

REPORT FOR THE THIRD QUARTER OF 2016

Contents:

- Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016
- Financial information on the company PROCHEM S.A.

and

- Selected financial data
- Statement of the Management Board

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PROCHEM S.A.
Łopuszańska 95 Street
02-457 Warsaw

Selected financial data

Revenues from sales and profit expressed in PLN and statement of cash flows are translated into EURO at the exchange rate set as the arithmetic mean of average exchange rates announced by the Chairman of the National Bank of Poland on the last day of each month and amount to:

- For three quarters of 2016 - 4.3688 PLN/EUR
- For three quarters of 2015 - 4.1585 PLN/EUR

The data disclosed in the balance sheet are translated at the average exchange rate announced by the Chairman of the National Bank of Poland as at the date of financial statements, which as at balance-sheet date amounted to:

- 4.3120 PLN/EUR as at 30 September 2016
- 4.2615 PLN/EUR as at 31 December 2015

Selected financial data of PROCHEM S.A. Capital Group

Description	Reporting period ended 30 September		Reporting period ended 30 September	
	2016	2015	2016	2015
	In PLN thousands		In EUR thousands	
Consolidated profit and loss account				
Revenues from sales	127 900	173 337	29 276	41 683
Gross profit on sales	-10 993	17 263	-2 516	4 151
Results from operating activities	-22 250	5 157	-5 093	1 240
Before tax profit	-24 167	4 666	-5 532	1 122
Profit for the period assigned to:	-21 102	2 943	-4 830	708
Shareholders of Parent Entity	-21 172	3 210	-4 846	772
Non-controlling interest	70	-267	16	-64
Profit/(Loss)/diluted profit (loss) per one share (in PLN/EURO) – assigned to shareholders of parent company	-5.44	0.82	-1.24	0.20
Consolidated statement of cash flows				
Net cash provided by (used in) operating activities	-11 376	-3 635	-2 604	-874
Net cash provided by (used in) investing activities	3 727	16 622	853	3 997
Net cash provided by (used in) financing activities	-11 222	-4 085	-2 569	-982
Total cash flows, net	-18 871	8 902	-4 320	2 141
Consolidated statement of financial position				
Description	As at		As at	
	30 September 2016	31 December 2015	30 September 2016	31 December 2015
	In PLN thousands		In EURO thousands	
Total assets	164 494	214 436	38 148	50 319
Total non-current assets	84 214	81 783	19 530	19 191
Total current assets	80 280	132 653	18 618	31 128
Equity attributable to owners of parent company	90 569	116 357	21 004	27 304
Non-controlling interest	6 451	8 738	1 496	2 050
Total equity	97 020	125 095	22 500	29 355
Total non-current liabilities	4 485	5 153	1 040	1 209
Total current liabilities	67 474	84 188	15 648	19 755
Book value per one ordinary share (in PLN/EURO)-assigned to shareholders of parent entity	23.25	29.87	5.39	7.01
Weighted average number of shares (units)	3 895 000	3 895 000	3 895 000	3 895 000

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Selected financial data of PROCHEM S.A.

Description	Reporting period ended 30 September		Reporting period ended 30 September	
	2016	2015	2016	2015
	In PLN thousands		In EURO thousands	
<i>Unconsolidated profit and loss account</i>				
Revenues from sales	91 824	141 872	21 018	34 116
Gross (loss)/profit on sales	-16 645	12 918	-3 810	3 106
Results from operating activities	-23 250	5 710	-5 322	1 373
Before tax profit	-24 458	6 704	-5 598	1 612
Profit for the period	-21 225	5 277	-4 858	1 269
Net(loss)/profit/diluted profit per one share (in PLN/EURO)	-5.45	1.35	-1.25	0.33
<i>Statement of cash flows</i>				
Net cash provided by (used in) operating activities	-11 375	925	-2 604	222
Net cash provided by (used in) investing activities	-629	8 196	-144	1 971
Net cash provided by (used in) financing activities	-3 512	-2 626	-804	-631
Total cash flows, net	-15 516	6 495	-3 552	1 562
	As at		As at	
	30 September 2016	31 December 2015	30 September 2016	31 December 2015
	In PLN thousands		In EURO thousands	
<i>Unconsolidated statement of financial position</i>				
Total assets	112 376	157 200	26 061	36 888
Total non-current assets	58 786	55 088	13 633	12 927
Total current assets	53 590	102 112	12 428	23 962
Total equity	55 861	83 275	12 955	19 541
Total non-current liabilities	7 677	729	1 780	171
Total current liabilities	48 838	73 196	11 326	17 716
Book value per one ordinary share (in PLN/EURO)	14.34	21.38	3.33	5.02
Weighted average number of shares (units)	3 895 000	3 895 000	3 895 000	3 895 000

Statement of the Management Board

Statement of the Management Board on the reliability of interim condensed consolidated financial statements

In compliance with the requirements of the Regulation of the Minister of Finance dated 19 February 2009 concerning current and interim information submitted by issuers of securities and the conditions for recognition as equivalent information required by the law of a non—Member State (Journal of Laws No 33, item 259, as amended), the Management Board of PROCHEM S.A. declares hereby that according to their best knowledge:

- interim condensed consolidated financial statements of PROCHEM S.A Capital Group and separate financial statements for nine months of 2016 and comparable data were prepared according to International Accounting Standard 34 „Interim Financial Reporting”, which was adopted by European Union and reflects in true, fair and clear way its financial position and its financial performance.

Vice President
Krzysztof Marczak

Vice President
Marek Kiersznicki

President of the Management Board
Jarosław Stępniewski

Warsaw, 14 November 2016

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF PROCHEM S.A. CAPITAL GROUP

**As at and for the period of nine months ended
30 September 2016**

Contents

	Page No.
1. Consolidated statement of financial position	
2. Consolidated profit and loss account	
3. Consolidated statement of comprehensive income	
4. Consolidated statement of changes in equity	
5. Consolidated statement of cash flows	
6. Explanatory Notes to interim condensed consolidated financial statements as at and for the period of nine months ended 30 September 2016 r.	
7. Financial information of PROCHEM S.A.	
Unconsolidated statement of financial position	
Unconsolidated profit and loss account	
Unconsolidated statement of comprehensive income	
Unconsolidated statement of changes in equity	
Unconsolidated statement of cash flows	
8. Approval of financial statements	

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PROCHEM S.A.
Łopuszańska 95 Street
02-457 Warsaw

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Consolidated statement of financial position

(all amounts in PLN thousands if not stated otherwise)

	Note No.	As at 30 September 2016	As at 31 December 2015 (under examination)
A s s e t s			
Non-current assets			
Property, plant and equipment	1	23 418	23 814
Intangible assets		414	508
Investment properties	2	11 960	11 960
Shares		830	830
Shares valued using the equity method	3	23 360	24 000
Deferred tax assets	4	5 994	2 716
Other financial assets	5	18 238	17 955
Total non-current assets		84 214	81 783
Current assets			
Inventories	6	5 197	7 071
Trade and other receivables	7	58 089	83 991
Other financial assets	8	198	2 799
Other assets	9	12 072	15 197
Cash and cash equivalents		4 724	23 595
Total current assets		80 280	132 653
Total assets		164 494	214 436
E q u i t y a n d l i a b i l i t i e s			
Equity			
Share capital	10	3 895	3 895
Revaluation reserve		12 153	11 584
Retained earnings		74 521	100 878
Equity assigned to shareholders of parent entity		90 569	116 357
Non-controlling interest		6 451	8 738
Total equity		97 020	125 095
Non-current liabilities			
Non-current loans	11	134	-
Provision for deferred income tax	4	2 236	2 883
Provision for retirement and similar benefits		1 826	1 854
Other non-current liabilities		289	416
Total non-current liabilities		4 485	5 153
Current liabilities			
Bank loans	11	7 448	11 772
Trade payables	12	45 929	51 451
Liabilities under current income tax		20	1 447
Other liabilities	14	5 479	8 142
Deferred income	13	4 113	11 376
Total current liabilities		62 989	84 188
Total liabilities		67 474	89 341
Total equity and liabilities		164 494	214 436
Weighted average number of ordinary shares (units)		3 895 000	3 895 000
Book value per one share (in PLN)-assigned to shareholders of Parent Entity		23.25	29.87

Explanatory notes to interim condensed consolidated financial statements are an integral part thereof.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Consolidated profit and loss account

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 September 2016	Period ended 30 September 2015
Revenues from sale, including:		127 900	173 337
Revenues from sale of services	15	122 760	169 897
Revenues from sale of goods and materials		5 140	3 440
Cost of sales, including:		-138 893	-156 074
Cost of services sold	16	-134 473	-153 219
Cost of merchandise and materials sold		-4 420	-2 855
Gross profit/(loss) on sales		-10 993	17 263
General and administrative expenses	16	-12 025	-10 929
Other operating income	17	989	402
Other operating expenses	18	-221	-1 579
Results from operating activities		-22 250	5 157
Financial income	19	546	788
Gain on disposal of shares in subsidiaries		-	190
Finance costs	20	-1 823	-1 186
Profit sharing in entities valued using the equity method		-640	-283
Before tax profit		-24 167	4 666
Income tax		-3 065	1 723
- current tax		861	1 994
- deferred tax		-3 926	-271
Profit for the period		-21 102	2 943

Profit for the period assigned to :

Shareholders of Parent Entity	-21 172	3 210
Non-controlling interest	70	-267
Profit/diluted profit per one ordinary share (in PLN per one share) assigned to owners of Parent Entity	-5.44	0.82

Consolidated statement of comprehensive income

Profit for the period	-21 102	2 943
Other comprehensive income (net):	4	-245
<i>Other comprehensive income that will be reclassified to profit or loss:</i>	4	-245
Foreign exchange differences from the translation of the entity operating abroad	4	-245
Total comprehensive income	-21 098	2 698

Total comprehensive income assigned to:

Shareholders of Parent Entity	-21 168	2 965
Non-controlling interest	70	-267
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Total comprehensive income per one ordinary share (in PLN per one share) assigned to owners of Parent Entity	-5.43	0.76

Explanatory notes to interim condensed consolidated financial statements are an integral part thereof.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Consolidated statement of changes in equity

(all amounts in PLN thousands if not stated otherwise)

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent entity	Equity assigned to non-controlling interest	Total equity
Reporting period from 1 January 2016 to 30 September 2016						
As at the beginning of the period (under examination)	3 895	11 584	100 878	116 357	8 738	125 095
Net profit/(loss) of the given period	-	-	-21 172	-21 172	70	-21 102
<i>Net other comprehensive income</i>	-	4	-	4	-	4
Total comprehensive income	-	4	-21 172	-21 168	70	-21 098
Payment of dividend	-	-	-6 193	-6 193	-143	-6 336
Repurchase of own shares for redemption (Elektromontaż, Predom) - change in the structure of shareholding	-	263	525	788	-1 051	-263
Acquisition of shares in Elektromontaż Kraków SA from a non-controlling shareholder	-	305	475	780	-1 150	-370
Other changes	-	-3	8	5	-13	-8
As at the end of the period	3 895	12 153	74 521	90 569	6 451	97 020

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent entity	Equity assigned to non-controlling interest	Total equity
Reporting period from 1 January 2015 to 30 September 2015						
As at the beginning of the period (under examination)	3 895	11 973	97 568	113 436	9 243	122 679
Net profit/(loss) of the given period	-	-	3 210	3 210	-267	2 943
<i>Net other comprehensive income</i>	-	-245	-	-245	-	-245
Total comprehensive income	-	-245	3 210	2 965	-267	2 698
<i>Transactions with shareholders</i>						
Payment of dividend	-	-	-1 363	-1 363	-11	-1 374
Repurchase of own shares for redemption (Elektromontaż) - change in the structure of shareholding	-	11	116	127	-143	-16
Other changes (among others sale of subsidiary Prochem Serwis)	-	2	198	200	-112	88
As at the end of the period (upon audit)	3 895	11 741	99 729	115 365	8 710	124 075

Explanatory notes to interim condensed consolidated financial statements are an integral part thereof.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Consolidated statement of cash flows

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 September 2016	Period ended 30 September 2015
Cash flows – operating activities			
Gross profit/(loss)		-24 167	4 666
Total adjustments		14 893	-6 308
Share in profit of entities valued using the equity method		640	283
Amortization and depreciation		1 744	1 784
Interest and profit sharing (dividends)		95	189
Gain on disposal of property, plant and equipment		17	-8
Loss on investment		-	20
Change in provision		-34	-661
Change in inventories	6	1 874	-4 484
Change in receivables and other assets	7	23 590	-13 433
Change in current liabilities, except for borrowings and loans	12	-8 127	12 268
Other adjustments (including change in deferred income)		-4 906	-2 266
Cash provided by (used in) operating activities		-9 274	-1 642
Income tax paid		-2 102	-1 993
Net cash provided by (used in) operating activities		-11 376	-3 635
Cash flows – investing activities			
Inflows		5 370	17 709
Disposal of intangible assets and property, plant and equipment		5 293	6
Disposal of real estate		-	16 978
Inflows from financial assets, including:		77	725
a) in subsidiaries – disposal of financial assets		-	709
- disposal of financial assets		-	566
- repayment of loan with interest		-	143
b) in other entities		77	16
- repayment of loans with interest		77	-
- other inflows		-	16
Outflows		-1 643	-1 087
Acquisition of intangible assets and property, plant and equipment		-1 227	-787
For financial assets, including:		-373	-300
a) in subsidiaries acquisition of financial assets		-373	-
b) in other entities:		-43	-300
- loans granted		-	-300
- other outflows		-43	-
Net cash provided by (used in) financing activities		3 727	16 622
Cash flows – financing activities			
Inflows		118	3 021
Bank loans		118	3 003
Other financial inflows		-	18
Outflows		-11 340	-7 106
Other than payments to shareholders, expenses under profit distribution		-427	-27
Payment of dividend		-6 187	-1 361
Repayment of bank loans		-4 302	-5 009
Repayment of borrowings		-	60

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Payment of liabilities under finance lease	-31	-175
Interest	-393	-474
Net cash provided by (used in) financing activities	-11 222	-4 085
Total cash flows, net	-18 871	8 902
Cash and cash equivalents as at the beginning of the period	23 595	6 606
Cash and cash equivalents as at the end of the period	4 724	15 508

Explanatory notes to interim condensed consolidated financial statements are an integral part thereof.

Explanatory Notes to interim condensed consolidated financial statements

1. Establishment of the Parent Entity and principal activity

Company PROCHEM S.A. (hereinafter called „Prochem”, „Company”, „Issuer” or „Parent Company”) seated in Warsaw, 95 Łopuszańska Street. The company is registered in the National Court Register (KRS) by the District Court for the Capital City Warsaw, XII Commercial Department of the National Court Register under KRS number 0000019753. Principal activity according to Polish Business Classification (PKD 2007) determines symbol 7112Z – engineering activities and related technical consulting. According to Warsaw Stock Exchange classification PROCHEM belongs to construction sector. PROCHEM S.A. is a Parent Company of the Capital Group and prepares consolidated financial statements. PROCHEM S.A. was established through transformation of a state-owned enterprise under the name of Przedsiębiorstwo Projektowania I Realizacji Inwestycji Przemysłu Chemicznego „Prochem”. The notarial deed and Company’s Articles of Association were signed on 1 October 1991. Duration of the Company is unlimited.

In 2013 the Company commenced implementation of investment project „Turnkey construction of system for the production of highly purified paraffin, oils, lubricant and cooling greases and pattern material with the expansion of power complex in Belarus.” Therefore, for the period of implementation of the project the Representation Office was established. Term of the activity of the Representation Office was prolonged until 29 July 2019.

1. The Management Board and Supervisory authorities of the Parent Entity

As at the date of preparation of financial statements the Management Board of PROCHEM S.A. comprises of the following persons:

- Jarosław Stępniewski - President of the Management Board
- Marek Kiersznicki - Vice President of the Management Board
- Krzysztof Marczak - Vice President of the Management Board

In the first half of 2016 there were no changes in composition of the Management Board.

As at the date of the consolidated financial statements the Supervisory Board comprises of:

- Andrzej Karczykowski
- Krzysztof Obłój
- Michał Suflida
- Karol Żbikowski
- Marcin Pędziński

Changes in the Supervisory Board during the nine months of 2016.

In connection with the resolutions of the General Meeting of June 11, 2016, there were the following changes in the composition of the Supervisory Board:

- 1) have been dismissed from the Supervisory Board:
 - Steven Tappan, who had 510,000 units of shares,
 - Wiesław Kiepiel.
- 2) have been appointed to the Supervisory Board:
 - Michał Suflida, who with person related has 48,500 units of shares
 - Karol Żbikowski.

On the basis of resolutions of the Extraordinary General Meeting of October 28, 2016 years from the Supervisory Board was dismissed Mr. Marek Garliński and was appointed to Mr. Marcin Pędziński.

2. Employment

Average employment in PROCHEM Capital Group for three quarters of 2016 was 461 FTEs, and in the three quarters of 2015 466 FTEs.

Level of employment in persons in PROCHEM Capital Group as at 30 September 2016 was 469, and as at 30 September 2015 480. On 31 December 2015 the employment in the Capital Group was 481.

4. Description of the organization of the Capital Group, with an indication of consolidated entities

PROCHEM S.A. Capital Group (hereinafter referred to as „the Capital Group”, „the Group”), in addition to the Parent Company comprises the following subsidiaries directly and indirectly:

Subsidiaries covered by full consolidation:

- Prochem Inwestycje Sp. z o.o. seated in Warsaw – subsidiary directly (100.0%);
- PRO-INHUT Sp. z o.o. seated in Dąbrowa Górnicza – subsidiary indirectly (93.2%);
- Pro-Organika Sp. z o.o. seated in Warsaw – subsidiary directly (91.4%);
- PREDOM Sp. z o.o. seated in Wrocław – subsidiary indirectly (80.7% of share in capital and profit, 71.1% of votes);
- Prochem Zachód Sp. z o.o. seated in Warsaw – subsidiary directly (80.0%);
- ELPRO Sp. z o.o. seated in Kraków – subsidiary indirectly (92.7%, including 85.4% in the 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o.o. seated in Kraków – subsidiary indirectly (92.7%, including 85.4% in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. seated in Kraków – subsidiary indirectly (85.4%), including 73.0% of the capital and votes belongs to Prochem Inwestycje subsidiary in 100%. Elektromontaż Kraków S.A. prepares consolidated financial statements, which contains data of the subsidiary in 100%: ELMONT-POMIARY Sp. z o.o. seated in Kraków and two associated companies ELPRO Sp. z o.o. and Elmont-Inwestycje Sp. z o.o.;
- IRYD Sp. z o.o. seated in Warsaw – subsidiary indirectly in 100%;
- ATUTOR Integracja Cyfrowa Sp. z o.o. seated in Warsaw – subsidiary indirectly (87.3% of share belongs to Prochem Inwestycje Sp. z o.o. subsidiary in 100%);
- Prochem RPI Sp. z o.o. seated in Warsaw – subsidiary in 100% (including 3.3% of the share in capital and voting rights held by the company Prochem Inwestycje).

Jointly controlled entities and associates valued using the equity method:

- ITEL Sp. z o. o. seated in Gdynia – 42.0% of share (18.7% of votes and capital belongs directly to Prochem S.A., and 23.3% held RPI Sp. z o. o. subsidiary in 100%);
- Irydion Sp. z o. o. seated in Warsaw – 50% of share.;

Consolidated subsidiaries were included in the consolidated financial statements from the date of acquiring control until the date of loss of control by the parent company, and the jointly-controlled entities and the associates from the date of exercising of joint control and of exertion of significant influence.

Predom Projektowanie Sp. z o. o. was excluded from consolidation. The company has not commenced activities. Shares were included in the impairment losses.

In three quarters of 2016, subsidiary Elektromontaż Kraków repurchased 11 434 of own shares for redemption for a total amount of PLN 263 thousand, and subsidiary Prochem Inwestycje purchased 10 000 of shares in Elektromontaż Kraków S.A. for a total amount of PLN 370 thousand. As the result of these transactions the Parent Company has increased its share in the capital up to 85.4.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

In three quarters of 2016 subsidiary P.K.I. Predom repurchased 70 of own shares for redemption for a total amount of PLN 22 thousand. As the result of these transactions the share of the Parent Company in the capital on 30 September 2016 is 80.7%.

5. Adopted accounting principles

Principles of presentation

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group for nine months of 2016 was prepared according to IAS 34 "Interim Reporting", in the way it was adopted by European Union and Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent required by the law of a non-Member State (Official Journal no. 33, item 259 with further amendments). The interim condensed consolidated financial statements do not contain the information and disclosures required for complete financial statements and should be read together with the financial statements for the financial year ended 31 December 2015.

Presented interim condensed consolidated financial statements of PROCHEM S.A. Capital Group was prepared assuming that the Capital Group will continue to operate as a going concern in foreseeable future.

In connection with net loss recorded during the first half of 2016 was made a detailed analysis of the financial resources, credit limits and the possibility of introducing the program of adjusting operating costs to planned revenues. At the date of preparation of these financial statements, the Management of the Capital Group estimates that, despite the possibility of short-term tensions in the liquidity situation of the Issuer, however, no exists significant threat to going concern at least in the coming year. The Management Board does not expect termination of loan agreements and expects the continuation of financing on the same or similar level for at least the subsequent 12 months. Irrespective of it, in the next nine months is being expected consideration by the court of appeal lodged by PERN SA from the judgment of 22 October 2015, in which was adjudged PLN 87 million in favor of a consortium with the participation of the Issuer (including interest for delayed payment). The Issuer's share in this amount is approximately 50% - detailed information is presented in Note 28.

The duration of the activities of individual units within the Group is not limited.

Financial statements of subsidiaries were prepared for the same reporting period as financial statements of parent entity, using consistent accounting policies.

The financial year of the parent company and companies belonging to the Group is the calendar year.

Seasonality

Operational activity of the Parent Entity and companies from the Group does not have seasonal character and is not subject to cyclic trends, except for the segment of the general contracting and rental of construction equipment, which are characterized by a seasonality, that in large extent depending on weather conditions. Weather conditions have an impact on the volume of the revenues generated in these segments. Lower revenues are achieved during the winter season, when weather conditions do not allow for execution of some construction work.

Principles of preparation of consolidated financial statements

The consolidated financial statements were prepared based on the principle of the historical cost, apart from:

- land buildings and construction measured at revalued amount,
- Investment properties (land), investment property under construction measured at fair value.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Significant accounting policies and changes in IFRS

In preparing the interim condensed consolidated financial statements were applied the same accounting principles and the same calculation methods which were applied in the financial statements of PROCHEM S.A. Capital Group for the year ended 31 December 2015.

The following standards, amendments to standards and interpretations were not adopted by the EU, or they are not effective as at 1 January 2016.

Standard	Amendments	Effective from .. (in the EU)
IFRS 9 Financial instruments (with updates)	Changes in the scope of classification and valuation - the existing categories of financial instruments replaced by two categories: measured at amortized cost and at fair value. Changing in the hedging accounting.	1 January 2018
IFRS 14 Regulatory Deferral Accounts	The recognition, measurement and disclosures for Regulatory Deferral Accounts	1 January 2016 (<i>The European Commission has taken a decision not approving of the transitional standard in anticipation of an adequate standard</i>)
IFRS 15 Revenue from Contracts with Customers	Standard applies to all contracts with customers except those that fall within the scope of other IFRSs (i.e. leases, insurance contracts and Financial instruments). IFRS 15 clarifies and unifies the principles for recognizing revenue from contracts with customers.	1 January 2018
IFRS 16 Leases	Provides guidance on the lease, it eliminates the existing distinction between operating lease and financial lease. All the contracts meeting the definition of lease shall be recognized, as a rule, in the same way as current financial leasing	1 January 2019
Amendments to IAS 12	Disclosure of deferred tax assets from unrealized losses.	1 January 2017
Amendments to IAS 7	The initiative concerning amendments in the scope of disclosures.	1 January 2017
Amendments to IFRS 10, IFRS 12 and IAS 28	Clarification of the provisions concerning the recognition of investment entities in consolidation.	1 January 2016*
Amendments to IFRS 10 and IAS 28	Guidelines regarding the sale or contribution of assets by the investor to associated company or joint venture.	the date has not been determined
Amendments to IFRS 15	Clarifications concerning some requirements	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018

* Until the date of approval of these financial statements not endorsed by EU.

The Group will apply amendments to IFRS published but not effective as at the day of approval for the publication of the interim condensed separate financial statements in accordance with their effective date. The possible impact of these changes on future separate financial statements of the Group is subject to analysis conducted.

Changes in estimates

In accounting principles that are applied the greatest significance, besides accounting estimates, has the professional judgment of the management, which has an impact on the amounts reported in the financial statements, including those in explanatory notes. Assumptions of such estimates are based on management's best knowledge in relation to current and future events and actions in different areas of activity. They relate to

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

the valuation of pension benefits, assessing the stage of execution, and the profitability of long-term contracts (gross margin).

In the first half of 2016 the Issuer has made significant adjustment of the gross margin in the long-term contract, which is implemented in Belarus. Gross margin as at 31 December 2015 amounted to 16.5%, and as at 30 June 2016 was corrected to 7,2% in connection with the occurrence of unexpected problems technical and formal in the final stage of construction, on the stage of start-up of the installation for the production of highly purified paraffin, oils and lubricants along with the extension of energy complex, implemented under an agreement with Mineral Wax Factory seated in Belarus, in Swislocz, and connected with it necessity to shift the time of completion of the execution. As a result of these events, there was an increase in the estimated costs of implementation by approximately PLN 17.3 million, and further increase by an additional PLN 2 million due to possible penalties for delay in execution of the contract.

Lowering the estimated margin in the contract and creation of provision for penalties for delay had a significant impact on the financial result of the first half of 2016.

The values of the estimates determined in the third quarter of 2016 did not require significant adjustments in relation to the values set on 30 June 2016.

Functional currency and presentation currency of financial statements

Consolidated financial statements of the Group is presented in Polish Zloty ('zloty' or 'PLN'), which is the reporting currency of the Group and the functional currency of the Parent Entity.

The financial result and financial position of the Representation Office are translated using the following procedures:

- assets and liabilities shall be translated at the closing rate as at the date of statement of financial position,
- revenues and expenses are translated at the average exchange rate, and
- arisen exchange differences are recognized in other comprehensive income.

Other explanatory notes

Note No. 1 – Property, plant and equipment

	As at 30 September 2016	As at 31 December 2015
Property, plant and equipment, including:	23 399	23 779
- land	4 651	4 732
- buildings, premises and civil engineering objects	15 847	16 486
- machinery and equipment	759	906
- vehicles	882	807
- other fixed assets	1 260	848
- construction under progress	19	35
Total property, plant and equipment	23 418	23 814

PPE – ownership structure	As at 30 September 2016	As at 31 December 2015
a) own	11 090	11 030
b) used under rental, lease or other agreement, including:	12 328	12 784
- lease	471	442
- outlays on foreign PPE	11 305	11 790
- value of right of perpetual usufruct	552	552
Balance sheet items of property, plant and equipment, total value	23 418	23 814

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

The Group, pursuant to an agreement dated 23 July 2004 leases property consisting of 3 buildings with a total area of 6 227.5 m², on a plot of 3 311 m² located in Warsaw at Emilia Plater Street No. 18 and Hoża No. 76/78. The duration of the contract, from the date of its conclusion, is 30 years.

Land, buildings and constructions are carried at revalued amount, being its fair value at the date of the revaluation, set by experts, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Pursuant to the Accounting Policy adopted by the Company, fair value is determined with sufficient frequency in order that the carrying amount did not significantly differ from fair value, but not seldom than once every two years.

Carrying amount as at 30 June 2016 does not significantly differ from fair value. Measurement at fair value as at 31 December 2014 was done by independent experts not related to the Group. The experts have the right qualifications to carry out valuations of land, buildings and structures, as well as current experience in such valuations carried out in locations where there are assets of the Company. Valuation was carried out through reference to the market transaction prices concerning similar assets.

Changes in PPE

	Change in PPE in the period from 1 January 2016 to 30 September 2016	Change in PPE in the period from 1 January 2015 to 31 December 2015
Gross value - as at opening balance sheet	43 655	44 012
increase (due to)		
- acquisition	1 281	1 283
- PPE under construction	1 281	1 264
decrease (due to)		
- disposal of PPE	-	19
- liquidation of PPE	-880	-1 640
- other changes, including non-current assets of subsidiary sold	-371	-221
	-501	-26
	-8	-1 393
Gross value at closing balance sheet	44 056	43 655
Depreciation and impairment		
Accumulated depreciation – as at opening balance sheet	19 841	18 774
- increase (depreciation for the period)	1 605	2 295
- decrease due to sale	-301	-223
- decrease due to liquidation	-509	-22
- other changes, including depreciation of non-current assets of subsidiary sold	2	-983
Accumulated depreciation as at closing balance sheet	20 638	19 841
PPE net – as at closing balance sheet	23 418	23 814

Note No. 2 – Investment properties

	As at 30 September 2016	As at 31 December 2015
Construction in-progress	1 122	1 122
Buildings and constructions	6 148	6 148
Land	4 690	4 690
Total investment properties	11 960	11 960

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

<i>Investment properties by type</i>	Change in investment properties in the period from 1 January 2016 to 30 September 2016	Change in investment properties in the period from 1 January 2015 to 31 December 2015
Investment properties - land		
As at opening balance sheet	4 690	17 241
- decrease due to sale of real estate	-	-12 551
As at closing balance sheet	4 690	4 690
Investment properties in-progress		
As at opening balance sheet	1 122	9 125
- change due to:		
a) decrease due to sale of real estate	-	-8 003
As at closing balance sheet	1 122	1 122
Investment properties - buildings and constructions		
As at opening balance sheet	6 148	6 594
- change due to:		
a) increase due to acquisition	-	298
b) sale	-	-744
As at closing balance sheet	6 148	6 148
Total investment properties by type – net as at balance-sheet date	11 960	11 960

Pursuant to the Accounting Policy adopted by the Company, fair value is determined with sufficient frequency in order that the carrying amount did not significantly differ from fair value, but not seldom than once every two years.

Carrying amount of real estate as at 30 September 2016 does not significantly differ from fair value. Measurement at fair value as at 31 December 2014 was done by independent experts not related to the Group. The experts have proper qualifications to carry out valuations of land, buildings and structures, as well as current experience in such valuations carried out in locations where there are assets of the Company. Valuation was carried out through reference to the market transaction prices concerning similar assets.

Details concerning investment property and information on the hierarchy of fair values as at 30 September 2016

	Level 1	Level 2	Level 3	Fair value as at 30 June 2016.
	In PLN thousands	In PLN thousands	In PLN thousands	In PLN thousands
Investment properties	-	-	11 960	11 960

There were no displacements between the levels 1, 2 and 3 during the first half of the year.

Note No. 3 - Shares valued using the equity method

	As at 30 September 2016	As at 31 December 2015
- Shares – net value	23 360	24 000
- Write-down of shares	590	400
Gross value of shares	23 950	24 400

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Change in shares valued using the equity method	As at 30 September 2016	As at 31 December 2015
a) as at the beginning of the period	24 000	25 136
- shares at cost	24 000	25 136
b) changes (due to)	- 640	-1 136
- share in the result of the current year	-640	-1 136
As at the end of the period, net value	23 360	24 000
c) write-down	590	400
As at the end of the period, gross value	23 950	24 400

Note No. 4 – Deferred income tax

Changes in the values of reserves, and deferred income tax assets for three quarters of 2016 years is shown in the table below.

	As at 30 September 2016	As at 31 December 2015
deferred income tax assets		
As at the beginning of the period	5 662	6 051
Increase	5 219	3 697
Decrease	-2 347	-4 086
As at the end of the period	8 534	5 662
provision for deferred income tax		
As at the beginning of the period	5 829	6 709
Increase	1 092	2 752
Decrease	-2 145	-3 632
As at the end of the period	4 776	5 829
	As at 30 September 2016	As at 31 December 2015
Deferred income tax assets	8 534	5 662
Provision for deferred income tax	-4 776	-5 829
Surplus of deferred income tax asset	3 758	-167

<i>Presentation in the statement of financial position</i>	As at 30 September 2016	As at 31 December 2015
Deferred income tax assets	5 994	2 716
Provision for deferred income tax	-2 236	- 2 883
Surplus of deferred income tax asset	3 758	-167

Note No. 5 – Other financial assets

	As at 30 September 2016	As at 31 December 2015
a) from jointly-controlled entities	18 238	17 955
- borrowings	18 238	17 995
Total other financial assets	18 238	17 995

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

• **Loans granted – as at 30 September 2016**

- Loans granted to the jointly-controlled company Irydion sp. z o. o. seated in Warsaw:
 - in the amount of PLN 11 867 thousand, including: amount of the loan PLN 11 000 thousand, interest accrued as at the balance-sheet day PLN 867 thousand. Interest rate is set annually according to WIBOR 6M, repayment date 22 September 2031;
 - in the amount of PLN 6 371 thousand, including: amount of the loan PLN 6 000 thousand, interest accrued as at the balance-sheet day PLN 371 thousand. The interest is set at fixed rate of 3 % annually, repayment date 22 September 2031

Increase:

- The interest accrued on the loans granted in the amount of PLN 283 thousand.

Loans granted - as at 31 December 2015

- Loans granted to company IRYDION Sp. z o. o. seated in Warsaw:
 - in the amount of PLN 11 720 thousand, including amount of the loan PLN 11 000 thousand, accrued interest PLN 719 thousand. Interest rate is set annually according to WIBOR 6M, repayment date 22 September 2031.
 - In the amount of PLN 6 235 thousand, including: amount of the loans PLN 6 000 thousand, interest accrued as at the balance-sheet day PLN 235 thousand. The interest is set at fixed rate of 3 % annually, repayment date 22 September 2031.

Note No. 6 – Inventories

	As at 30 September 2016	As at 31 December 2015
Materials	4 122	6 220
Semi-finished products and work in-progress	454	128
Goods	621	723
Total inventories	5 197	7 071
Write-down of inventories	285	285

Note No. 7 – Trade and other receivables

	As at 30 September 2016	As at 31 December 2015
Trade receivables, including:	58 931	85 643
Write-down of trade receivables	-7 421	-7 404
Net trade receivables, including:	51 510	78 239
- with repayment period up to 12 months	48 472	74 208
- with repayment period over 12 months	3 038	4 031
Receivables from taxes, subsidies, customs duties, social and health insurance and other benefits	5 586	4 851
Other receivables	1 395	1 303
Write-down of other receivables	-402	-402
Net other receivables	993	901
Total receivables, net	58 089	83 991
Trade and other receivables from related entities	As at 30 September 2016	As at 31 December 2015
Trade receivables, including:	2 689	7 432
- from jointly-controlled entities	2 689	7 432
Total current trade receivables and other from related entities, net	2 689	7 432
Write-down of receivables from related entities	-	-

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Total current trade receivables and other receivables from related entities, gross value	2 689	7 432
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Change in write-down of trade and other receivables	As at 30 September 2016	As at 31 December 2015
As at the beginning of the period	7 806	6 949
a) increase (due to)	119	1 104
- write-down for receivables	119	1 104
b) decrease (due to)	102	247
- payment received	101	198
- the use of write-downs which were created in the previous periods	-	6
- other exclusion of the company from consolidation (sale of shares in subsidiary)	-	37
- resolving of write-down	1	6
Write-downs of trade and other receivables	7 823	7 806

In the majority of contracts signed by the Group, time of payment for services was determined in the range from 14 to 60 days.

As at 30 September 2016 the outstanding balance of trade receivables includes receivables overdue with a carrying amount PLN 17 364 thousand from security deposit under the statutory warranty, to which the Group did not create write-downs. The Group considers that they will be recovered, what was described in Note No 27 – *Information on significant proceedings pending before the court.*

Note No. 8 – Other financial assets	As at 30 September 2016	As at 31 December 2015
a) from other entities:	198	2 799
- current loans granted	198	273
b) other financial assets- discounted the security deposit constituting the collateral of a bank guarantee of reimbursement of advance payment	-	2 526
Total other financial assets	198	2 799

Loans granted - as at 30 September 2016

- a loan for Committee Civic for the Building of the Cardiologic Hospital of the name of Marshal Józef Piłsudski in Warsaw in the amount of PLN 198 thousand, including: amount of the loan PLN 133 thousand, accrued interest PLN 65 thousand, interest rate was determined according to the statutory interest, repayment date 30 June 2008. Receivables secured by a mortgage on the right of perpetual usufruct, in the land register – KW No. 136324.

Increase

1. Accrued interest on loan granted to Pro Serwis Sp. z o. o. in the amount of PLN 2 thousand.

Decrease

2. Repayment of the loan by Pro Serwis Sp. o. o. with its seat in Warsaw in the amount of PLN 77 thousand, including interest of PLN 2 thousand.

Loans granted - as at 31 December 2015

- A loan for Committee Civic for the Building of the Cardiologic Hospital of the name of Marshal Józef Piłsudski in Warsaw in the amount of PLN 198 thousand, including: amount of the loan PLN 133 thousand, accrued interest PLN 65 thousand, interest rate was determined according to the statutory interest, repayment date 30 June 2008. Receivables secured by a mortgage on the right of perpetual usufruct, in the land register – KW No. 136324.
- Loan granted to Pro Serwis seated in Warsaw PLN 75 thousand, including the amount of the loan PLN 75 thousand. Interest on loan is set at a rate of 2% annually. Maturity date - compensation with the obligations arising from the agreement for property management.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Note No. 9 – Other assets

Other assets by type :	As at 30 September 2016	As at 31 December 2015
a) prepayments	1 916	1 412
- cost of property and personal insurance	408	281
- software maintenance costs	545	631
- subscriptions	20	37
- deferred costs	31	449
- other	912	14
b) other accruals and prepayments	10 156	13 785
- amounts due from the ordering parties under long-term contracts	10 156	13 785
Total other assets	12 072	15 197

Item of *other accruals and prepayments* - covers the valuation of contracts of construction services, which are in progress at the balance sheet date.

Note No. 10 – Share capital

SHARE CAPITAL (THE STRUCTURE)							
Series / emission	Type of share	Type of share preference	Number of shares	Series / emission at nominal value	Method of coverage of capital	Registration date	Right to dividend (from)
Founding	inscribed	3 votes per 1 share	580	580	Cash	23 July 1991	1 October 1991
Founding	inscribed	-	6 816	6 816	Cash	23 July 1991	1 October 1991
Founding	bearer	-	1 810 104	1 810 104	Cash	23 July 1991	1 October 1991
B	inscribed	-	750	750	Cash	29 July 1993	1 January 1993
B	bearer	-	681 750	681 750	Cash	29 July 1993	1 January 1993
C	bearer	-	530 000	530 000	Cash	20 April 1994	1 January 1994
D	bearer	-	865 000	865 000	Cash	5 September 1994	1 January 1994
Total number of shares			3 895 000				
Total share capital				3 895 000			
Nominal value of one share = PLN 1.00							

The share capital of the Company amounts to PLN 3 895 thousands and is divided into 3 895 000 shares with the nominal value of PLN 1 each.

The number of shares did not change with comparison to as at 31 December 2015.

Total number of votes from all shares is 3 896 160.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

According to the Company's knowledge at the date of this report, the following shareholders hold at least 5% of votes at the general meeting of shareholders:

Name of the shareholder	Number of shares held (units)	Number of votes held	% of votes in total number of votes	% of share capital
1. Steven Tappan	715 000	715 000	18.35	18.36
2. Porozumienie PHC	663 561	664 661	17.06	17.04
2. Legg Mason Parasol Fundusz Inwestycyjny Otwarty („Legg Mason Parasol FIO”), Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty i Legg Mason Akcji Skoncentrowany Fundusz Inwestycyjny zamknięty.				
Total the above mentioned funds, including:	560 649	560 549	14.39	14.39
- Legg Mason Parasol Fundusz Inwestycyjny Otwarty („Legg Mason Parasol FIO”)	284 054	284 054	7.29	7.29
- Legg Mason Akcji Skoncentrowany*	261 773	261 773	6.72	6.72
3. QUERCUS Parosolowy SFIO, QUERCUS Absolute Return FIZ, QUERCUS Absolutnego Zwrotu FIZ, QUERCUS Parasol SFIO Agresywny				
Total the above mentioned funds, including:	415 532	415 532	10.67	10.67
- QUERCUS Parosolowy SFIO**	221 266	221 266	5.68	5.68
4. Otwarty Fundusz Emerytalny PZU „Złota Jesień”.	387 521	387 521	9.95	9.95

Since the submission of the annual report for 2015 the Group has got acquainted with the following information about the change in shareholding:

- on 11 June 2016 at the Annual Meeting of Shareholders the Group was informed about decrease in number of shares held by Porozumienie PHC by 5 922 shares, what resulted in decrease of share in total number of votes by 0.15%. On the date on which the information was received by the Issuer Porozumienie PHC had 1 173 561 shares of the Issuer, representing 30.13% of the share capital and 30.15% of the total number of votes at the General Meeting.

- on 11 June 2016 at the Annual Meeting of Shareholders the Group was informed about change in number of shares held by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A. – QUERCUS parasolowy SFIO, QUERCUS Absolutne Return FIZ oraz QUERCUS Absolutnego Zwrotu FIZ – has increased (through common Funds) its share in total number of votes in company PROCHEM S.A. by 4 752 of shares. On the date when the information was received the Funds jointly held 399 715 shares of the Issuer, representing 10.26% of the share capital and 10.26% of the total number of votes at the General Meeting. .

- on 28 October 2016 at the Extraordinary General Meeting of Shareholders the Group was informed about change in number of shares held by QUERCUS by 15 817 shares. On the day when the information was obtained the Funds jointly held 415 532 shares of the Issuer, representing 10.67% of the share capital and 10.67% of the total number of votes at the General Meeting.

*) information obtained at the Extraordinary General Meeting on 28 October 2016.

***) information obtained at the Extraordinary General Meeting on 28 October 2016.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Note No. 11 – Bank loans

	As at 30 September 2016	As at 31 December 2015
- current loans	7 448	11 772
- non-current loans	134	-

Bank loans

Name of the bank	Registered office	Amount of the loan acc. to agreement (in PLN thousands)	Amount of the loan to be repaid (in PLN thousands)	Terms of interest	Repayment date	Security
Contracted by Prochem S.A.						
mBank SA	Warsaw	6000 Credit in overdraft	0	WIBOR for O/N deposits in PLN + margin	30 June 2017	Promissory note in blank
mBank SA	Warsaw	6000 Revolving working capital loan	6 000	WIBOR for 1 month deposits in PLN + margin	30 June 2017	Promissory note in blank
ING Bank Śląski S.A.	Katowice	3.000 Credit in overdraft	0	WIBOR for 1 month deposits in PLN + margin	14 November 2016	Statement on submission to execution
Contracted by Company PROORGANIKA Sp. z o. o.						
mBank SA	Warsaw	100 Credit in overdraft	0	WIBOR for O/N deposits in PLN + margin	26 June 2017	Without security
Bank zachodni WBK S.A.	Warsaw	254 Working capital loan	218	WIBOR for 3 months deposits in PLN + margin	30 April 2019.	Bill of exchange
Contracted by Company Elektromontaż Kraków SA						
ING Bank Śląski	Kraków	2 500	656	WIBOR for 1 month deposits in PLN + margin	20 November 2016.	Mortgage
Deutsche Bank	Kraków	500	237	WIBOR for 1 month deposits in PLN + margin	15 July 2017	Mortgage
Contracted by Atutor Integracja Cyfrowa Sp. z o. o.						
Bank Millennium S.A.	Warsaw	100	91	WIBOR 1 month plus margin	Not applicable	Without security
Contracted by Pro-Inhut Sp. z o. o.						
ING Bank Śląski	Dąbrowa Górnicza	398 Credit in overdraft	380	WIBOR 1 month plus margin	24 September 2017	Without security

Breach of covenants in contracts of loans by the Issuer which was described in the Report for the first half of 2016 did not affect the change in the presentation of loans in the statement of financial position, which was prepared as at 30 September 2016, because according to the signed agreements, loans have to be repaid in less than 12 months.

At the date of the interim consolidated financial statements the Issuer received a confirmation to continue financing from the ING Bank S.A. on the level of PLN 3 million for the further period of 12 months, the talks are still conducted with mBank SA concerning additional collateral of loans.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Note No. 12 – Trade payables

	As at 30 September 2016	As at 31 December 2015
a) to associated entities and jointly-controlled entities	16	-
- for supplies and services, with maturity:	16	-
- up to 12 months	16	-
b) to other entities	45 913	51 451
- for supplies and services, with maturity:	45 913	51 451
- up to 12 months	41 926	48 854
- more than 12 months	3 987	2 597
Total trade payables	45 929	51 451

Note No. 13 – Deferred income

	As at 30 September 2016	As at 31 December 2015
Advanced payments received	18	6 200
Amounts due to the ordering parties under long-term contracts	3 755	4 854
Other	340	322
Deferred income at the end of the period, including:	4 113	11 376
Non-current liabilities	-	-
Current liabilities	4 113	11 376

In 2013 the Group received advance payment in the amount of PLN 30 767 thousand (7 230 thousands of EURO) – 15% of value of the contract signed with company from Belarus for implementation of the investment project „Turnkey construction of system for the production of highly purified paraffin, oils, lubricants and cooling greases and pattern material with the expansion of power complex”. Amount of the advance payment was recognized in deferred income and is settled against invoices issued for completed services and supplies. As at 30 September 2016, the amount of the advance payment has been accounted for.

Note No. 14 – Other liabilities

	As at 30 September 2016	As at 31 December 2015
a) to other entities	2 944	4 609
- due to taxes, duties, insurance and other benefits	1 639	3 669
- due to remuneration	338	351
- other (by type)	967	589
• liabilities to employees	10	16
• liabilities to shareholders	51	21
• liabilities under lease	539	181
• other liabilities	367	371
b) other current provisions	2 534	3 533
- provision for costs, concerning long-term contracts	719	385
- provision for costs (movable part of remuneration, contract of mandate)	-	993
- cost of audit	-	104
- current provision for retirement benefit	565	587
- provision for unused annual leaves	1 250	1 464
Total other liabilities	5 478	8 142

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Note No. 15 - Revenues from sale of services

Revenues from sale of services (type of service and type of activity)	Period ended 30 September 2016	Period ended 30 September 2015
Revenues from sale of services, including:	122 760	169 897
- from jointly-controlled entities	16 380	21 025
Revenues from sale (territorial structure)	Period ended 30 September 2016	Period ended 30 September 2015
Domestic market	104 923	96 410
- including from jointly-controlled entities	16 380	21 025
Exports	17 837	73 487

Revenues under contracts for construction services (general contracting) and other services are presented in Note No. 22.

Gross amount due from ordering parties/buyers concerning works under the contracts was presented in Note No. 9.

Information on major customers, whose total value of revenues from sales of services exceeds 10% of entity's total revenues for nine months of 2016, is included in Note No. 22.

Note No. 16 – Cost of services

	Period ended 30 September 2016	Period ended 30 September 2015
a) amortization and depreciation	1 744	1 751
b) consumption of materials and energy	14 893	17 737
c) outsourcing	95 766	113 203
d) taxes and levies	1 535	618
e) remuneration	25 226	24 355
f) social security and other benefits	4 914	4 689
g) other types of generic costs (by category), including:	4 647	4 309
- property and personal insurance	676	725
- business trips	1 455	1 263
- State Fund for Rehabilitation of Disabled Persons PFRON	168	167
- other	2 348	2 154
Total costs by type	148 725	166 662
Change in inventories, products and accruals and prepayments	-2 227	-2 514
General and administrative expenses (negative value)	-12 025	-10 929
Cost of services sold	134 473	153 219

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Note No. 17- Other operating income

	<u>Period ended 30 September 2016</u>	<u>Period ended 30 September 2015</u>
a) gain on sale of non-financial non-current assets	36	7
b) grants	-	70
c) reversal of impairment allowance (due to)	100	159
- for receivables	100	159
d) other, including:	853	166
- the reimbursement of costs of litigation	8	3
- received compensation, fines and penalties	756	19
- revenues from car rental	4	6
- other	85	138
Total other operating income	989	402

Note No. 18 – Other operating expenses

	<u>Period ended 30 September 2016</u>	<u>Period ended 30 September 2015</u>
a) loss on sale of non-financial non-current assets	43	279
b) write-down:	119	1 123
- for receivables	119	1 123
c) other, including:	59	177
- cost of litigation	8	69
- paid penalties, fines and compensation	1	-
- other	50	108
Other operating expenses	221	1 579

Note No. 19 – Financial income

	<u>Period ended 30 September 2016</u>	<u>Period ended 30 September 2015</u>
a) interest on loans granted	283	284
- from jointly-controlled entities	283	284
b) other interest	95	47
- from other entities	95	47
c) surplus of foreign exchange gains	167	237
d) other, due to:	1	220
- other	1	122
Total financial income	546	788

Note No. 20 – Finance costs

	<u>Period ended 30 September 2016</u>	<u>Period ended 30 September 2015</u>
a) interest on bank loans	336	407
b) other interest	10	100
- for other entities	10	100
c) surplus of foreign exchange losses	1 080	18
d) other, due to:	397	661
- commissions on bank guarantees	238	277
- commission on loans	82	82
- other	77	302
Total finance costs	1 823	1 186

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Note No. 21– Additional disclosures to the statement of cash flows

Differences between the amounts determined directly from the financial statements and presented in the statement of cash flows, result from a transfer of specified amounts from operating activity to investing activity and financing activity.

These relate to the following balance sheet items (in PLN thousands):

	in 2016	in 2015
Change in current receivables	23 590	-13 433
Receivables as at 1 January	83 991	66 534
Other assets as at 1 January	15 197	13 544
Receivables from sale of non-current assets	-45	-49
Adjustment of receivables of subsidiary in 2013	-	360
Receivables from sale of assets	-	-396
Receivables from sale of real estate	-5 240	-
Receivables under income tax	-497	-
Opening balance sheet after adjustments	93 406	79 993
Exclusion as at the opening balance of the amounts due of the sold subsidiary	-	-1 990
Opening balance sheet after exclusions	93 406	78 003
Receivables as at 30 September	58 089	81 921
Other assets as at 30 September	12 072	13 676
Receivables for non-current assets sold	-34	-51
Receivables under income tax	-311	-4 110
Closing balance sheet after adjustments	69 816	91 436
Change in current liabilities except for borrowings, loans and special funds	-8 127	12 268
Trade payables as at 1 January	51 451	31 229
Other liabilities as at 1 January	8 142	7 809
Provision for current retirement benefits	-587	-383
Provision to annual leaves	-1 464	-1 402
Provision to audit	-104	-96
Provision to current other costs	-385	-471
Other differences under discount of liabilities	250	250
Investment commitments	-46	-
Adjustment of liabilities in the subsidiary	-	-34
Liabilities under operating lease	-40	-184
Liabilities to shareholders	-3	-2
Opening balance sheet after adjustments	57 214	36 716
Elimination of liabilities of sold subsidiary	-	-1 058
Opening balance sheet after exclusions	57 214	35 658
Trade payables as at 30 September	45 929	45 787
Other liabilities as at 30 September	5 479	3 656
Provision for current retirement benefits	-565	-348
Provision to annual leaves	-1 250	-1 198
Provision to audit	-	-1
Investment commitments	-10	-2
Provision for current other costs	-719	-50
Other differences under discount of liabilities	250	250

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Liabilities under lease	-19	-165
Liabilities to shareholders	-8	-3
Closing balance sheet after adjustments	49 087	47 926

Change in other adjustments as at 30 September	-4 906	-2 266
Change in deferred income – advances received	- 6 183	-5 907
Change in deferred income in respect of the amounts due to ordering parties under long-term contracts	-1 099	3 111
Change in - the security deposit constituting the collateral of a bank guarantee of reimbursement of advance payment*)	2 526	1 031
Elimination of the sold subsidiary	-	-212
Change in other deferred income	6	-137
Other	-156	-152

*) In connection with the implementation of the investment project in Belarus, in order to secure the return of received advance payment, the Group has granted a bank guarantee of advance refund to the amount of EURO 7,230 thousand. As the security of the guarantee, under a contract concerning a monetary security deposit, the Group has placed a deposit in the bank to the amount of EURO 2,191 thousand. The deposit shall be reduced by the amounts settled during the implementation of the project. As at 30 September 2016, the amount of the security deposit has been accounted for.

Note No. 22- Information on operating segments

Operating segment is a component part of the entity:

- that engages in business activity in connection with which it can obtain income and incur expenses,
- whose results of activity are regularly reviewed by the authority responsible for making operating decisions of the Group,
- in case of which is available a separate financial information.

Revenues of the segment are the revenues from sale to external customers.

Expenses of the segment constitute the expenses composed of costs relating to the sale to external customers.

Segment result is determined on the level of operating income, without taking into account of other operating activity.

The activity of the Capital Group for the managing purposes was divided into eleven basic operating sectors such as: construction services indicated in the segment of general contracting, design services and other engineering services (supervisions along with the project engineer service), the lease of equipment for the construction, assembly of electrical installations, and rental of office space and real estate, property management, maintenance, commercial activity, IT services and other activities.

Segment assets include all assets used by a segment, consisting primarily of receivables, inventories and property, plant and equipment diminished by the value of provisions and impairment losses.

Some assets in the joint use are assigned to the segments based on reasonable weight.

Assets of the Representation in Belarus as at 31 September 2016 and as at 31 December 2015 do not exceed 10% of total balance sheet amount.

Revenues from activities achieved abroad (exports) in the period from 1 January 2016 to 30 September 2016 amounted to PLN 17 367 thousand (i.e. 13.6% of revenues from sale), in the analogous period of the previous year revenues amounted to PLN 77 212 thousand (i.e. 44.54% of revenues from sale).

Information on major customers of the Issuer, which share in the sales revenue for three quarters of 2016 exceeded 10% of the total revenues from sale:

- Belarusian client – revenues in the amount of PLN 16 506 thousand, what represents 12.9% of total sales revenues, which were shown in the segment of „General contracting”.
- Irydion Sp. z o. o. the jointly-controlled company – revenues in the amount of PLN 16 380 thousand, what represents 12.8% of total sales revenues, which were shown in the segment of „General contracting” and „Design services and other engineering services”.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

- Production plant UTC Aerospace Systems for civil and military aircraft – revenues in the amount of PLN 29 653 thousand, what represents 23.2% of total sales revenues, which were shown in the segment „General contracting” and „Design services and other engineering services”.

Unallocated assets to segments are the primarily shares in the jointly-controlled entities and in associates, and loans granted. With respect to the above-mentioned assets don't exist any premises indicating the possible loss of value as at 30 September 2016. In addition, as at the balance sheet date the Group has carried out the analysis of contracts for construction work in the light of the results in budget. For all contracts in which the budgeted costs exceeded the budgeted income, the Group recognized provisions to cover losses at the balance sheet day. Detailed data on the activities of the companies belonging to the Group broken into separate segments is presented in the following tables.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

For the period from 1 January 2016 to 30 September 2016	General contracting	Design services and other engineering services	Rental of construction equipment	Assembly of electrical installations	Lease of office space and real estate	Property management	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues to external customers	75 692	21 672	2 412	17 830	3 579	-	834	5 140	96	645	-	127 900
Total revenues of the segment	75 692	21 672	2 412	17 830	3 579	-	834	5 140	96	645	-	127 900
Result of the segment	-16 477	-8 174	827	160	656	-	122	510	-220	-422	-	-23 018
Financial income											546	546
Finance costs											-1 823	-1 823
Net financial income											-1 277	-1 277
Profit sharing in associated entities											-640	-640
Profit on other operating activities											768	768
Before tax profit											-24 167	-24 167
Income tax											-3 065	-3 065
Loss for the current period											-21 102	-21 102
Profit/(loss) assigned to non- controlling interest											70	70
Net loss assigned to shareholders of parent entity											-21 172	-21 172
Assets as at 30 September 2016												
Segment assets (related to activity)	36 035	10 610	590	7 974	17 133	-	417	1 659	-	13	-	74 431
Unallocated assets (among others, shares and other financial assets)											90 063	90 063
Total assets	36 035	10 610	590	7 974	17 133	-	417	1 659	-	13	90 063	164 494
Other information related to segment for the period from 1 January 2016 to 30 September 2016												
Depreciation of property, plant and equipment	42	96	75	308	529	-	66	-	-	415	57	1 588
Amortization of intangible assets	-	11	-	17	5	-	1	-	-	-	122	156

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Note concerning operating segments - continuation

For the period from 1 January 2015 to 30 September 2015	General contract ing	Design services and other engineering services	Rental of construction equipment	Assembly of electrical installations	Lease of office space and real estate	Property management	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues to external customers	123 248	19 944	1 331	17 795	3 775	2 069	662	3 440	131	942	-	173 337
Total revenues of the segment	123 248	19 944	1 331	17 795	3 775	2 069	662	3 440	131	942	-	173 337
Result of the segment	10 994	-4 573	162	- 896	707	193	-65	62	0	-250	-	6 334
Financial income											978	978
Finance costs											-1 186	-1 186
Net financial income											-208	-208
Profit sharing in associated entities											-283	-283
Profit on other operating activities											-1 177	-1 177
Before tax profit											4 666	4 666
Income tax											1 723	1 723
Profit for the current period											2 943	2 943
Profit/(loss) assigned to non-controlling interest											-267	-267
Net profit/(loss) assigned to shareholders of parent entity											3 210	3 210
Assets as at 30 September 2015												
Segment assets (related to activity)	63 082	9 193	361	7 692	18 035	-	702	1 717	-	160	-	100 942
Unallocated assets (among others, shares and other financial assets)											105 470	105 470
Total assets	63 082	9 193	361	7 692	18 035	-	702	1 717	-	160	105 470	206 412
Other information related to segment for the period from 1 January 2015 to 30 September 2015												
Depreciation of property, plant and equipment	56	36	66	273	498	50	65	31	-	249	27	1 351
Amortization of intangible assets	-	5	-	9	-	-	1	1	-	-	85	101

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Information about the geographical areas

Geographical breakdown of sales revenues revealed in the profit and loss account was presented in accordance with country of the seat of the ordering party.

	1 January - 30 September 2016	1 January - 30 September 2015
Poland	109 202	99 850
Belarus	18 698	73 487
Total sales revenues	127 900	173 337

Geographical breakdown of property, plant and equipment and intangible assets

	30 September 2015	31 December 2015
Poland	23 683	24 161
Belarus	149	161
Total property plant and equipment and intangible assets	23 832	24 322

Note No. 23 - Granted and received collateral and contingent liabilities and contingent assets

<i>Collateral granted</i>	As at 30 September 2016	As at 31 December 2015
Bank guarantee of good performance and statutory warranty	26 400	15 999
Payment guarantee	-	852
Guarantee of return of advance payment	-	4 115
Tender guarantee	-	60
Total collateral granted	26 400	21 026
Contingent liabilities		
- Letters of Credit	-	3 564
- Surety of promissory notes issued by subsidiary PRO-INHUT Sp. z o. o. seated in Dąbrowa Górnicza for the benefit of investor in order to secure the claims of a good execution	247	247
Total collateral granted and contingent liabilities	26 647	24 837
<i>Collateral received</i>	As at 30 September 2016	As at 31 December 2015
Bank guarantee of good performance	5 217	3 617
Bill of exchange securing terms of the contract	-	77
Total contingent assets	5 217	3 694

Contingent receivables from PERN described in Note No 28.

Note No. 24 - Distribution of profit

Net profit of the Group is not subject to distribution.

Issuer's net profit for 2015 in the amount of PLN 6 213 046.33 by Resolution No. 16 of the Ordinary General Meeting dated June 11, 2016 was divided as follows:

- for the dividend the amount of PLN 6 193 050.00;
- to the reserve capital the amount of PLN 19 996.33.

Note No. 25 - Dividends

Pursuant to Resolution No. 16 of the Ordinary General Meeting of Shareholders of PROCHEM SA dated June 11, 2016 the Group paid a dividend from the profit for 2015 in the amount of PLN 6 193 050,00. Dividend payment date was set for July 15, 2016.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Subsidiary PKI Predom Sp. o. o. seated in Wrocław adopted a resolution on allocation of the profit for 2015 for a dividend in the amount of PLN 83 thousand.

Subsidiary Elektromontaż Krakow SA seated in Krakow adopted a resolution to pay a dividend in the amount of PLN 525 thousand, of which PLN 245 thousand from the profit for 2015.

Note No. 26 - Financial instruments and financial risk management

Financial assets

As at 30 September 2016 (in PLN thousands)	Categories of financial instruments		
	Note No.	Loans, receivables and other	Total
Classes of financial instruments			
Receivables from supplies and services	7	51 510	51 510
Cash		4 724	4 724
Loans granted	5 and 8	18 436	18 340
Total		74 670	74 670

As at 31 December 2015 (in PLN thousands)	Categories of financial instruments		
	Note No.	Loans, receivables and other	Total
Classes of financial instruments			
Receivables from supplies and services	7	78 239	78 239
Cash		23 595	23 595
Other financial assets – discounted the security deposit constituting the collateral of a bank guarantee of reimbursement of advance payment	8	2 526	2 526
Loans granted	5 and 8	18 228	18 228
Total		122 588	122 528

Financial liabilities

As at 30 September 2016 (in PLN thousands)	Categories of financial instruments			Total
	Note No.	Financial liabilities measured at amortized cost	Liabilities excluded from IAS 39	
Classes of financial instruments				
Loans	11	7 582	-	7 582
Finance lease		-	437	437
Trade payables	12	45 929	-	45 929
Other liabilities, including - liabilities under dividend	14	5 478	-	5 478
		51	-	51
Total		58 989	437	59 426

As at 31 December 2015 (in PLN thousands)	Categories of financial instruments			Total
	Note No.	Financial liabilities measured at amortized cost	Liabilities excluded from IAS 39	
Classes of financial instruments				
Loans	11	11 772	-	11 772
Finance lease		-	424	424
Trade payables	12	51 451	-	51 451

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Total	63 223	424	63 647
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The fair value of financial instruments does not differ from the book value.

Liquidity risk connected with the concentration of sales revenues

In three quarters of 2016 the Group realized sales revenues in the amount of PLN 127 900 thousand, including PLN 18 698 thousand (14.6%) concerned the realization of the contract with the Client from Belarus. Accordingly, the Group disclosed in the statement of financial position the following financial instruments related to the above contract.

Classes of financial instruments	As at 30 September 2016	% share in total assets	As at 31 December 2015	% share in total assets
Financial assets				
Receivables from supplies and services	10 752	6.5%	9 435	4.4%
Other financial assets (discounted the security deposit constituting collateral for a bank guarantee of repayment of advance payment)	-	-	2 526	1.2%
Total financial assets	10 752	6.5%	11 961	5.6%
Financial liabilities				
Payables	8 958	5.4%	20 365	9.5%
Total financial liabilities	8 958	5.4%	20 365	9.5%

Note No. 27 - Transactions with related parties and key management personnel

Related entities are the controlled entities and the jointly-controlled entities, as well as the ones on which the Issuer has an impact, or is a member of the key management personnel of the entity or the parent company.

Key management personnel comprise the members of the Management Board of the Parent Entity, and the members of the Supervisory Board of the Parent Entity.

In three quarters of 2016 the key management personnel and persons related to key management personnel apart from the salary, have not concluded any kind of transactions with companies from PROCHEM S.A. Capital Group.

Remuneration of the key management personnel

In three quarters of 2016 in the Issuer's enterprise was paid:

1. remuneration to the Members of the Management Board in total amount of PLN 918.0 thousand, including the remuneration on profit PLN 192.5 thousand;
2. remuneration to the Members of the Supervisory Board in total amount of PLN 446.3 thousand, including the remuneration on profit PLN 248.5 thousand.

In three quarters of 2016 the remuneration paid to the Members of the Management Board and to the Members of the Supervisory Board for performing functions in the Management Boards and in the Supervisory Boards of companies belonging to the Capital Group amounted to PLN 276.9 thousand.

Below are presented transactions with related parties, which include the jointly-controlled entities or the associated entities, as well as ones, on which the Issuer has an impact or is a member of the key management personnel of the entity or the parent company. All transactions of related entities were concluded on market conditions and they relate to sale and purchase of services, among others – of construction and assembly services, and rental services, as well as granting mutually loans.

Settlements with related parties comprise trade settlements and under loans.

Guarantees and sureties granted to related entities are presented in note 23.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

The reporting period
(in PLN thousands)

from 1 January to 30 September 2016

	Sale of services	Purchase of services	Financial income – interest on loans	Financial income – dividends received
Jointly-controlled entities and associated entities	16 380	515	283	-

on 30 September 2016

	Trade receivables	Receivables under loans granted	Trade payables
Jointly-controlled entities and associated entities	2 689	18 238	16

Comparative period
(in PLN thousands)

from 1 January to 30 September 2015

	Sale of services	Purchase of services	Financial income – interest on loans	Financial income – dividends received	Finance costs – interest on loans
Jointly-controlled entities and associated entities	21 025	178	284	-	-

on 30 June 2015

	Trade receivables	Receivables under loans granted	Trade payables
Jointly-controlled entities and associated entities	4 539	17 863	6

Note No. 28 – Information on significant proceedings pending before the court

PROCHEM SA continues to be a party to the proceedings before the court concerning the settlement of the contract which was interrupted on 10 November 2005, for the construction management of an investment project under the name "Pipeline in a section from the ST- 1 Adamowo - to raw material base Plebanka" concluded with PERN S.A. PROCHEM S.A. filed a lawsuit to the court for payment of PLN 41, 301 thousand under the final settlement of the contract, of which PLN 17,364 thousand is recognized in the statement of financial position as a receivable from seized guarantee deposit, and the remaining amount is the contingent receivable. On 18 January 2008 District Court in Warsaw issued a judgment in this case considering claim of PROCHEM S.A. as to be right in principle, while stating that this obligation is not yet due.

On 26 August 2008 the Court of Appeal in Warsaw issued a final judgment on the appeal lodged by PROCHEM S.A. from the a/m judgment of the District Court, recognizing in it that the claim filed by PROCHEM S.A. regarding accounting for the contract is not premature, and at the same time has ordered that the District Court will make the accounting for the contract mentioned above pursuant to the provisions of the contract. This finding is in compliance with position in a case of PROCHEM S.A.

On 12 August 2010 the hearing was held before the District Court in Warsaw, where the Court decided to appoint an expert - Warsaw University of Technology – Department of Civil Engineering,

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

who according to the recommendations of Court of Appeal will make an ultimate accounting for in relation to the disputed contract. In April 2011, the case file was forwarded to the expert witness, who in an opinion published in May 2012 confirmed the amount of the claim of PROCHEM S.A. By order of May 31, 2012, the District Court granted the Warsaw University of Technology a remuneration for opinion in the case, in relation to which the defendant PERN lodged a complaint. According to PERN SA the prepared opinion could not be the basis of the findings of facts of the case for the Court, because it is contrary to the thesis of the Court in which was determined the basis and scope of the opinion.

The Court of Appeal in Warsaw, I Civil Division has cancelled the decision of the District Court which was contested by PERN SA and the request for remuneration of an expert for the drafting of an opinion has submitted to the District Court for reconsideration.

On 5 February 2013 before the District Court in Warsaw, a hearing was held with the participation of experts, after which the court decided to oblige the parties to submit the pleadings in which the final the final conclusions of evidence to complement the expert opinions will be clarified, and postponed the hearing until 16 May 2013.

By order dated February 25, 2013, the District Court in Warsaw XXVI Economic Department upheld the previous decision of the Court, and finally has awarded a remuneration for the expert for drafting the opinion. In grounds for the judgment the Court determined that, at the hearing on 5 February 2013, the certified expert has carefully explained the methodology that has been adopted for the preparation of the legal opinion and it is not inconsistent with the thesis of the Court, and there are no legitimate grounds to complaint that the methodology adopted by the experts is not correct.

On 14 May 2013, the Issuer received a notice from the District Court in Warsaw of revocation hearing scheduled for 16 May 2013 and the next date of hearing has not been appointed yet.

On 9 August 2013, the Issuer received from the District Court in Warsaw, the decision as of 1 August 2013, from closed session of the Court. At the meeting, the Court decided to admit evidence of a supplementary opinion of research institute - Warsaw University of Technology in Warsaw, in the circumstance of determining the value of services, supplies, and other liabilities made by PROCHEM S.A. and directly related to the implementation of the agreement that have been made after the date of withdrawal from the contract on the basis of commitments contracted prior to the withdrawal from the contract. In November 2013 the experts appointed by the court have started the work associated with the preparation of the supplementary opinion.

On 25 February 2014, the Court received the supplementary opinion that confirms the amount of the claim of PROCHEM SA.

On 24 October 2014 the court suspended of its own motion the hearing until the removal of formal obstacles that have now been removed and on February 6, 2015, a request was made to continue the proceedings and set a date for the next meeting.

On 4 March 2015 the District Court in Warsaw has scheduled a hearing for 30 April 2015.

At the hearing on 30 April 2015, the Regional Court in Warsaw has pledged experts to supplement the opinion.

On 6 May 2015 in relation to the doubts raised against some aspects of the expert's opinions and in the interest of a faster conclusion of the case, PROCHEM limited the action for payment by the amount of PLN 139 thousand to the amount of PLN 41 162 thousand, along with statutory interest.

On 17 July 2015 the Company received a copy of the supplementary opinion expert, which in all cases had confirmed the position of PROCHEM S.A.

On 22 October 2015 the District Court in Warsaw, XXVI Commercial Division announced judgment in the above matter, in which:

- from the principal action, jointly and severally to the Issuer and a member of the consortium adjudged from PERN:
 - ✓ amount of PLN 35 086 589.26, with statutory interest from 23 March 2006 until the date of payment;
 - ✓ amount of PLN 4 879 883.58, with statutory interest from 22 March 2006 until the date of payment;
 - ✓ amount of PLN 126 400,4, with statutory interest from 16 January 2007 until the date of payment.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

- in the cross action, dismissed the action of PERN entirely.

The Issuer's share in the adjudged amount amounts to about 50%.

From the above judgment on 7 December 2015 PERN lodged an appeal. The term of consideration of the appeal has not been set yet.

As of 30 June 2016 the Issuer presents the receivables from PERN SA under guarantee deposits seized during the execution of the contract worth PLN 17,364 thousand, which are the subject of a final settlement of the contract and the proceedings which is pending before the Court. These receivables are not covered by write-down. The remaining amount of principal claim, which falls on PROCHEM S.A. in the amount of PLN 2,682 thousand was recognized as a contingent asset, because on reporting day did not meet all the criteria for recognition as an asset in the understanding of IAS 37.

The value of this procedure exceeds 10% of the equity of the Capital Group.

Note No. 29 – Events after reporting date

On October 25, 2016 the Issuer signed a contract of sale of shares in the company Pro-Organika Sp. o.o. in the amount of 640 shares with a nominal value of PLN 500 each, for a total amount of PLN 652 160. The sale will take place in two packages: the sale price for 280 shares in the amount of PLN 285,320 will be paid within 30 days from the date of conclusion of the contract, and for 360 shares for the amount of PLN 366 840 within 120 days from date of conclusion of the contract.

Note No. 30 - Other explanatory notes to the interim condensed consolidated financial statements

Description of factors and events having a significant impact on financial results in the current reporting period

In the nine months of 2016 had an impact on the performance of the Group a long-term contract executed in Belarus. Description of events and their consequences are presented in the report for the first half of 2016.

Factors which in the opinion of the issuer will have an impact on its financial performance in the prospect of at least the subsequent quarter

The results in the next quarters will depend mainly on the possibility of obtaining by the Issuer of new contracts on sale of its services. Continuing of construction and commercialization of office center Astrum Business Park in Warsaw will have big impact on the results of the Issuer.

Management Board's position in relation to the possibility of accomplishment of previously published forecast of results for the given year, in the light of results presented in the quarterly report with respect to the forecasted results

Company PROCHEM S.A. did not publish any forecasts of financial results neither for the Company nor for the PROCHEM S.A. Capital Group for 2016.

Information on granting surety of loan or borrowing or guarantee by the company or by its subsidiary to one entity or to its subsidiary, if the total value of existing surety or guarantee is equivalent to at least 10% of the equity

In three quarters of 2016 the companies belonging to the Capital Group did not grant any sureties and guarantees to related entities.

Statement of changes in the shareholding of the issuer or rights to them (options) by the managing persons and by the supervisory authorities of the issuer, according to issuer's knowledge since submission of the previous quarterly report

As at the date of the consolidated financial statements, in accordance with declarations received, the following Members of the Management Board and the Supervisory Board hold shares of PROCHEM S.A.:

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

- Jarosław Stępniewski – 80,943 units
- Marek Kiersznicki – 70,393 units
- Krzysztof Marczak – 43,700 units
- Andrzej Karczykowski – 115,186 units
- Michał Suflida - 48,500 units along with person related.

Since the date of publication of the previous report, there was changes in the number of shares owned by the members of the Supervisory Board.

Financial Information of PROCHEM S.A.

Unconsolidated statement of financial position

(all amounts in PLN thousands if not stated otherwise)

	Note No.	As at 30 September 2016	As at 31 December 2015 (under examination)
A s s e t s			
Non-current assets			
Property, plant and equipment	1	1 781	1 542
Intangible assets		319	414
Shares in subsidiaries	2	10 162	10 162
Shares in the jointly-controlled entities and associates	3	4 620	4 810
Deferred tax assets		5 067	1 834
Other financial assets	5	36 837	36 326
Total non-current assets		58 786	55 088
Current assets			
Inventories	6	1 993	5 247
Trade and other receivables	7	44 349	68 856
Other financial assets	8	198	3 569
Other assets	9	5 797	7 671
Cash and cash equivalents		1 253	16 769
Total current assets		53 590	102 112
Total assets		112 376	157 200
E q u i t y a n d l i a b i l i t i e s			
Equity			
Share capital		3 895	3 895
Revaluation reserve		863	859
Retained earnings		51 103	78 521
Total equity		55 861	83 275
Non-current liabilities			
Non-current loans	10	6 974	-
Liabilities under retirement and similar benefits		689	715
Other non-current liabilities		14	14
Total non-current liabilities		7 677	729
Current liabilities			
Current bank loans	11	6 000	9 024
Current borrowings	12	-	950
Trade payables	13	36 421	47 154
Provisions for current income tax		-	1 361
Other liabilities	14	2 662	3 670
Deferred income	15	3 755	11 037
Total current liabilities		48 838	73 196
Total liabilities		56 515	73 925
Total equity and liabilities		112 376	157 200
Weighted average number of ordinary shares (units)		3 895 000	3 895 000
Book value per one share (in PLN)		14.34	21.38

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Unconsolidated profit and loss account

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 September 2016	Period ended 30 September 2015
Revenues from sales, including:		91 824	141 872
Revenues from sale of services	16	90 963	141 872
Revenues from sale of goods and materials		861	-
Cost of sales, including:		-108 469	-128 954
Cost of services sold	17	-107 722	-128 954
Cost of merchandise and raw materials		-747	-
Gross profit/(loss) on sales		-16 645	12 918
General and administrative expenses	17	-7 477	-6 278
Other operating income	18	947	288
Other operating expenses	19	-75	-1 219
Results from operating activities		-23 250	5 710
Financial income	20	628	1 896
Finance costs	21	-1 836	-902
Before tax profit		-24 458	6 704
Income tax expense :		-3 233	1 427
- current tax		1	1 916
- deferred tax		-3 234	-489
Profit for the period		-21 225	5 277

Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Profit/diluted profit per one ordinary share (in PLN per one share)	-5.45	1.35

Unconsolidated statement of comprehensive income

Profit for the period	-21 225	5 277
Other comprehensive income (net):	4	-245
<i>Other comprehensive income that will be reclassified to profit or loss:</i>	4	-245
Foreign exchange differences from the translation of the entity operating abroad	4	-245
Total comprehensive income	-21 221	5 032
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Total comprehensive income per one ordinary share (in PLN per one share)	-5.45	1.29

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Unconsolidated statement of changes in equity

(all amounts in PLN thousands if not stated otherwise)

Share capital Revaluation reserve Retained earnings Total equity

The reporting period from 1 January 2016 to 30 September 2016

As at the beginning of the period (under examination)	3 895	859	78 521	83 275
Net loss of the given period	-	-	-21 225	-21 225
Net other comprehensive income	-	4	-	4
Total comprehensive income	-	4	-21 225	-21 221
Payment of dividend	-	-	-6 193	-6 193
As at the end of the period	3 895	863	51 103	55 861

The reporting period from 1 January 2015 to 30 September 2015

As at the beginning of the period (under examination)	3 895	1 261	73 671	78 827
Net profit of the given period	-	-	5 277	5 277
Net other comprehensive income	-	-245	-	-232
Total comprehensive income	-	-245	5 277	5 032
Payment of dividend	-	-	-1 363	-1 363
As at the end of the period	3 895	1 016	77 585	82 496

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

**Unconsolidated statement of cash flows
For the period from 1 January 2016 to 30 June 2016**

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 June 2016	Period ended 30 September 2015
Cash flows - operating activities			
Profit before tax		-24 458	6 704
Total adjustments		14 256	-3 768
Amortization and depreciation	17	684	745
Interest and profit sharing (dividends)		-257	-1 252
(Profit) on disposal of property, plant and equipment		-18	-8
Change in provisions		175	-448
Change in inventories		3 254	-3 334
Change in receivables and other assets	22	26 817	-10 276
Change in current liabilities, except for borrowings and loans	22	-12 544	12 426
Other adjustments (including deferred income)	22	-3 855	-1 621
Cash provided by (used in) operating activities		-10 202	2 936
Income tax paid		1 173	2 011
Net cash provided by (used in) operating activities		-11 375	925
Cash flows – investing activities			
Inflows		102	8 816
Disposal of intangible assets and property, plant and equipment		37	4
Inflows from financial assets in related entities, including:		65	8 812
- dividend received		65	1 003
- repayment of loans granted		-	6 558
- repayment of interest on loans granted		-	1 251
Outflows		-731	-620
Acquisition of intangible assets and property, plant and equipment		-731	-500
For financial assets in related entities, including:		-	-120
- loans granted		-	-120
Net cash provided by (used in) investing activities		-629	8 196
Cash flows - financing activities			
Proceeds from loans received		-	3 000
Other proceeds		6 000	-
Dividend paid		-6 187	-1 361
Repayment of loans		-3 024	-3 963
Interest and commission paid		-301	-320
Net cash provided by (used in) financing activities		-3 512	-2 626
Total cash flows, net		-15 516	6 495
Cash and cash equivalents at the beginning of the period		16 769	2 962
Cash and cash equivalents at the end of the period		1 253	9 457

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of nine months ended 30 September 2016

Approval of the financial statements

The consolidated financial statements of PROCHEM S.A. Capital Group for the period from 1 January 2016 to 30 September 2016 were approved for issue by the Management Board of Parent Entity PROCHEM S.A. on 14 November 2016.

Signatures of the Members of the Management Board

14 November 2016	Jarosław Stępniewski	Chairman of the Board
date	first name and surname	position	signature

14 November 2016	Marek Kiersznicki	Vice Chairman
date	first name and surname	position	signature

14 November 2016	Krzysztof Marczak	Vice Chairman
date	first name and surname	position	signature

Signature of the person responsible for bookkeeping

14 November 2016	Barbara Auguścińska-Sawicka	Chief Accountant
date	first name and surname	position	signature