## SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN POLISH AP, IAS AND U.S. GAAP

The Company's unconsolidated and consolidated financial statements included in Appendix A to the Offering Circular have been prepared in accordance with Polish AP which differs in certain significant respects from IAS or U.S. GAAP. A summary of the significant differences is set forth below. This summary is not intended to constitute a complete analysis of these differences.

**Reporting in a hyperinflationary economy**

Under Polish AP financial statements are prepared on a historical cost basis without regard to either changes in the general level of prices or increases in specific prices of assets held. Fixed assets are the exception to this general historic cost approach since they have been in certain years and may in the future be revalued, on instructions from the Polish Minister of Finance, to reflect changes in price levels. The most recent revaluations occurred as at 1st January, 1994 and 1st January, 1995. An additional exception to the historic cost approach in the Company's financial statements is that disclosure by way of notes to accounts is required by Polish SEC rules which provides a restatement of prior years sales to take account of inflation. Under both IAS and U.S. GAAP special rules apply to financial reporting for an enterprise which reports in the currency of a hyperinflationary economy. In each case, a hyperinflationary economy is defined to be an economy which experienced in excess of 100% inflation over the three year period ending on the relevant balance sheet date. Using this definition, Poland was a hyperinflationary economy during all of 1994 and 1995 and for portions of 1996. Under IAS the financial statements of an enterprise that reports in the currency of a hyperinflationary economy should be stated in terms of a measurement unit current at the balance sheet date. The corresponding figures for the previous period should be restated accordingly. For foreign entities in hyperinflationary economies reporting in their local currency, U.S. GAAP allows comprehensive price level adjustments for financial statements but not for partial adjustments. Therefore, since the indexing allowed by Polish AP is not comprehensive, the effect of fixed asset revaluations (and the disclosure in notes to the accounts restating sales to take account of inflation) would be eliminated for U.S. GAAP purposes.

**Consolidated financial statements**

Both IAS and U.S. GAAP require that a parent company prepare consolidated financial statements which present the financial position and results of operations of the parent company and companies over which the parent exercises control as if they were one economic unit. Under Polish AP the requirement to produce consolidated financial statements was first required for the year ended 31st December, 1995. Companies listed on the Warsaw Stock Exchange are required to publish unconsolidated quarterly and annual financial statements and annual (but not quarterly) consolidated financial statements. U.S. GAAP does not allow the publication of unconsolidated financial statements unless accompanied by consolidated financial statements covering the same financial periods.

**Accounting for investments in subsidiary and associated companies in parent company financial statements.**

Under Polish AP, investments in subsidiary and associated companies are accounted for in unconsolidated company only financial statements at cost. Under IAS these investments can be presented using the equity method or at cost. U.S. GAAP requires that these investments should be presented using the equity method. In addition, under U.S. GAAP and IAS intercompany transactions must be eliminated in the presentation of parent company only financial statements whereas such transactions are not eliminated under Polish AP. Accordingly, under Polish AP (or IAS if the equity method is not used), the unconsolidated results and shareholders' equity can differ significantly from the consolidated results and shareholders' equity.

**Profit sharing payments**

In each of 1994, 1995 and 1996 the Company made profit sharing payments to its employees based on the Company's net profit. These payments were approved by the Company's shareholders. Consistent with Polish AP, these payments were treated as a distribution of profits by the Company's shareholder and do not appear as expenses in the Company's financial statements. Under IAS and U.S. GAAP such payments would be included as payroll expenses in the Company's profit and loss account, thereby reducing net profit in each year. The payments totalled PLN 67.1 million, PLN 90.5 million and PLN 70.7 million in 1994, 1995 and 1996, respectively.

**Retirement benefits and other employment benefits**

Under Polish AP expenses related to retirement and other employment benefits are recognised on a cash basis. IAS and U.S. GAAP require that companies recognise the cost of retirement and other employment benefits on an accrual basis.

**Investment securities**

Polish AP and IAS require debt securities to be recorded at market value with resulting unrealised profits and losses included in the income statement. Under U.S. GAAP securities categorized as "available for sale" should be recorded at market value, with the resulting unrealised gain or loss recorded directly to a separate component of equity until realised, at which time the gain or loss is recorded in income.

**Foreign exchange gains**

Polish AP requires that unrealised foreign exchange gains should be deferred until realised. Under both IAS and U.S. GAAP these gains are generally included in income.

**Revaluation of fixed assets**

As discussed above, Polish companies are required to perform a revaluation of all fixed assets if instructed to do so by the Polish Ministry of Finance. The most recent revaluations occurred as at 1st January, 1994 and 1st January, 1995. Such revaluations are designed to reflect the effects of inflation. A revaluation surplus is credited to a non-distributable revaluation reserve. Revaluations are not accepted under U.S. GAAP which requires fixed assets to be carried at the lower of cost or net realisable value. Under IAS an item of property, plant and equipment may be carried at a revalued amount that is its fair value at the date of revaluation less any subsequent accumulated depreciation. Index based revaluations such as those typically used in Poland are generally not acceptable for IAS.

**Changes in accounting policies**

Under Polish AP, a change in accounting policies is applied retrospectively. The retrospective application results in the new accounting policy being applied to events and transactions as if the new accounting policy had always been in use. Any resulting adjustments are included in net income of the period in which the change occurs. The benchmark treatment recommended by IAS is that the change should be applied retrospectively and there should be a restatement of prior periods unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Under the IAS benchmark treatment any resulting adjustment should be reported as an adjustment to the opening balance of retained earnings. Under the allowed alternative treatment any resulting adjustment should be included in the determination of net profit or loss for the current period. Under U.S. GAAP the change should generally be applied retrospectively. However there are specific circumstances in which the change can be accounted for prospectively. The cumulative effect of a change should be included in the net income of the period of the change, except for certain limited changes where the restatement of prior period financial statements are required. The Company's financial statements appearing in Appendix A to this Offering Circular include both the Company's historical financial statements and financial statements which have been restated by the Company to apply a consistent set of accounting principles over the relevant periods. See "Financial and Other Information" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations".

**Capitalisation of borrowing costs**

Under Polish AP, capitalisation of borrowing costs (including related foreign exchange losses) is permitted if such costs relate to specific loans taken to finance the construction of fixed assets. Under the IAS benchmark treatment borrowing costs should be recognised as an expense in the period in which they are incurred regardless of how the borrowings are applied. The IAS alternative treatment allows borrowing costs (including related foreign exchange losses) to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. The borrowing costs to be capitalised are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. Under U.S. GAAP interest may be capitalised on borrowings attributable to any assets that require a period of time in order to be prepared for their intended use. The assets on which interest can be capitalised include assets constructed for internal use or intended for sale or lease. The amount of interest expense to be capitalised for qualifying assets is similar to IAS; however, for U.S. GAAP purposes foreign exchange losses are not included in the definition of borrowing costs. Historically, given the Company's relatively low debt levels, such differences in accounting principles would not have materially affected the Company's results. However, if the Company's debt levels increase (particularly if such indebtedness is denominated in a foreign currency), such differences could become significant.

**Scope of disclosure**

The components included within line items in financial statements may differ significantly between Polish AP, IAS and U.S. GAAP. In addition, the scope of disclosure in notes which is required under Polish AP is significantly less than that required under IAS and U.S. GAAP.