented in cash flow	12,714	17,423

Note 11 Equity

<u>*Share capital*</u>

	31.12.2005	31.12.2004
Share capital	**66,964**	**80,179**
Registered share capital	23,064	26,252
Impact of revaluation of share capital (IAS 29)	43,900	53,927
Treasury shares		
Shares at the beginning of the reporting period	(71,108)	(71,108)
Shares at the end of the reporting period	0	(71,108)

Pursuant to IAS 29 *"Financial reporting in Hyperinflation Economies"*, the parent Company's share capital was restated at the date of the first – time adoption of IFRS. The value of the share capital increase from the restatement stands at PLN 43,900 thousand.

On 8 February 2005, the Court registered a decrease of share capital as a result of redemption of 1,575,117 shares in the amount of PLN 71,108 thousand purchased by the Company for the purpose of redemption through a public offering in the year 2002. The registration of redemption resulted in the decrease of share capital by PLN 13,965 thousand, share premium by PLN 43,453 thousand and retained earnings by PLN 13,690 thousand.

On 30 May 2005, the Court registered an increase in share capital as a result of issuance of 300,000 shares in D series purchased by entitled persons in August 2004 upon vesting their options under the motivation plan in 2003.

Upon the registration of the discussed changes, the nominal value of equity registered in KRS stands at PLN 23,064 thousand and is divided into 9,225,663 shares at the nominal value of PLN 2.50 each.

The shareholders of the parent Company are entitled to a dividend in the declared amount provided it occurs. An ordinary share has one vote in the General Shareholders' Meeting.

(in PLN thousand unless stated otherwise)

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations to polish zloty.

Note 12 Interest bearing loans and borrowings

Schedule of loan repayments

Borrowings	2005	2004
Maturity date		
Current	119,371	56,537
from 1 to 2 years	834	17,389
over 2 years	1,096	0
	121,301	73,926

The table below presents current and non-current interest bearing loans and borrowings as at 31 December 2005 and 31 December 2004:

(in PLN thousand unless stated otherwise)

(A) Non-current

Lender	*Currency*	*Interest rate %*	*security*	31.12.2005	31.12.2004
CitiBank Handlowy	EUR	Euribor + 0,25%	Pledges of Metalplast-Bielsko S.A. up to PLN 30 million, pledges Alupol Sp. z o.o. up to PLN 30 million, pledges on fixed assets	0	13,483
CitiBank Handlowy	PLN	Wibor + 0,25%	Pledges of Metalplast-Bielsko S.A. up to PLN 30 million, pledges Alupol Sp. z o.o. up to PLN 30 million, pledges on fixed assets	0	3,853
Other				0	53
Non-current bank loans				**0**	**17,389**
Finance lease liabilities				**1,930**	**0**

(B) Current

Lender	*Currency*	*Interest rate %*	*security*	31.12.2005	31.12.2004
Bank BPH S.A.	PLN	Wibor + 0,3%	Pledge on inventories	0	36,473
CitiBank Handlowy	PLN	Wibor + 0,25%	None	0	20,037
COK - Banku Handlowego	PLN			0	27
Bank BPH S.A.	PLN	Wibor + 0,3%, Euribor + 0,5% Libor + 0,5%	own bill of exchange	11,872	0
Bank Societe Generale	PLN	Wibor + 0,5%, Euribor + 0,5%	own bill of exchange	15,925	0
CitiBank Handlowy S.A.	PLN	Wibor + 0,25%	None	19,115	0
	PLN	Euribor + 0,25%	Pledges of Alupol Sp. z o.o. up to PLN 30 million and on Metalplast Bielsko S.A. up to PLN 30 million, or pledges on fixed assets	50,298	0
Fortis Bank Polska S.A.	PLN	Wibor + 0,3%	None	18,500	0
Bank BPH S.A.	PLN	Wibor + 0,3%, Euribor + 0,5% Libor + 0,5%	Pledges of Zakłady Wyposażenia Budownictwa "METALPLAST-BIELSKO" S.A.	215	0
Bank BPH S.A.	PLN	Wibor + 0,3%	Pledges of Grupy Kety S.A.	2,905	0
Bank BPH S.A.	PLN	Wibor + 0,3 %, Libor + 0,5% Euribor +0,5 %	Pledges of Grupy Kety S.A.	541	0
Current bank loans				**119,371**	**56,537**

(in PLN thousand unless stated otherwise)

Schedule of finance lease payments

Repayment	Lease payments	Interest	Total
within 1 year	813	268	1,081
from 1 to 5 years	1,885	238	2,123
Total	**2,698**	**506**	**3,204**

Note 13 Trade and other payables

	31.12.2005	31.12.2004
Trade creditors	72,249	58,937
Prepayments for deliveries (trade)	719	257
Tax, customs duties, insurance and other benefits creditors (except income tax)	6,892	5,976
Payroll	3,763	3,435
Liabilities relating to the purchase of fixed assets	8,005	13,128
Other	2,833	2,879
	94,461	**84,612**

Note 14 Employee benefits

	01.01.2005	Added	Used	Reversed	Transfered	31.12.2005
Long-term employee benefits						
- jubilee awards and post employment benefit provision	8,779	4,396	(1)	(714)	(1,039)	11,421
	8,779	**4,396**	**(1)**	**(714)**	**(1,039)**	**11,421**

	01.01.2004	Added	Used	Reversed	Transfered	31.12.2004
Long-term employee benefits						
- jubilee awards and post employment benefit provision	8,507	1,707	(46)	(8)	(1,381)	8,779
	8,507	**1,707**	**(46)**	**(8)**	**(1,381)**	**8,779**

Long-term employee benefits encompass long-term provisions for jubilee awards and post-employment benefits.

Provisions for jubilee awards and post-employment benefits have been estimated by an actuary and represent the present value of the Group’s liabilities in this respect.

(in PLN thousand unless stated otherwise)

The rules of granting and payment of jubilee awards and pension benefits are regulated by the Collective Labor Agreement, which stipulates as follows:

Jubilee awards

Basis for calculations are:

- period of employment in Alupol Sp. z o.o. and Grupa KĘTY S.A., if this period equals at least 5 years – basic salary received by an employee on a day of acquiring rights to jubilee award
- period of employment in other then Alupol Sp. z o.o. and Grupa KĘTY S.A. entities – 60% of the lowest salary calculated on a day of acquiring rights to jubilee award

The jubilee award ranges from 150% of the basis for calculation after 15 years of employment service to 800% of the basis for calculation after 50 years of employment service. However, the award cannot exceed the equivalent of 10 times the lowest salary stated in the salary grids.

Severance benefits

Basis for calculations is a basic salary received by an employee on a day of acquiring rights to severance benefit.

The amount of severance benefit depends on the periods of employment service and other periods which are conditional to acquire rights to benefit. When stating the periods of employment service there are used the same rules as for jubilee awards. The severance benefit amounts to:
- less then 15 years of employment – 1 month salary calculated as a equivalent for the annual holiday
- after 15 years – as for the jubilee awards without the limiting amount.

Basic actuarial estimates as at the balance sheet date:

	2005	2004
Discount rate as at 31 December	4.94%/3.98% *	3.5%
Future increase of salaries	2%	2%

* 4.94% - rate was adopted prior to the anticipated accession of Poland to the EURO zone; 3.98% was adopted after this date
0.0% - increase of the basis for calculation of jubilee awards and severance benefit in the period 2006 - 2015
2.0% - increase of the basis for calculation of jubilee awards and severance benefit after 2015

Incentive Option Plan for the key management

On 30 May 2003, the General Assembly of the Company's Shareholders approved Incentive Option Plan ("Plan") for key management of the Company and its subsidiaries. According to the Plan the entitled personnel were granted options to purchase no more than 300,000 in total, of new shares (D issue) at exercise price of PLN 2.50 each. The vesting and number of options depended on achieving a dynamic ratio being a combination of performance and market conditions. The dynamic ratio was defined as a combination of three ratios including annual change of consolidated EBITDA per share ratio (contributing 50% of weight to the dynamic factor), annual change of consolidated net profit per share (30% of the dynamic ratio) and change in the Company's share prices (20%). The Plan assumed that the dynamic ratio will be calculated separately for each of 2003, 2004 and 2005. The Plan was effected using interest free convertible bonds which entitled holder to purchase of a new share (D issue). The Company issued 300,000 bonds for PLN 0.01 each. Each of bond notes entitled the holder to acquire one new share of the Company at exercise price of PLN 2.50. Prior to the vesting the bonds were deposited on escrow account. When the vesting conditions were meet the participants become entitled to acquire the bonds.

(in PLN thousand unless stated otherwise)

On 4 June 2004, the Supervisory Board confirmed that the dynamic ratio for 2003 defined by the Plan reached 75.97%. Therefore all the vesting conditions were met in 2003. As a result the personnel with granted options obtained right to acquire the convertible bonds which entitled them to acquire 300,000 ordinary shares of "D" issue.

On 16 December 2003, based on the prospectus, the Polish Stock Exchange Commission admitted 300,000 shares of D issue to trading on the WSE.

On 4 August 2004, participants of the Plan exercised their right related to their convertible bonds and acquired 300,000 shares of „D" issue at exercise price of PLN 2.50 per share. As regulated by the Plan the shares cannot be sold until 24 months expires from the exercise date.

The number of option and exercise price are listed below:

	2005		2004	
	Exercise price	**Number of options**	**Exercise price**	**Number of options**
Outstanding at the beginning of the period	not applicable	0	2.49	300,000
Exercised during the period	not applicable	0	2.49	(300,000)
Outstanding at the end of the period	not applicable	0	not applicable	0

The share market prices as of 4 August 2004, the exercise date, amounted to PLN 142.

Grupa KĘTY S.A. Group

Notes to the financial statements
(in PLN thousand unless stated otherwise)

Note 15 Provisions

	01.01.2005	Added	Used	Reversed	Exchange rate differences	Transfered	31.12.2005
Provisions for liabilities							
Long-term provisions							
- warranties	608	1,277	0	0	0	(26)	1,859
	608	**1,277**	**0**	**0**	**0**	**(26)**	**1,859**
Short-term provisions							
- jubilee awards and post-employment benefits provisions	1,722	78	(1,155)	(229)	0	1,033	1,449
- provision for costs of unused holiday leaves	434	435	(23)	0	0	0	846
- provision for economic risks	804	1	0	(708)	0	0	97
- costs of annual bonuses	2,599	0	0	(2,599)	0	0	0
- costs of quarterly bonuses	28	135	0	0	0	0	163
- costs of environment protection	127	84	0	0	0	0	211
- warranties	677	134	0	0	0	26	837
- other items	1,030	173	(449)	(367)	(2)	0	385
	7,421	**1,040**	**(1,627)**	**(3,903)**	**(2)**	**1,059**	**3,988**
	01.01.2004	**Added**	**Used**	**Reversed**	**Exchange rate differences**	**Transfered**	**31.12.2004**
Provisions for liabilities							
Long-term provisions							
- warranties	993	117	(315)	0	0	(187)	608
- other provisions for risks	3,552	437	0	(3,989)	0	0	0
	4,545	**554**	**(315)**	**(3,989)**	**0**	**(187)**	**608**
Short-term provisions							
provisions	1,477	1,319	(1,175)	0	0	101	1,722
- provision for costs of unused holiday leaves	302	162	(30)	0	0	0	434
- provision for economic risks	832	3,672	(148)	(3,552)	0	0	804
- costs of annual bonuses	2,246	1,992	(1,639)	0	0	0	2,599
- costs of quarterly bonuses	40	0	(10)	(2)	0	0	28
- costs of environment protection	127	127	(127)	0	0	0	127
- warranties	919	0	0	(428)	0	186	677
- other items	452	583	0	0	(5)	0	1,030
	6,395	**7,855**	**(3,129)**	**(3,982)**	**(5)**	**287**	**7,421**

From time to time, the Group is involved in routine litigation and proceedings during the normal course of business. As at the balance sheet date, the Group has recorded the provision for legal claims detailed above, which represents the Group's best estimate of the probable loss expected to result from such litigations or proceedings.

Note 16 Segments reporting

Business segments

The Group's primary format of segment reporting is business segments. The Capital Group operates in three major lines of business being:

- Extruded Products Segment (EPS)
- Flexible Packaging Segment (FPS)
- Aluminium Systems Segment (ASS)

The summarized information on the business segments in 2005 is presented in the table below:

Business segments (2005)	FPS	EPS	ASS	Other	Eliminations	Total
Income statement						
Sale	225,237	372,124	195,355	14,626	(66,521)	740,820
Profit on sales	31,499	42,932	30,219	(12,947)	2,473	94,175
Depreciation	16,852	15,317	2,081	3,835	(1,137)	36,948
Balance sheet						
Segment assets	250,048	394,302	119,499	47,528	47,698	859,076
Segment liabilities	20,293	30,558	31,726	176,991	(15,120)	244,448
Others						
Cash flows from operating activities	22,190	57,680	(3,817)	(12,112)	7,595	71,537
Cash flows from investing activities	(21,698)	(69,731)	(6,529)	(31,001)	55,961	(72,998)
Cash flows from financing activities	(70,807)	(77,349)	96,498	61,294	(12,884)	(3,248)
Capital expenditure	5,527	69,261	789	9,960	(1,044)	84,493
Business segments (2004)	**FPS**	**EPS**	**ASS**	**Other**	**Eliminations**	**Total**
Income statement						
Sale	202,006	409,696	174,934	14,296	(33,749)	767,183
Profit on sales	31,343	69,007	22,125	(11,021)	6,295	117,749
Depreciation	13,411	18,688	2,297	3,763	(3,519)	34,640
Balance sheet						
Segment assets	201,185	287,424	85,581	187,323	(8,746)	752,766
Segment liabilities	27,970	21,713	15,491	132,784	(8,746)	189,212
Others						
Cash flows from operating activities	28,918	69,377	11,885	(7,437)	(30,019)	72,723
Cash flows from investing activities	(20,948)	(73,405)	(17,085)	(386)	36,615	(75,209)
Cash flows from financing activities	(24,196)	(60,773)	(73)	62,133	10,326	(12,583)
Capital expenditure	22,895	47,700	8,513	1,293	(9,692)	70,709

The column "eliminations" in the above schedule relates to the transactions performed among segments.

(in PLN thousand unless stated otherwise)

The column “other” relates to supporting activities which are not directly connected with the core operations of particular segments, including Alutech Sp. z o.o.

The sale among the segments relates mainly to sale of aluminium profiles from EPS to ASS and sale of painting and anode services from ASS to EPS.

All transactions among segments are based on arms length.

Geographical segments

In presenting information on the basis of geographical segments, segments revenue is based on the geographical location of customers. Segment assets are located in Poland and were presented in the business segments paragraph.

The geographical structure of sales was following:

Geographical structure of sales/Geographical segments	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Poland	555,815	592,715
EU excluding Poland	127,966	99,868
Other European countries	18,466	29,556
Other countries	38,573	45,044
	740,820	**767,183**

The geographical structure of assets was following:

Geographical structure of assets/Geographical segments	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Poland	848,613	746,431
EU excluding Poland	5,018	3,773
Other European countries	5,445	2,562
	859,076	**752,766**

(in PLN thousand unless stated otherwise)

Note 17 Other operating revenues

	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Reversed impaiment losses	**7,789**	**6,368**
- reversal of impairment losses on receivables	6,929	4,203
- reversal of impairment losses on inventories	860	2,142
Profit on disposal of non-monetary fixed assets	**126**	**0**
Grants	**62**	**83**
Other	**3,648**	**8,011**
	11,625	**14,462**

Note 18 Other operating costs

	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Impairment losses on inventories	1,580	898
Impairment losses on intangible fixed assets	1,694	0
Impairment losses on receivables	5,233	4,988
Loss on disposal of non-monetary fixed assets	0	2,059
Promotion and advertising	2,800	2,802
Insurance	1,383	905
Business trips	1,218	1,026
Other	6,950	10,595
	20,858	**23,273**

Note 19 Financial revenues

Financial revenues	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Other interest	2,083	2,882
Forex exchange gain, net	1,662	0
Change in fair value of derivatives	5,895	0
Gain on disposal of investment	2,583	862
Other	311	933
	12,534	**4,677**

(in PLN thousand unless stated otherwise)

Note 20 Financial expenses

Financial expenses	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Interests on loans received	2,915	5,017
Forex exchange loss, net	183	2,705
Change in fair value of investments	0	2,195
Other	583	1,140
	3,681	**11,057**

Note 22 Income tax

The analysis of deferred tax is presented in note 5.

The taxable income for the parent Company is established in accordance with the tax regulations ruling In Poland, while for subsidiaries in accordance with tax regulations ruling in Poland, Ukraine, Germany, Romania and Hungary.

The structure of income tax is following:

Structure of income tax	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Current income tax	14,868	16,533
Deferred income tax, including:	(532)	(1,420)
- recognized tax losses	(267)	0
- change in temporary differences	(265)	(1,420)
Income tax presented in the income statement	**14,336**	**15,113**

The reconciliation between the income tax charge in accordance with applicable tax rate and actual tax charge presented in the income statement is disclosed in the table below:

Effective tax rate	%	from 01.01.2005 to 31.12.2005	%	from 01.01.2004 to 31.12.2004
Profit before tax		103,028		111,369
Tax at enacted tax rate (domestic) (19%)	19%	19,575	19%	21,160
Effect of differences in enacted tax rates of foreign subsidiaries	0%	14	0%	(6)
Tax losses utilised	-1%	(767)	0%	(129)
Tax saved on tax credit (unreognized in prior periods)	-5%	(5,556)	-4%	(4,858)
Non taxable income	-1%	(1,050)	-2%	(1,040)
Non deductible costs	3%	2,670	1%	1,426
Income tax presented in the income statements	10%	14,886	12%	16,553

(in PLN thousand unless stated otherwise)

Note 22 Earnings per share

	from 01.01.2005 to 31.12.2005	from 01.01.2004 to 31.12.2004
Net profit attributable to ordinary shareholders	88 016	95 071
Weighted average of the number of ordinary shares used for calculation of earnings per share	9 225 663	9 225 663
Basic and diluted earnings per share in PLN	9,54	10,31

No transactions have occurred in 2005, which would influence the calculation of diluted earnings per share.

Note 23 Receivables and contingent liabilities

The Group received bills of exchange as a form of payment by customers. The Group customary cashes these bills with the Bank Przemysłowo-Handlowy S.A. However, if the debtor does not repurchase the bill of exchange from the bank, than bank will claim refund from the Group by debiting the Group’s bank account. The total amount of bills of exchange that were outstanding at the year end amounted to PLN 820 thousand.

Note 24 Transaction with related parties

Transactions with key management personnel

The remuneration of the key management personnel was following:

The remuneration of the Members of the Board of Directors of the parent Company in the reporting period amounted to PLN 1,761 thousand (2004: PLN 1,196 thousand)

The remuneration of the Supervisory Board of the parent Company in the reporting period amounted to PLN 353 thousand (2004: PLN 360 thousand).

The remuneration of the Members of the Board of Directors derived from the posts in the Boards of Directors and Supervisory Boards of subsidiaries amounted to PLN 253 thousand (2004: PLN 422 thousand).

The remuneration of the key personnel officers in the reported period amounted to PLN 462 thousand.

Note 25 Financial instruments

(a) Credit risk

Financial instruments, which are particularly exposed to credit risk, include trade receivables, cash and cash equivalents.

The credit risk related to trade receivables is limited because the Group's customers' base is very wide. Therefore, the concentration of credit risk is insignificant. Cash and cash equivalents are allocated with financial institutions of high financial credibility.

(b) Interest rate risk

The Group's interest-bearing borrowings typically bear floating interest rates (see Note 12). The Group does not hedge against the interest rate risk.

(c) Foreign exchange risk

The Group is exposed to foreign currency risk arising from sales of finished goods and purchases of raw materials performed in foreign currency and from the repayment of loans denominated in foreign currencies.

To a limited extent, the Group uses hedging instruments to reduce the impact of exchange rate fluctuations such as short - term currency forward contracts and options. To a certain extent, the Group hedged also the price of raw materials (aluminium) through "futures" contracts. The details relating to the value of unrealized instruments as at balance sheet date are provided in note 9.

(d) Derivative financial instruments

Forward currency contracts are measured either on the basis of stock exchange listings or by discounting the value based on the forward contract rate and reducing by the amount of currency which had been recalculated at the the current currency rate. To measure the transactions of interest rate swaps brokers' quotations are used. These quotations are verified through valuation models or the discounted cash flow method.

In the case of the discounted cash flow method, the estimate value of future cash flow is based on the most reliable assessment of the Management Board, while the discount rate is a market interest rate for a similar instrument at the balance sheet date. In the case of valuation models, the outgoing data is based on the market data at the balance sheet date.

As the hedges accounting is not applied all the changes of the fair value of forward/future contracts are recognized in the income statement.

(e) Sensitivity analysis

In managing interest rate and currency risks, the Group aims to reduce the impact of short - term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 31 December 2005, it is estimated that a general increase of one percentage point in interest rate would decrease the Group's profit before tax by approximately PLN 527 thousand (2004: PLN 858 thousand). Interest rate swaps have been included in this calculation.

It is estimated that a general increase of one percentage point in the value of the euro against other foreign currencies would have decreased the Group's profit before tax by approximately PLN 425 thousand for the year ended 31 December 2005. The forward contracts have been included in this calculation.

(f) Fair value

The following are details of the fair values of financial instruments for which it is practicable to estimate such value:

- Cash and cash equivalents, short-term bank deposits and short-term bank credits. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Trade accounts receivable, other accounts receivable, accounts payable and accrued liabilities. The carrying amounts approximate fair value because of the short-term nature of these instruments.

- Non-current interest bearing loans and borrowings. The carrying amounts approximate fair value due to the variable nature of the related interest rates.

(g) Finance lease liabilities

The fair value is estimated as a current value of future cash flows discounted at the market interest rate of similar lease agreements. The estimated fair value includes the changes of the interest rate.

Note 26 Subsequent events

Acquisition of Aluprof Sp. z o.o.

After the balance sheet date (on 1 February 2006), Grupa KĘTY S.A. acquired 100% share in Aluprof sp. z o.o for PLN 97 million (purchase price of PLN 96 million). At the date of the financial statements authorization, the Company was unable to allocate the consideration paid to particular assets and liabilities acquired, as the process of identification and valuation of intangible assets has not been completed.

Fire in Grupa KĘTY S.A.

On 19 January 2006, a fire broke out in the production hall of Flexible Packaging Segment. There were 5 printers (rotograviature, including 3 modern devices of 8-10 colors and 2 over 20-year-old machines in the damaged production hall. The property, plant and equipment were insured. On the day of preparation of this financial statement according to the Company's estimates 80% of the production capacity with regard to packaging has been restored. The Management Board estimates that the fire losses will not exceed PLN 20 million in 2006.

Share-based payment for the key management personnel

In March 2006, the parent Company presented to the Supervisory Board the framework of the new share-based program (“the Program”) for the key Management personnel. This program will be subject to the approval by the next General Shareholders Meeting. This program will be directed to maximum 40 individuals, who will be offered to acquire convertible bonds to be exercised from 2010 through 2012. The exercise price of the shares will approximate fair value calculated on the basis of average quotation of shares of Grupa KĘTY S.A. in the first quarter of the current year. The parent Company assumes that the program will involve maximum 444,000 shares, which makes around 4.8% of the current total number of shares. Program will be vested in the period 2006-2008. The major criteria for vesting will be reaching during the period 2006-2008 growth of target quotation of shares assumed in the program and reaching by the Company in subsequent years the budgeted earnings per share.

The purpose of the new program is the strong incentive to the team of employees to increase the value to shareholders of the Group and to retain the key employees in the long-term.

Note 27 Accounting estimates and applied assumptions

The main accounting estimates and applied assumptions are presented in relevant notes to the financial statement:

- estimates and assumptions with regard to the useful lives are presented in Note 3
- estimates with regard to impairment of long-term investments are presented in Note 5
- estimates with regard to impairment of inventories are presented in Note 7
- estimates and assumptions with regard to impairment of receivables are presented in Note 8
- estimates with regard to employee benefits and provisions are presented in Notes 13, 14 and 15.

Note 28 Description of the balance sheet restatement as at the date of transition to IFRS, that is on 1 January 2004

As described in detail in item B of the consolidated financial statement, the General Shareholders’ Meeting, pursuant to the Polish Accounting Act, article 45, paragraph 1c, adopted a resolution that with effect from the year 2005, the Group will prepare its financial statements in accordance with the IFRS's UE.

As a result, in order to ensure comparability of data for the reporting periods in 2005 the data for the comparable year 2004 were restated as if the rules applied in the preparation of the financial statement for the year 2005 were also binding for 2004.

(in PLN thousand unless stated otherwise)

The adjustments necessary to convert from reporting under the Accounting Act to reporting under the International Financial Reporting Standards for the consolidated financial statement as at 1 January 2004

Item	Assets	Liabilities
1. Elimination of properties not complying with the requirements of IAS 16 (transfer to off – balance sheet records)		
- property, plant and equipment	(4 776)	
- deferred income		(4 776)
2. Writing off assets not complying with IFRS		
- prepaid expenses	(127)	
- retained earnings		(103)
- deferred tax liability	24	
3. Recognition of items of plant which were not recognized as an asset under the previous GAAP		
- property, plant and equipment	5 837	
- retained earnings		4 728
- deferred tax liability		1 109
4. Valuation of tangible fixed assets at deemed cost as at the date of transition to IFRS		
- property, plant and equipment	119 820	
- intangible assets	3 082	
- retained earnings		99 153
- deferred tax liability		23 749
5. Advances towards the purchase of fixed assets – change of presentation		
- property, plant and equipment	(238)	
- other receivables	238	
6. Received prepayments towards supplies– change of presentation		
- deferred income		(95)
- trade liabilities		95
7. Transfer of development costs to from prepayments to intangible assets		
- prepayments	(187)	
- intangible assets	187	
8. Transfer of the prepayments balance to other receivables		
- prepayments	(1 795)	
- other receivables	1 795	
9. Derecognition of goodwill arising on consolidation		
- goodwill	(302)	
- retained earnings		(302)
10. Derecognition of negative goodwill		
- negative goodwill		(793)
- retained earnings		793
11. Recognition of deferred tax asset on income tax exemption for operations in the Special Economic Zone *		
- deferred tax assets	14 903	
- retained earnings		14 903
12. Recognition of hyperinflation effect on equity		
- share capital		53 927
- share premium		4 953

(in PLN thousand unless stated otherwise)

- retained earnings		(58 880)
13. Presentation of deferred tax position		
- deferred tax assets	(25 120)	
- deferred tax provision		(25 120)
14. Extension of consolidatedsubsidiaries		
- tangible fixed assets	6 338	
- intangible fixed assets	503	
- long tem investments	(11 407)	
- deferred tax assets	784	
- inventories	10 706	
- receivables	11 600	
- cash	2 749	
- equity		3 856
- minority interests		8 559
- provisions and liabilities		8 858

* In the published consolidated interim financial statements of Grupa KĘTY S.A., prepared in accordance with IFRS UE, the adjustment related to the recognition of Income tax credit on operation in the Special Economic Zone was ommitted. Due to the above, retained earnings as at 1 January 2004 presented in the previously published financial statements prepared in accordance with IFRS UE was lower by PLN 14,903 thousand. The net profit for the year ended 31 December 2004 was lower by PLN 1,277 thousand, and retained earnings as at 31 December 2004 was lower by PLN 16,180 thousand.

Note 29 Description of data restatement for the comparable periods of the year 2004

As a result of the transition of previously applied Polish accounting rules to IFRS the Company's financial situation and the financial result of the Group's activities changed as follows:

a) total assets and liabilities as at 31 December 2004 increased by PLN 121,825 thousand mainly as a result of:
   - valuation of tangible fixed assets at deemed cost,
   - recognition of fixed assets which did not comply with the definition of fixed assets in accordance with previously applied accounting rules,
   - recognition of deferred tax assets on income tax exemption for operations in the Special Economic Zone,
   - extension of consolidated subsidiaries.

b) net profit for the 12-month period ended 31 December 2004 increased by PLN 5,648 thousand mainly as a result of:
   - change in projected useful life of tangible fixed assets,
   - recognition of foreign exchange differences capitalized on fixed assets and fixed assets under construction in 2004 in the income statement,
   - extension of consolidated subsidiaries.

(in PLN thousand unless stated otherwise)

Consolidated balance sheet as at 31 December 2004

ASSETS	31 December 2004 (previous GAAP)	Adjustments	31 December 2004 (IFRS UE)
I. Non-current assets	**354,323**	**104,578**	**458,901**
Property, plant and equipment	338,439	103,012	441,451
Intangibles	6,353	3,291	9,644
Investment property	170	7,629	7,799
Other investments	844	(837)	7
Deferred tax assets	8,517	(8,517)	0
II. Current assets	**276,618**	**17,247**	**293,865**
Inventories	120,130	470	120,600
Income tax receivable	330	168	498
Trade and other receivables	136,121	15,717	151,838
Assets classified as held for sale	707	1	708
Derivative and financial instruments	37	0	37
Cash and cash equivalents	19,293	891	20,184
Total assets	**630,941**	**121,825**	**752,766**

EQUITY AND LIABILITIES	31 December 2004 (previous GAAP)	Adjustments	31 December 2004 (IFRS UE)
I. Equity	**435,160**	**128,394**	**563,554**
Issued capital	26,252	53,927	80,179
Treasury shares	(71,108)	0	(71,108)
Share premium	38,500	4,953	43,453
Revaluation reserve	33,962	(33,962)	0
Other reserve capital	750	0	750
Retained earnings	406,306	102,055	508,361
Translation reserve	0	47	47
Minority interest	498	1,374	1,872
II. Non-current liabilities	**35,935**	**(4,219)**	**31,716**
Interest bearing loans and borrowings	17,336	53	17,389
Provisions	608	0	608
Employee benefits	8,619	160	8,779
Government grants	4,257	(4,173)	84
Deferred tax liabilities	5,115	(259)	4,856
III. Current liabilities	**159,846**	**(2,350)**	**157,496**
Interest bearing loans and borrowings	56,537	0	56,537
Current tax payable	4,781	0	4,781
Trade and other accounts payable	86,679	(2,067)	84,612
Provisions	7,367	54	7,421
Derivative and financial instruments	4,134	0	4,134
Government grants	348	(337)	11
Total equity and liabilities	**630,941**	**121,825**	**752,766**

(in PLN thousand unless stated otherwise)

Consolidated income statement for the year ended 31 December 2004

INCOME STATEMENT	from 01.01.2005 to 31.12.2005 (previous GAAP)	Adjustments	from 01.01.2004 to 31.12.2004 (IFRS UE)
Total operating revenues including:	**743,191**	**38,454**	**781,645**
Revenue from sales	728,724	38,459	767,183
Other operating revenue	14,467	(5)	14,462
Change in finished products and work in progress	21,517	(20,906)	611
Costs of manufacturing products for internal use	3,550	535	4,085
Total operating expenses including:	**(654,741)**	**(11,579)**	**(668,592)**
Depreciation	(38,004)	3,364	(34,640)
Materials and energy	(402,723)	(78,862)	(481,585)
External services	(113,066)	73,735	(39,331)
Taxes and charges	(6,034)	(153)	(6,187)
Employee benefits	(76,003)	(7,573)	(83,576)
Other costs by kind	(7,456)	(2,090)	(9,546)
Allowances	(5,948)	62	(5,886)
Other operatung expenses	(5,507)	(2,334)	(7,841)
Profit on sales	**113,517**	**6,504**	**117,749**
Financial revenues	4,711	(34)	4,677
Financial costs	(11,582)	525	(11,057)
Share in profits of entities accounted for using the equity method	774	(774)	0
Profit before tax	**107,420**	**6,221**	**111,369**
Income tax	(16,460)	1,347	(15,113)
Net profit	**90,960**	**4,874**	**96,256**
Profit allocated to minority interest	210	975	1,185
Profit allocated to the parent	**90,750**	**3,899**	**95,071**

(in PLN thousand unless stated otherwise)

Consolidated cash flow statement for the year ended 31 December 2004

Cash flow	from 01.01.2005 to 31.12.2005 (previous GAAP)	Adjustments	from 01.01.2004 to 31.12.2004 (IFRS UE)
Cash flows from operating activities			
Profit before tax	**106,646**	**4,723**	**111,369**
Total adjustments:	**41,868**	**(2,745)**	**39,123**
Profit of minority interest	210	(210)	0
Share in profits of entities accounted for using the equity method	(774)	774	0
Depreciation	37,745	(3,107)	34,638
Creation (reversal) of impairments	0	2,195	2,195
(Profit) / loss on net f/x differences	(593)	0	(593)
(Profit) / loss on investment activities	(534)	(316)	(850)
(Profit) / loss on disposal of fixed assets	274	1,785	2,059
Interest and shares in profits	2,887	173	3,060
Other items net	2,653	(4,039)	(1,386)
Cash flows from operating activities before change in working capital	***148,514***	***1,978***	***150,492***
Change in inventory position	(23,662)	(1,229)	(24,891)
Change in balance of receivables, net	(3,780)	(4,824)	(8,604)
Change in short-term liabilities, excluding borrowings	(36,717)	10,448	(26,269)
Change in provisions	(736)	(2,710)	(3,446)
Change in deferred income	(82)	0	(82)
Net cash generated from operating activities	***83,537***	***3,663***	***87,200***
Income tax paid	(14,208)	(269)	(14,477)
Net cash from operating activities	**69,329**	**3,394**	**72,723**
Cash flows from investing activities			
(+) Inflows:	*15,489*	*(3,940)*	*11,549*
Disposal of intangible and tangible fixed assets	2,635	(356)	2,279
Disposal of financial assets	10,868	(1,611)	9,257
Dividends received	1,986	(1,985)	1
Other inflows	0	12	12
(-) Outflows:	*(85,349)*	*(1,409)*	*(86,758)*
Acquisition of intangible and tangible fixed assets	(78,042)	(2,018)	(80,060)
Acquisition of financial assets	(1,495)	609	(886)
Other outflows	(5,812)	0	(5,812)
Net cash from investing activities	**(69,860)**	**(5,349)**	**(75,209)**
Cash flows from financing activities			
(+) Inflow:	42,753	(17,073)	25,680
Net proceeds from shares issue	826	(76)	750
Proceeds from borrowings	41,927	(16,997)	24,930
(-) Outflow:	(57,111)	18,848	(38,263)
Acquisition of treasury shares	(238)	238	
Dividends and other payments due to owners	(26,777)	(1,411)	(28,188)
Other outflow due to distribution of profit, other than payments to owners	(20)	0	(20)
Repayment of borrowings	(26,845)	20,021	(6,824)
Interest paid	(3,231)	0	(3,231)
Net cash from financing activities	**(14,358)**	**1,775**	**(12,583)**
Total net cash flow:	**(14,889)**	**(180)**	**(15,069)**
- effects of exchange rate changes on cash	441	441	882
Opening balance of cash	**34,182**	**(1,690)**	**32,492**
Closing balance of cash	**19,293**	**(1,870)**	**17,423**

(in PLN thousand unless stated otherwise)

Reconciliation of the net result for the 12 month period ended 31 December 2004.

Profit for the period in accordance with previous accounting rules	90,960
Changes:	
- change in depreciation value	4,006
- change in the value of liquidated fixed assets	(1,681)
- foreign exchange differences in liabilities related to fixed assets	(766)
- foreign exchange differences in loans related to fixed assets	1,132
- adjustment of the materials consumption due to reclassification of mandrels to printing cylinders into fixed assets	1,065
- elimination of other operating revenues related to the depreciation of the perpetual usufruct of land	(228)
- elimination of costs of the joint stock company extension	102
- change in deferred tax	1,264
- extension of consoldated subsidiaries	402
Profit for the period in accordance with IFRS UE	96,256

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Dariusz Mańko
President of the Management Board

Adam Piela
Member of the Management Board

Kęty, 10 April 2006