

**CONSOLIDATED QUARTERLY REPORT OF PROCHEM S.A.  
CAPITAL GROUP FOR THE FOURTH QUARTER OF 2013**

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## I. Selected financial data

Revenues from sales and profit in PLN and statement of cash flows are converted into EUR at the exchange rate set as the arithmetic mean of average exchange rates announced by the President of the NBP as at the last day of each month and are as follows:

- for four quarters of 2013 - 4.2110 PLN/EUR
- for four quarters of 2012 - 4.1736 PLN/EUR

Balance sheet data were converted at the average exchange rate announced by the President of the NBP as at the date of the financial statements, which as at the balance sheet date amounted to:

- 4.1472 PLN/EUR as at 31 December 2013
- 4.0882 PLN/EUR as at 31 December 2012

### Selected financial data of PROCHEM S.A. Capital Group

Description	Reporting period ended 31 December		Reporting period ended 31 December	
	2013	2012	2013	2012
	in PLN thousands		in EUR thousands	
<b>Consolidated statement of comprehensive income</b>				
Revenues from sales	140 482	136 069	33 361	32 602
Gross profit on sales	14 461	12 643	3 434	3 029
Results from operating activities	1 392	-3 804	331	-911
Profit (loss) before tax	73	-3 670	17	-879
Profit (loss) for the period, assigned to :	-233	-3 152	-55	-755
Shareholders of parent entity	613	-3 858	146	-924
Non-controlling interests	-846	706	-201	169
Profit (loss)/ diluted profit per one share (in PLN/EUR)- assigned to shareholders of parent company	0.16	-0.99	0.04	-0.24
<b>Consolidated statement of cash flows</b>				
Net cash provided by (used in) operating activities	16 390	-10 668	3 892	-2 556
Net cash provided by (used in) investing activities	988	-4 355	235	-1 043
Net cash provided by (used in) financing activities	-6 967	2 469	-1 654	592
Total cash flows, net	10 411	-12 554	2 472	-3 008
Description	As at 31 December		As at 31 December	
	2013	2012	2013	2012
	in PLN thousands		in EUR thousands	
<b>Consolidated statement of financial position</b>				
Total assets	192 895	186 106	46 512	45 523
Total non-current assets	97 379	100 721	23 481	24 637
Total current assets	95 516	85 385	23 031	20 886
Parent entity's equity	108 134	110 410	26 074	27 007
Non-controlling interests	12 480	13 678	3 009	3 346
Total equity	120 614	124 088	29 083	30 353
Total non-current liabilities	4 969	7 751	1 198	1 896
Total current liabilities	67 312	54 267	16 231	13 274
Book value per one ordinary share (in PLN/EUR)- assigned to shareholders of parent entity	27.76	28.35	6.69	6.93
Weighted average number of shares (units)	3 895 000	3 895 000	3 895 000	3 895 000

**Selected financial data of PROCHEM S.A.**

Description	Reporting period ended 31 December		Reporting period ended 31 December	
	2013	2012	2013	2012
	in PLN thousands		in EUR thousands	
<b>Profit and loss account</b>				
Revenues from sales	83 347	85 406	19 793	20 463
Gross profit on sales	8 869	2 788	2 106	668
Results from operating activities	3 866	-5 414	918	-1 297
Profit before tax	8 354	1 878	1 984	450
Profit for the period	6 782	3 056	1 611	732
Profit/diluted profit per share (in PLN/EUR)	1.74	0.78	0.41	0.19
<b>Statement of cash flows</b>				
Net cash provided by (used in) operating activities	23 220	-18 374	5 514	-4 402
Net cash provided by (used in) investing activities	-3 961	-407	-941	-98
Net cash provided by (used in) financing activities	-9 740	5 939	-2 313	1 423
Total cash flows, net	9 519	-12 842	2 261	-3 077

Description	As at 31 December		As at 31 December	
	2013	2012	2013	2012
	in PLN thousands		in EURO thousands	
<b>Statement of financial position</b>				
Total assets	123 810	109 647	29 854	26 820
Total non-current assets	52 026	46 860	12 545	11 462
Total current assets	71 784	62 787	17 309	15 358
Total equity	73 702	70 030	17 772	17 130
Total non-current liabilities	558	442	135	108
Total current liabilities	49 550	39 175	11 948	9 582
Book value per one ordinary share (in PLN/EUR)	18.92	17.98	4.56	4.40
Weighted average number of ordinary 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 ended 31 December 2013**

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## I. Interim condensed consolidated financial statements of Capital Group

### Consolidated statement of financial position as at 31 December 2013

(all amounts in PLN thousands if not stated otherwise)

	As at 31 December 2013	As at 31 December 2012
<b>A s s e t s</b>		
<b>Non-current assets</b>		
Property, plant and equipment	25 334	26 275
Intangible assets	300	296
Investment properties	33 603	70 178
Shares	843	843
Shares valued using equity method	24 015	1 116
Deferred tax assets	1 985	2 013
Other financial assets	11 299	
<b>Total non-current assets</b>	<b>97 379</b>	<b>100 721</b>
<b>Current assets</b>		
Inventories	9 376	4 512
Trade and other receivables	51 408	59 597
Other financial assets	198	198
Other assets	17 327	14 282
Cash and cash equivalents	17 207	6 796
<b>Total current assets</b>	<b>95 516</b>	<b>85 385</b>
<b>Total assets</b>	<b>192 895</b>	<b>186 106</b>
<b>E q u i t y   a n d   l i a b i l i t i e s</b>		
<b>Equity</b>		
Share capital	3 895	3 895
Revaluation reserve	11 018	11 063
Retained earnings	93 221	95 452
<b>Parent entity's equity</b>	<b>108 134</b>	<b>110 410</b>
<b>Minority interest</b>	<b>12 480</b>	<b>13 678</b>
<b>Total equity</b>	<b>120 614</b>	<b>124 088</b>
<b>Non-current liabilities</b>		
Provision for deferred income tax	2 708	5 467
Provision for retirement and similar benefits	1 844	1 876
Other provisions	21	41
Other non-current liabilities	396	367
<b>Total non-current liabilities</b>	<b>4 969</b>	<b>7 751</b>
<b>Current liabilities</b>		
Current bank loans	4 411	7 526
Current borrowings	60	29
Trade payables	26 654	34 983
Liabilities under current income tax	439	101
Other liabilities	7 392	8 065
Deferred income	28 356	3 563
<b>Total current liabilities</b>	<b>67 312</b>	<b>54 267</b>
<b>Total liabilities</b>	<b>72 281</b>	<b>62 018</b>

<b>Total equity and liabilities</b>	<b>192 895</b>	<b>186 106</b>
Book value – equity assigned to shareholders of parent entity	108 134	110 410
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.	27.76	28.35

### Consolidated profit and loss account for the period from 1 January 2013 to 31 December 2013

(all amounts in PLN thousands if not stated otherwise)

	<b>Period ended 31 December 2013</b>	<b>Period ended 31 December 2012</b>
Revenues from sales, including :	140 482	136 069
Revenues from sale of services	134 438	130 096
Revenues from sale of goods and materials	6 044	5 973
Cost of sales, including:	-126 021	-123 426
Cost of services sold	-120 907	-118 307
Cost of merchandise and raw materials	-5 114	-5 119
<b>Gross profit on sales</b>	<b>14 461</b>	<b>12 643</b>
General and administrative expenses	-15 143	-14 658
Other operating income	4 118	1 369
Other operating expenses	-2 044	-3 158
<b>Results from operating activities</b>	<b>1 392</b>	<b>-3 804</b>
Financial income	597	1 416
Profit (loss) on disposal of shares in subsidiaries	-296	6
Finance expenses	-2 022	-1 672
Profit sharing in entities valued using equity method	402	384
<b>Profit (loss) before tax</b>	<b>73</b>	<b>-3 670</b>
Income tax expense :	306	-518
- current tax	672	430
- deferred tax	-366	-948
<b>Profit for the period</b>	<b>-233</b>	<b>-3 152</b>

Profit for the period assigned to :		
Shareholders of parent entity	613	-3 858
Non-controlling interest	-846	706
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Profit (loss) per one share (in PLN per one share) assigned to shareholders of parent entity	0.16	-0.99

### Consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013

(all amounts in PLN thousands if not stated otherwise)

<b>Profit for the period</b>	<b>-233</b>	<b>-3 152</b>
<b>Other comprehensive income (net)</b>	<b>-88</b>	<b>598</b>
<b>Other comprehensive income that will not be reclassified to profit and loss :</b>	<b>-96</b>	<b>725</b>
Revaluation of property, plant and equipment		725

Actuarial gains and losses	-96	
Income tax on other comprehensive income	-8	-127
<b>Total comprehensive income</b>	<b>-321</b>	<b>-2 554</b>

Total comprehensive income assigned to:

Shareholders of parent entity	526	-3 260
Minority interest	-847	706
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Total comprehensive income per ordinary share (in PLN per share) assigned to shareholders of parent company	0.14	-0.84

### Consolidated statement of changes in equity for the period from 1 January 2013 to 31 December 2013

(all amounts in PLN thousands if not stated otherwise)

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent company	Minority shareholders equity	Total equity
<b>The reporting period from 1 January 2013 to 31 December 2013</b>						
<b>As at the beginning of the period</b>	<b>3 895</b>	<b>11 063</b>	<b>95 452</b>	<b>110 410</b>	<b>13 678</b>	<b>124 088</b>
Net profit of the given period	-	-	613	<b>613</b>	-846	<b>-233</b>
<b>Net other comprehensive income</b>	-	<b>-87</b>	-	<b>-87</b>	<b>-1</b>	<b>-88</b>
<b>Total comprehensive income</b>	-	<b>-87</b>	<b>613</b>	<b>526</b>	<b>-847</b>	<b>-321</b>
Payment of dividend	-	-	-3 038	<b>-3 038</b>	-242	<b>-3 280</b>
Repurchase of own shares for redemption (Elektromontaż)- change in ownership structure	-	31	87	<b>118</b>	-150	<b>-32</b>
Other changes – among others disposal of shares in subsidiaries	-	11	107	<b>118</b>	41	<b>159</b>
<b>As at the end of the period</b>	<b>3 895</b>	<b>11 018</b>	<b>93 221</b>	<b>108 134</b>	<b>12 480</b>	<b>120 614</b>

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent company	Minority shareholders equity	Total equity
<b>The reporting period from 1 January 2012 to 31 December 2012</b>						
<b>As at the beginning of the period</b>	<b>3 895</b>	<b>10 371</b>	<b>98 620</b>	<b>112 886</b>	<b>14 206</b>	<b>127 092</b>
Net profit (loss) of the given period	-	-	-3 858	<b>-3 858</b>	706	<b>-3 152</b>
<b>Net other comprehensive income</b>	-	<b>465</b>	-	<b>465</b>	<b>133</b>	<b>598</b>
<b>Total comprehensive income</b>	-	<b>465</b>	<b>-3 858</b>	<b>-3 393</b>	<b>839</b>	<b>-2 554</b>
Payment of dividend	-	-	-	-	-12	<b>-12</b>
Repurchase of own shares for redemption (Elektromontaż)- change in ownership structure	-	227	782	<b>1 009</b>	-1 355	<b>-346</b>

Other changes – among others disposal of shares in subsidiaries	-	-	-92	-92	-	-92
<b>As at the end of period</b>	<b>3 895</b>	<b>11 063</b>	<b>95 452</b>	<b>110 410</b>	<b>13 678</b>	<b>124 088</b>

**Consolidated statement of cash flows**  
**For the period from 1 January 2013 to 31 December 2013**

(all amounts in PLN thousands if not stated otherwise)

	Period ended 31 December 2013	Period ended 31 December 2012
<b>Cash flows – operating activities</b>		
Profit (loss) before tax	73	-3 670
Total adjustments	16 651	-6 249
Profit sharing in entities valued using equity method	- 402	-384
Amortization and depreciation	2 339	2 296
Interest and profit sharing (dividends)	303	1 201
(Profit) loss on disposal of property, plant and equipment	-195	-201
(Profit) loss on investment recognized in the statement of comprehensive income	290	-1 187
Change in provisions	144	959
Change in inventories	-4 864	1 560
Change in receivables	3 261	23 741
Change in current liabilities, except for loans and borrowings	-9 302	-35 267
Other adjustments ( including change in deferred income)	25 077	1 033
Cash provided by (used in) operating activities	16 724	-9 919
Paid income tax	334	749
	<b>16 390</b>	<b>-10 668</b>
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash flows – investing activities</b>		
<b>Inflows</b>	2 763	430
Disposal of intangible assets and property, plant and equipment	474	403
Inflows from financial assets, including:	2 289	27
a) in associated entities	371	26
- disposal of financial assets	270	8
- dividends and profit sharing	-	18
- repayment of loan granted and interest	101	-
b) in other entities	1 918	1
- disposal of financial assets	1 858	-
- borrowing received	60	-
- other inflows from financial assets	-	1
<b>Outflows</b>	-1 775	-4 785
Acquisition of intangible assets and property, plant and equipment	-1 540	-1 056
Investments in real estate	-	-3 646
For financial assets, including:	-235	-83
a) in related entities	-185	-82
- acquisition of financial assets	-56	-82
- loans granted	-100	-

- repayment of borrowings	-29	-
b) in other entities	-50	-1
- other investment expenditures	-50	-1
<b>Net cash provided by (used in) investing activities</b>	<b>988</b>	<b>-4 355</b>
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<b>Cash flows – financing activities</b>		
Inflows	3 279	6 765
Bank loans	3 232	-6 512
Other financial inflows	47	-253
Outflows	-10 246	-4 296
Dividends paid	-3 038	-
Other, than payment to owners, outflows under profit distribution	-272	-358
Repayment of bank loans	-6 347	-3 276
Payments of liabilities under finance lease agreements	-75	-51
Commission and interest paid	-514	-611
<b>Net cash provided by (used in) financing activities</b>	<b>-6 967</b>	<b>2 469</b>
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Total cash flow, net	10 411	-12 554
Net increase/(decrease) in cash and cash equivalents	10 411	-12 554
Cash and cash equivalents at the beginning of the period	6 796	19 350
<b>Cash and cash equivalents at the end of the period</b>	<b>17 207</b>	<b>6 796</b>
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## II. Interim condensed separate financial statements of PROCHEM S.A.

### Separate statement of financial position as at 31 December 2013

(all amounts in PLN thousands if not stated otherwise)

	As at 31 December 2013	As at 31 December 2012
<b>A s s e t s</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1 971	2 015
Intangible assets	201	140
Shares in subsidiaries	10 060	15 026
Shares in equity-accounted investees	5 210	708
Deferred tax assets	762	1 986
Other financial assets	33 822	26 985
<b>Total non-current assets</b>	<b>52 026</b>	<b>46 860</b>
<b>Current assets</b>		
Inventories	3 467	2 359
Trade and other receivables	41 166	45 745
Other financial assets	3 627	751
Other assets	10 841	10 768
Cash and cash equivalents	12 683	3 164
<b>Total current assets</b>	<b>71 784</b>	<b>62 787</b>
<b>Total assets</b>	<b>123 810</b>	<b>109 647</b>
<b>E q u i t y a n d l i a b i l i t i e s</b>		
<b>Equity</b>		
Share capital	3 895	3 895
Revaluation reserve	1 013	1 086
Retained earnings	68 794	65 049
<b>Total equity</b>	<b>73 702</b>	<b>70 030</b>
<b>Non-current liabilities</b>		
Provisions for retirement and similar benefits	531	415
Other non-current liabilities	27	27
<b>Total non-current liabilities</b>	<b>558</b>	<b>442</b>
<b>Current liabilities</b>		
Current bank loans	-	6 347
Trade payables	17 537	29 083
Liabilities under current income tax	331	-
Other liabilities	4 024	3 734
Deferred income	27 658	11
<b>Total current liabilities</b>	<b>49 550</b>	<b>39 175</b>
<b>Total liabilities</b>	<b>50 108</b>	<b>39 617</b>
<b>Total equity and liabilities</b>	<b>123 810</b>	<b>109 647</b>
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Book value per one share (in PLN)	18.92	17.98

## Separate profit and loss account for the period from 1 January 2013 to 31 December 2013

(all amounts in PLN thousands if not stated otherwise)

	Period ended 31 December 2013	Period ended 31 December 2012
<b>Revenues from sales, including :</b>	<b>83 347</b>	<b>85 406</b>
Revenues from sale of services	82 896	84 296
Revenues from sale of goods and materials	451	1 110
<b>Cost of sales, including :</b>	<b>-74 478</b>	<b>-82 618</b>
Cost of services sold	-74 035	-81 593
Cost of merchandise and raw materials	-443	-1 025
<b>Gross profit on sales</b>	<b>8 869</b>	<b>2 788</b>
General and administrative expenses	-7 895	-7 200
Other operating income	3 783	671
Other operating expenses	-891	-1 673
<b>Results from operating activities</b>	<b>3 866</b>	<b>-5 414</b>
Financial income	1 195	1 082
Profit on disposal of shares in subsidiaries	5 087	7 545
Finance expenses	-1 794	-1 335
<b>Profit before tax</b>	<b>8 354</b>	<b>1 878</b>
Income tax expense :	1 572	-1 178
- current tax	331	-
- deferred tax	1 241	-1 178
<b>Profit for the period</b>	<b>6 782</b>	<b>3 056</b>

Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Profit/diluted profit per share (in PLN per share)	1.74	0.78

## Separate statement of comprehensive income

<b>Profit for the period</b>	<b>6 782</b>	<b>3 056</b>
<b>Other comprehensive income (net)</b>	<b>-73</b>	<b>135</b>
<b>Other comprehensive income that will not be reclassified to profit or loss when certain conditions are met:</b>	<b>-</b>	<b>135</b>
Revaluation of property, plant and equipment	-	167
Income tax on other comprehensive income	-	32
<b>Other comprehensive income that will not be reclassified to profit or loss:</b>	<b>-73</b>	<b>-</b>
Actuarial gains (losses) on valuation of provisions for employee benefits	-90	-
Income tax on other comprehensive income	17	-
<b>Total comprehensive income</b>	<b>6 709</b>	<b>3 191</b>

Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Total comprehensive income per ordinary share (in PLN per one share)	1.72	0.82

## Separate statement of changes in equity for the period from 1 January 2013 to 31 December 2013

(all amounts in PLN thousands if not stated otherwise)

	Share capital	Revaluation reserve	Retained earnings	Total equity
<b>The reporting period from 1 January 2013 to 31 December 2013</b>				
<b>As at the beginning of the period</b>	<b>3 895</b>	<b>1 086</b>	<b>65 049</b>	<b>70 030</b>
Net profit (loss) of the given period			6 782	6 782
<b>Net other comprehensive income</b>		-73		-73
<b>Total comprehensive income</b>	<b>0</b>	<b>-73</b>	<b>6 782</b>	<b>6 709</b>
Payment of dividend			-3 038	-3 038
Other changes			1	1
<b>As at the end of the period</b>	<b>3 895</b>	<b>1 013</b>	<b>68 794</b>	<b>73 702</b>

## The reporting period from 1 January 2012 to 31 December 2012

	Share capital	Revaluation reserve	Retained earnings	Total equity
<b>The reporting period from 1 January 2012 to 31 December 2012</b>				
<b>As at the beginning of the period</b>	<b>3 895</b>	<b>951</b>	<b>61 993</b>	<b>66 839</b>
Net profit (loss) of the given period			3 056	3 056
<b>Net other comprehensive income</b>		135		135
<b>Total comprehensive income</b>	<b>0</b>	<b>135</b>	<b>3 056</b>	<b>3 191</b>
<b>As at the end of the period</b>	<b>3 895</b>	<b>1 086</b>	<b>65 049</b>	<b>70 030</b>

## Separate statement of cash flows for the period from 1 January 2013 to 31 December 2013

(all amounts in PLN thousands if not stated otherwise)

	Period ended 31 December 2013	Period ended 31 December 2012
<b>Cash flows – operating activities</b>		
Profit before tax	8 354	1 878
Total adjustments	14 866	-20 252
Amortization and depreciation	817	825
Interest and profit sharing (dividends)	-474	246
(Profit) on disposal of property, plant and equipment	-146	-143
(Profit) on investment recognized in statement of comprehensive income	-5 087	-7 545
Change in provisions	877	365
Change in inventories	-1 108	976
Change in receivables and other assets	4 459	30 660
Change in current liabilities, except for borrowings and loans	-12 118	-41 947
Other adjustments ( including change in deferred income)	27 646	-3 689
Cash provided by (used in ) operating activities	23 220	-18 374
Income tax paid	-	-
<b>Cash provided by (used in) operating activities</b>	<b>23 220</b>	<b>-18 374</b>
<b>Cash flows – investing activities</b>		
<b>Inflows</b>	<b>6 704</b>	<b>8 480</b>

*Interim condensed consolidated financial statements as at and for the period of twelve months ended 31 December 2013*

Disposal of intangible assets and property, plant and equipment	452	331
Proceeds from financial assets, including :	6 252	8 149
a) in related entities	6 252	8 149
- dividend received	304	3
- disposal of financial assets (shares)	5 603	8 145
- repayment of loans granted	287	1
- repayment of interest on loans granted	58	-
<b>Outflows</b>	<b>-10 665</b>	<b>-8 887</b>
Acquisition of intangible assets and property, plant and equipment	-1 081	-489
Investment in real estate (prepayments)	-	-396
For financial assets, including:	-9 584	-8 002
a) in related entities	-9 584	-8 001
- acquisition of financial assets	-54	-
- loans granted	-9 530	-8 001
b) in other entities	-	-1
- loans granted	-	-1
<b>Net cash provided by (used in ) investing activities</b>	<b>-3 961</b>	<b>-407</b>
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<b>Cash flows – financing activities</b>		
<b>Inflows</b>	-	<b>6 347</b>
Bank loans received	-	6 347
<b>Outflows</b>	<b>-9 740</b>	<b>-408</b>
Payment of dividend and other payments to owners	-3 036	-
Repayment of bank loans	-6 347	-
Commission and interest paid	-357	-408
<b>Net cash provided by (used in) financing activities</b>	<b>-9 740</b>	<b>5 939</b>
<hr/>		
Total cash flow, net	9 519	-12 842
Net increase/(decrease) in cash and cash equivalents	9 519	-12 842
<b>Cash and cash equivalents at the beginning of the period</b>	<b>3 164</b>	<b>16 006</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>12 683</b>	<b>3 164</b>
<hr/>		

### **III. Notes and adopted accounting principles (policy) and other explanatory notes to interim condensed consolidated financial statements of PROCHEM S.A. Capital Group and PROCHEM S.A.**

These notes contain both consolidated financial data of PROCHEM Capital Group (PROCHEM Group, the Group, Capital Group) and the separate financial results of PROCHEM S.A. (PROCHEM, the Company, the Issuer).

#### **1. Establishment of the Company and principal activity**

Company PROCHEM S.A. (hereinafter called „PROCHEM“, „Company“, „Issuer“ or „Parent Company“) seated in Warsaw, 44C Powązkowska 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 separate 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.

#### **2. Management Board and Supervisory authorities of the Parent Company**

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

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

As at the date of preparation hereby financial statements the Supervisory Board comprises of:

- Andrzej Karczykowski - Chairman
- Marek Garliński – Vice Chairman
- Dariusz Krajowski-Kukiel
- Krzysztof Obłój
- Adam Parzydeł

In 2013 there were no changes in the composition of the Management Board and the Supervisory Board.

#### **3. Description of the Group, with indication of consolidated entities**

PROCHEM S.A. Capital Group (hereinafter referred to as „Capital Group“, „Group“), apart from data of parent company includes the following subsidiaries directly or 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 (93.4%);
- Pro-Organika Sp. z o.o. seated in Warsaw – subsidiary directly (91.4%);
- PROCHEM Serwis Sp. z o.o. seated in Warsaw – subsidiary indirectly (89.1%);

- PREDOM Sp. z o.o. seated in Wrocław – subsidiary indirectly (81.1% of the capital and profit, and 69.4% of shares);
- PROCHEM Zachód Sp. z o.o. seated in Słubice – subsidiary directly (60.0%);
- ELPRO Sp. z o.o. Kraków – subsidiary indirectly (85.2%, including 70.4% in the 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o.o. Kraków – subsidiary indirectly (85.2%, including 70.4% in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. – subsidiary indirectly (70.4%), of which 58.8% of the capital and the votes holds PROCHEM Inwestycje subsidiary 100%. Elektromontaż Kraków S.A. prepares consolidated financial statements including data of subsidiary 100%: ELMONT-POMIARY Sp. z o.o. seated in Kraków and two associates ELPRO Sp. z o.o. and Elmont-Inwestycje Sp. z o.o.;
- IRYD Sp. z o.o. seated in Warsaw – subsidiary indirectly 100%;
- ATUTOR Integracja Cyfrowa Sp. z o.o. seated in Warsaw – subsidiary indirectly (87.3% holds PROCHEM Inwestycje Sp. z o.o. subsidiary 100%);
- PROCHEM RPI Sp. z o.o. seated in Warsaw – subsidiary indirectly and directly 100% ;

Jointly-controlled entities and associates measured using the equity method:

- ITEL Sp. z o.o. seated in Gdynia – 42.0% share (18.7% of the voting rights and the capital holds directly PROCHEM S.A., and 23.3% holds PROCHEM RPI Sp. z o.o. subsidiary 100%);
- Irydion Sp. z o.o. seated in Warsaw – 50% share;

Consolidated financial statement include consolidated entities from the date of acquisition of control until the loss of control by the parent company, and jointly controlled entities and associates from the date of exercising of joint control and exerting significant influence.

Predom Projektowanie Sp. z o.o. was excluded from consolidation. Company has not commenced operations. The value of shares was recognized in impairment losses.

On 7 January 2013 PRO-INHUT Sp. z o.o. (subsidiary indirectly) based on the resolution of the Extraordinary Meeting of Shareholders increased the company's capital by PLN 3 thousand by creating new 6 shares, which were subscribed by minority shareholders. As a result of changes in the articles of association the Issuer's indirect share decreased by 5.6% and is 93.4%.

On 13 February 2013 PROCHEM Inwestycje Sp. z o.o. (100% subsidiary of the Issuer) on the basis of the contract of sale of part of the share for redemption, sold part of its shares in PROMIS for redemption for the amount of PLN 270 thousand. The nominal value of the share was PLN 110 thousand. Associated company ZI Promis Sp. z o.o. was excluded from consolidation with the date of sale.

On 28 February 2013, the Assembly of Partners adopted a resolution on the dissolution and opening the liquidation of the company PRO-PLM Sp. of o.o. 100% subsidiary directly and indirectly.

On April 3, 2013, the General Meeting of Shareholders of IRYDION Sp. of o.o. resolved to increase the share capital by PLN 4 500 thousand, through the issue of 4 500 new shares with a nominal value of PLN 1,000 each. The new shares were subscribed as follows:

- 4 499 shares at the issue price of PLN 14 996.5 thousand were acquired by Look Finansowanie Inwestycji S.A. seated in Wrocław,
- 1 share at issue price of PLN 3.5 thousand was acquired by PROCHEM S.A.

After the increase the share capital of Irydion Sp. z o.o. amounts to PLN 9 000 thousand. After changes in the articles of association the Issuer's share in the share capital and in the voting rights decreased to 50%.

On April 3, 2013 loan agreement was concluded between Irydion Sp. z o.o and shareholder Look Finansowanie Inwestycji S.A. seated in Wrocław under which Look Finansowanie Inwestycji S.A. will grant a loan of PLN 15,000 until 30 September 2013 with the date of repayment till September 30, 2018. The interest rate does not differ from market conditions. Means obtained both through the issuance of new shares and borrowings will be earmarked by the shareholders of IRYDION Sp. z o. o. for the implementation of a joint project i.e. the development project - under the name of Astrum Business Park in Warsaw. The project involves the construction in two phases, of an office building on the land property, which is owned by IRYDION.

On 4 January 2014 the liquidation proceedings for subsidiary PRO-PLM Sp. with o.o. based in Warsaw was completed. PRO-PLM Sp. z o.o. was subsidiary 100%.

On 18 December 2013, on the basis of the contract of sale PROCHEM S.A. sold the shares of the subsidiary Elektromontaż Kraków SA based in Krakow. Subject of the transaction was 70 000 shares with a nominal value of PLN 5 each, for a total amount of PLN 5 600 000. Shares were acquired by PROCHEM Investments Sp. z o.o. seated in Warsaw, a 100% subsidiary of the Issuer.

The book value of these assets in the books of accounts of the Issuer amounted to PLN 515.9 thousand.

#### **4. Accounting policies adopted by Capital Group and Issuer**

##### **Statement of compliance and base for presentation**

###### ***Base for presentation***

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group for four quarters of 2013, ended 31 December 2013 was prepared according to IAS 34 "Interim Reporting" 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). Presented 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 December 31, 2012.

The interim condensed consolidated financial statements of PROCHEM S.A. Capital Group statements have been prepared assuming a going concern in the foreseeable future. Separate financial statements of PROCHEM S.A. was also prepared assuming a going concern in the foreseeable future.

The duration of each company belonging to the Group is not limited.

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

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

###### ***Principles of preparation of the consolidated financial statements***

Consolidated financial statements and separate financial statements of PROCHEM S.A. were prepared based on the principle of the historical cost, apart from:

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

## **Changes in estimates and accounting policies**

The preparation of financial statements under IFRS adopted by EU requires using certain accounting estimates and adoption of assumptions concerning future events. Items of the consolidated financial statements set under the estimation are subject to verification if circumstances being base of estimates are changing or as a result of obtaining new information or of progressing course of events or of acquiring greater experience.

Adopted accounting principle (policy) are changed in case of:

1. changes in IFRS,
2. when the change in accounting principles will lead to that information included in the financial statements about the impact of the transaction, of other events and conditions on financial position, financial result or also flows will be more useful and credible for recipients of financial statements.

In case of changes in accounting policies it is assumed that new accounting policies were always applied, except for the ones which aren't anticipating the retrospective change. Adjustments associated with it are recognized as changes in equity. For ensuring the comparability the transformations of financial statements for the period presented earlier are done in such way that the financial statements also include introduced changes, except for situations, when establishing the influence of the change on individual periods or its total influence is in practice impossible.

### *Significant accounting policies and changes in IFRS*

When preparing the interim condensed financial statements for twelve months of 2013 were applied the same accounting principles and the same calculation methods which were applied in the consolidated financial statements of PROCHEM S.A. Capital Group for the year ended 31 December 2012 and in the separate financial statements of PROCHEM S.A. for the year ended 31 December 2013, with the exception of IAS 1 and IAS 19, with adjustment of the period comparable to the changes in accounting policies and presentation that:

1. had no impact on the financial data presented in the report for the current period and comparable, and were related to:
  - change in the presentation of the statement of comprehensive income resulting from the amendment to IAS 1. Bearing in mind the clarity and readability of the data presented financial Group has decided to present the income and expenses of the reporting period in two statements: a statement which is presenting components in the consolidated profit and loss account and in the statement that begins with profit or loss for the period and presents components of other comprehensive income (consolidated statement of comprehensive income).
  - changes in the presentation of other comprehensive income is carried out in two groups, which in accordance with other IFRS:
    - will be reclassified to profit or loss under certain conditions,
    - will not be reclassified to profit or loss.

2. had an impact on amounts presented in prior periods related to amendments to IAS 19 *Employee Benefits*. The changes introduced were related to the recognition and presentation of actuarial gains / losses on the valuation of the program of defined post-employment benefits in other comprehensive income and not as yet in profit or loss.

Amount of actuarial gains / losses that should be recognized in the revaluation reserve is not a significant therefore data for previous periods were not restated.

In 2013, for the first time, changes were applied to introduce IFRS 10 Consolidated Financial Statements, IFRS11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities.

The Group and the Issuer will apply changes in announced IFRS, not yet effective as at the date of the condensed consolidated financial statements in accordance with their effective date. The possible impact of these changes on the future consolidated financial statements and separate financial statements PROCHEM S.A. is being analyzed. It is not expected that amendments to IFRS will have a significant impact on the financial statements.

#### *Change in estimates*

In the twelve months of 2013 there were no significant changes in principles and methods of calculation that were applied to determine the estimates and in the estimates.

### **Functional currency and presentation currency of the financial statements**

Interim condensed consolidated financial statements of the Group and separate financial statements of PROCHEM S.A. are presented in Polish Zloty („zloty” or “PLN”), which is the presentation currency of the Group and the functional currency of the parent company.

#### **1. Brief description of achievements and failures of the issuer during the period covered by the report, together with an indication of the most important events**

In the fourth quarter of 2013 the Issuer sold 70 000 shares with the nominal value of PLN 5 each, for total amount of PLN 5 600 000. The result on the transaction was PLN 5 084 thousand.

#### **2. Description of factors and events, especially of untypical nature, which have a significant impact on the financial results**

In the fourth quarter of 2013 the events of untypical nature did not occur.

Other events that have an impact on the financial results of the Capital Group in the fourth quarter of 2013:

- a) Provision for deferred income tax that was created in previous periods in the amount of PLN 977 thousand was resolved, and provision was created in the amount of PLN 1 085 thousand,
- b) Deferred tax assets were used in the amount of PLN 1 184 thousand, and were created in the amount of PLN 1 179 thousand,
- c) Provision to future costs was created in the amount of PLN 1 430 thousand,
- d) Provision to retirement benefits was created in the amount of PLN 85 thousand, and was used in the amount of PLN 148 thousand,
- e) Provision to holiday benefits was created in the amount of PLN 389 thousand, and was used in the amount of PLN 99 thousand,
- f) Write down for receivables in the amount of PLN 213 thousand was created, and write down created in previous periods in the amount of PLN 24 thousand was used.

Other events that have an impact on the financial result of the Issuer in the fourth quarter of 2013:

- a) Provision for deferred income tax was created in the amount of PLN 157 thousand,
- b) Deferred tax assets were used in the amount of PLN 1 134 thousand, and were created in the amount of PLN 380 thousand,
- c) Provision to future costs created in previous periods in the amount of PLN 167 thousand was used,
- d) Provision to future costs was created in the amount of PLN 1304,
- e) Provision to retirement benefits was created in the amount of PLN 62 thousand,
- f) Provision to holiday benefits was created in the amount of PLN 279 thousand,
- g) Write down for receivables was created in the amount of PLN 213 thousand, and write down created in previous periods was used in the amount of PLN 24 thousand.

## **7. Notes on the seasonality or cyclicity of the Issuer's activities in the reporting period**

Operational activities of the parent company and companies belonging to the Group neither have seasonal character nor is subject to cyclic trends, except for the segments of the general contractor and rental of construction equipment, which are characterized by seasonality, which in large extent is caused by the weather conditions. Weather conditions affect the volume of the revenue generated in these segments. Lower revenues are achieved during the winter season, when the weather conditions do not allow for execution of some construction work.

## **8. Information on the issue, repurchase and repayment of non-equity securities and equity securities**

Transactions of this type have not occurred.

## **9. Information on dividend paid (or declared), total and per share, total and per share, broken down by ordinary and preference shares of the issue, repurchase and repayment of non-equity securities and equity securities**

In the reporting period the Issuer has paid the dividend for 2012 in the amount of PLN 3 038 100, that is PLN 0.78 per share.

## **10. Events after the date of the condensed quarterly financial statements, not included in the statements, but which could have a material impact on future financial results of the issuer**

There were no events affecting the financial result

## **11. Related party transactions**

In the fourth quarter of 2013, members of the Supervisory Board and the Management Board did not conclude transactions with related parties.

Transactions with related parties as below were concluded on market conditions and relate to sale and purchase of services among others construction services, assembly services and lease as well as loans granted mutually.

Settlements with related parties include trade settlement, other settlements, and settlement under loans.

Guarantees and sureties to related parties are presented in item 12.

## **Transactions of the Capital Group with entities valued using the equity method**

### **The reporting period**

In the period from 1 January 2013 to 31 December 2013 there were the following transactions with entities valued using the equity method:

- Revenues from sale of services in the amount of PLN 21 283 thousand,
- Financial income (interest on loan) in the amount of PLN 300 thousand.

Share in net profit (loss) for the twelve months of 2013, in entities valued using equity method amounted to PLN 402 thousand.

As at 31 December 2013 there were the following transactions with entities valued using equity method:

- Receivables for supplies and services - PLN 723 thousand,
- Liabilities for supplies and services - PLN 16 thousand
- Non-current loans granted - PLN 11 300 thousand,

### **Comparative data**

In the period from 1 January 2012 to 31 December 2012 there were transactions with entities valued using equity method – the guarantee fee – in the amount of PLN 3 thousand.

Share in net profit (loss) for the twelve months of 2012, in entities valued using equity method amounted to PLN 384 thousand.

As at 31 December 2012 settlements under trade receivables and payables with entities valued using equity method did not occur.

### **Transactions of the Issuer with subsidiaries, jointly controlled and associated entities**

#### **Data for the reporting period**

#### **Transactions with subsidiaries**

As at 31 December 2013 the settlements of the Issuer with subsidiaries directly and indirectly developed as follows:

Receivables from non-current loans – PLN 22 523 thousand (including interest PLN 1 743 thousand),

Receivables from current loans – PLN 3 429 thousand (including PLN 129 thousand),

Trade and other receivables – PLN 5 974,

Trade payables – PLN 733 thousand.

In the period from 1 January 2013 to 31 December 2013 there were the following transactions of the Issuer with subsidiaries directly and indirectly:

- Sale and purchase of construction services,
- Sale of goods and materials,
- Sale of other services (rental of space) to subsidiaries  
Total revenues from these transactions amounted to – PLN 582 thousand
- Revenues from interest on loans amounted to – PLN 439 thousand
- Proceeds from dividends received amounted to - PLN 304 thousand
- Remuneration under valorization of the contract value – PLN 93 thousand
- Revenues from disposal of shares – PLN 5 085 thousand

#### **Transaction of the Issuer with jointly controlled and associated entities**

As at 31 December 2013 the settlements of the Issuer with entities associated directly and indirectly developed as follows:

Receivables from non-current loans PLN 11 300 (including interest PLN 300 thousand),

Trade and other receivables – PLN 723 thousand,

Trade payables – PLN 16 thousand.

In the period from 1 January 2013 to 30 September 2013 there were the following transactions with associated entities:

- revenues from sale of services – PLN 21 283 thousand

- revenues from interest on loan – PLN 300 thousand

## Comparable data

### Transactions with subsidiaries

As at 31 December 2012 the settlements of the Issuer with subsidiaries directly and indirectly developed as follows:

Receivables from non-current loans with interest – PLN 26 985 thousand,  
 Receivables from current loans with interest – PLN 553 thousand,  
 Trade and other receivables – PLN 9 004 thousand,  
 Trade payables – PLN 1 920 thousand.

In the period from 1 January 2012 to 30 September 2012 there were the following transactions of the Issuer with subsidiaries directly and indirectly:

- Sale and purchase of construction services,
  - Sale of other services (rental of space) to subsidiaries,
- Total revenues from these transactions amounted to – PLN 946 thousand
- Revenues from interest on loans amounted to – PLN 636 thousand
  - Profit on sale of shares in subsidiary amounted to PLN 7 545 thousand
  - Remuneration under valorization of contract value – PLN 215 thousand,
  - Dividends received – PLN 3 thousand.

### Transactions with jointly controlled and associated entities

In the period from 1 January 2012 to 30 September 2012 transactions with jointly controlled and associated entities did not occur.

## 12. Information on changes in contingent liabilities or contingent assets since the end of the last financial year

### Contingent liabilities

under	Capital Group		Including Issuer	
	As at		As at	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Bank guarantee of good performance	17 167	18 542	11 407	12 774
Advance payment guarantee	29 984	-	29 984	-
Payment guarantee	1 134	1 035	1 134	1 035
B/e surety of the good performance of the contract	35	35	-	-
Tender guarantee	1 235	-	1 235	-
<b>Total contingent liabilities</b>	<b>49 555</b>	<b>19 612</b>	<b>43 760</b>	<b>13 809</b>

### Contingent liabilities for third parties

Warranty securing obligations under statutory warranty and guarantee – granted on behalf of ZI Promis Sp. z o.o.	-	286	-	286
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<b>Total contingent liabilities</b>	<b>49 555</b>	<b>19 898</b>	<b>43 760</b>	<b>14 095</b>
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### Contingent assets

Contingent assets of the Group represent bank guarantees of good performance which as at the balance sheet date amounts to :

under	As at	
	31 December 2013	31 December 2012
Bank guarantee of good performance	1 123	2 078
bill of exchange guarantee securing terms of contract	577	577
	<b>1</b>	
<b>Total contingent assets</b>	<b>700</b>	<b>2 655</b>

Contingent assets relate only to the Issuer.

Contingent receivables from PERN are described in item 17.

### 13. Changes in the structure of the Capital Group since the beginning of the year, including amalgamation, acquisition or disposal of subsidiaries and non-current investments, restructuring and discontinued operations

On 7 January 2013 PRO-INHUT(indirect subsidiary) pursuant to the Resolution of the Extraordinary General Meeting has increased the company's capital by PLN 3 thousand through creation of 6 new shares, which were subscribed by minority shareholders. As a result of changes in the articles of association of the company, the Issuer's indirect share decreased by 5.6% and is 93.4%.

On 13 February 2013 PROCHEM Inwestycje Sp. z o.o. (100% subsidiary of the Issuer) under the agreement of sale of shares for redemption, has sold shares in PROMIS with the aim of redemption in the amount of PLN 270 thousand. The nominal value of the share was PLN 110 thousand. Associated company ZI Promis Sp. z o.o. was excluded from consolidation from the date of sale.

On 28 February 2013 the Assembly of Partners adopted a resolution on the dissolution and opening the liquidation of PRO-PLM Sp. z o.o. direct and indirect subsidiary 100%.

On April 3, 2013 the General Meeting of Shareholders of the subsidiary IRYDION Sp. z o.o. resolved to increase the share capital by PLN 4 500 thousand, through the issue of 4 500 new shares with a nominal value of PLN 1,000 each. New shares were subscribed as follows:

- 4 499 shares at the issue price PLN 14 996.5 thousand were acquired by Look Finansowanie Inwestycji S.A. seated in Wrocław,
- 1 share at issue price of PLN 3.5 was acquired by PROCHEM S.A.

After the increase, the share capital of Irydion Sp. z o.o. amounts to PLN 9,000 thousand. After the change in the articles of association the Issuer's share in the capital and in voting rights decreased to 50%.

On April 3, 2013 loan agreement agreement was concluded between Irydion Sp. z o.o and shareholder Look Finansowanie Inwestycji S.A. seated in Wrocław under which Look Finansowanie Inwestycji S.A. will grant a loan of PLN 15,000 until 30 September 2013 with the date of repayment till September 30, 2018. The interest rate does not differ from market conditions. The means gained both through the issue of new shares and the borrowing will be used for the implementation of a joint project by the shareholders of company

IRYDION Sp. z oo, ie a development project - under the name Astrum Business Park in Warsaw. This project involves the construction in two phases, of an office building on the land property owned by IRYDION.

As a result of the repurchase of own shares for redemption by the company Elektromontaż Kraków S.A. there is a change in the structure of ownership. As at September 30, 2013, the share of the Parent Company increased by 0.4% punktów procentowych do 70.4%.

**14. Position of the Board in relation to possibility of realization of previously published forecast of results for the given year, in the light of the results presented in the quarterly report with respect to the results forecasted**

Management Board of PROCHEM S.A. did not publish any forecasts of financial results neither for the company nor PROCHEM S.A. Capital Group for 2013.

**15. Shareholders holding directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Company as at the date of this quarterly report, including the number of owned shares, the percentage of the share capital, the number of votes from them and percentage share in the total number of votes at the general meeting, and changes in the ownership of large blocks of shares of the Issuer since the previous quarterly report**

The share capital of the company amounts to PLN 3 895 thousand and is divided into 3 895 000 shares with the nominal value of PLN 1 each. The total number of votes from all shares is 3 896 660.

Within twelve months of 2013 there was no change in the value of the share capital of the Issuer.

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

<b>description</b>	<b>Number of shares (units)</b>	<b>% of votes in the total number of votes</b>	<b>% of share capital</b>
1. POROZUMIENIE PCH, including: Steve Tappan	1 178 320 509 797	30.28 13.08	30.25 13.09
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”	387 000	9.93	9.94
3. Legg Mason Towarzystwo Funduszy Inwestycyjnych S.A., including: - Legg Mason Parasol Fundusz Inwestycyjny Otwarty („Legg Mason Parasol FIO” - Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty - Legg Mason Akcji Skoncentrowany Fundusz Inwestycyjny Zamknięty	560 549 284 054	14.39 7.29	14.39 7.29
4. Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A.	207 792	5.33	5.33

In the period since the previous annual report, the change in the ownership of large blocks of shares relates to:

- Company PROCHEM Holding M.Garliński Spółka Komandytowa (hereinafter referred to as PROCHEM Holding), which adopted a resolution on the dissolution and termination of the activities and on the distribution of company's assets. On the basis of the resolution on division of assets on 16 October 2013 handed over its shares of PROCHEM S.A. to the current general partners and limited partners of PROCHEM Holding. The notification received on 18 October 2013 shows that PROCHEM Holding holds no shares of PROCHEM S.A. Before the change, PROCHEM Holding held shares entitling to 807 413 votes at the General Assembly of Shareholders, corresponding to 20.72% of the total number of votes and 20.73% of the share capital.
- „POROZUMIENIE PHC” („The Agreement PHC”). On 18 October 2013 the Issuer was notified about the agreement under the name of "AGREEMENT PHC" entitling to exercise the rights from the shares of PROCHEM S.A. The agreement was signed by former partners of the dissolved limited partnership PROCHEM Holding M. Garliński Spółka Komandytowa and will be valid until 31 December 2016. The members of the agreement have together 1 178 320 shares of the Issuer, which give the right to 1 179 920 votes at the General Meeting of Shareholders, which corresponds to 30.28% of the total number of votes and represents 30.25% of the share capital.
- Legg Mason Parasol Fundusz Inwestycyjny Otwarty Fundusz Własności Pracowniczej PKPO Specjalistyczny Fundusz Inwestycyjny Otwarty and Legg Mason Akcji Skoncentrowany Fundusz Inwestycyjny Zamknięty on 4 November 2013 have notified that the number of PROCHEM's shares held was decreased by 49 866 shares.
- On 18 October 2013, the Issuer was notified about the increase in the number of shares owned by Mr. Steve Tappan by 232 616 shares. At the same time Steve Tappan informed on accession on 17 October 2013 to the PHC Agreement concluded by the former partners of a dissolved limited partnership PROCHEM Holding M. Garliński Spółka Komandytowa.
- On 7 January 2014 the Issuer was notified about the purchase of shares by Towarzystwo Funduszy Inwestycyjnych S.A. (Noble Fund Fundusz Inwestycyjny Otwarty, Noble Fund Opportunity Fundusz Inwestycyjny Zamknięty, Noble Fund 2DB Fundusz Inwestycyjny Zamknięty). Fundusze held 207 792 company's shares, which represents 5.33% of the company's share capital, entitling to 207 792 votes from the shares, which represents 5.33% of total number of company's votes.

## **16. Events after balance sheet date**

On 7 January 2014 subsidiary PROCHEM Inwestycje Sp. z o.o. seated in Warsaw under the agreement of sale of inscribed shares has acquired shares in Elektromontaż Kraków seated in Krakow. Subject of the transaction was 10 000 shares with the nominal value of PLN 5 each, for a total amount of PLN 500 thousand. As a result of the transaction, the company increased its share in capital and votes by 3.88%.

On 14 February 2014, PROCHEM S.A. underwrote two promissory notes issued by a subsidiary PRO-INHUT Sp. z o.o. based in Dąbrowa Górnicza for the investor in order to secure the claims. The surety up to the amount of PLN 831 thousand.

## **17. Statement of changes in ownership of the issuer's shares or rights to them (options) held by Management Board and Supervisory authorities, in accordance with the Issuer's knowledge, in the period from the previous quarterly report**

As at the date of the quarterly report the following members of the Management Board and the Supervisory Board of the company held shares of PROCHEM S.A.:

- Jarosław Stępniewski – 80,933 units;
- Marek Kiersznicki – 70,143 units;
- Krzysztof Marczak – 42,700 units;
- Andrzej Karczykowski – 115,186 units;

- Marek Garliński – 86,400 units;
- Adam Parzydeł – 15,300 units.

In the period since the previous report, there was no change in number of Issuer's shares held by the members of the Management Board and the Supervisory Board:

**18. Proceedings pending before the court, competent authority for arbitration or public administration including information on:**

- a) proceedings relating to liabilities or receivables of the issuer or its subsidiary whose value is at least 10% of the equity of the issuer, with the specification of the subject case, the amount in dispute, date of initiation of proceedings, the parties to the proceedings and the position of the issuer
- b) two or more proceedings relating to liabilities and receivables with a total value respectively of at least 10% of the equity of the issuer, stating the total value proceedings separately in the group of liabilities and group of receivables together with the position of the issuer in this case and, in relation to the most significant proceedings in the group of liabilities and the group of receivables - an indication of their subject, the amount in dispute, date of initiation of proceedings and the parties to the proceedings.

PROCHEM S.A. 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, 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 clarifying the final conclusions of evidence to complement the expert opinions 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 complain 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 S.A.

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

Furthermore, the total value of other proceedings separately for group of liabilities and as well as group of receivables does not exceed 10% of the equity of the Issuer's Capital Group.

**19. Information on the one or more transactions concluded by the issuer or its subsidiary with related parties, if separately or jointly they are significant and were concluded on terms other than market terms:**

- a) the subject of the transaction,
- b) the relationship of the issuer or its subsidiary with the entity who is a party to the transaction,
- c) the essential terms of the transaction, with particular emphasis on financial conditions and the indication of specific conditions specified by the parties, characteristic of this agreement, in particular different from those commonly used for such contracts.

In the fourth quarter of 2013 the transactions concluded on other terms than on market conditions did not occur.

**20. Information on surety for loan or borrowing or guarantees granted by the issuer or its subsidiary - jointly to one entity or its subsidiary, if the total value of existing surety or guarantees is equivalent to at least 10% of the issuer's equity**

In the period of twelve months of 2013, none of the companies belonging to the Group has granted any warranty or surety for a loan or borrowing of this value to other entity.

In the third quarter of 2013, the Issuer has granted Elektromontaż Kraków SA current loan in the amount of PLN 2 700 thousand. Interest rate on loan has been set at WIBOR 1M.

In the fourth quarter of 2013 the Issuer has granted loans to subsidiaries:

- Elektromontaż Kraków S.A. current loan in the amount of PLN 600 thousand. Interest rate on loan has been set at WIBOR 1M.
- PROCHEM Inwestycje Sp. z o.o. non-current loan in the amount of PLN 6 000 thousand. Interest rate on loan has been set at WIBOR 1M.

In total, in 2013, subsidiary Elektromontaż Kraków SA was granted the loan amounting to PLN 3 300 thousand, and PROCHEM Inwestycje Sp. z o.o. seated in Warsaw, the loan in the amount of PLN 6,000 thousand.

**21. Other information that is essential to the assessment of the human resources, financial position, financial results and their changes and information that is essential to assess the possibility to fulfill its obligations by the issuer.**

In the next quarter, the results achieved by the Group will depend mainly on the results obtained in the implementation of the contracts acquired by the Group, as well as result of decisions concerning offers made for the sale of their services. Success of development projects, which have been already launched by the Group will be also important.

**22. Factors which in the opinion of the Issuer will influence its performance in at least the next quarter**

In the next quarter, the results achieved by the Group will depend mainly on the results obtained in the implementation of the contracts acquired by the Group, as well as result of decisions concerning offers made for the sale of their services. Success of development projects, which have been already launched by the Group will be also important.

**23. Financial risk management**

The activities of the companies belonging to the Capital Group are exposed to the following financial risks:

- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk).

***Credit risk***

The Group conducts commercial activity through sale of its services to business entities with deferred payments, which may result in the risk of non-payment of contractors for the services provided. Group, in order to minimize the credit risk manages the risk by the current procedure of obtaining security.

Adopted loan repayment period associated with the normal course of sales is 14 - 60 days.

Trade receivables are regularly monitored by the financial services. In case of overdue receivables the recovery procedures are started.

In order to reduce the risk of non-collection of trade receivables the Company receives collateral from its customers in the form of, among others: bank guarantees and insurance, mortgages, bills and deposit.

In order to improve the current liquidity and in order to release the receivables retained by investors for proper security of executed contracts and statutory warranty for construction and assembly work, the Group provides bank guarantee and insurance guarantee under the guarantee lines launched for this purpose.

Credit risk associated with cash and bank deposits is considered by the Group to be low.

All entities in which the Group invests available funds operate in the financial sector. These include domestic banks and branches of foreign banks of first class short-term credit credibility.

Credit risk arising from intercompany loans granted is considered by the Group to be low. The Group does not identify risks arising from payment of liabilities under loan agreements.

The risk of impaired financial assets is reflected by the write downs.

***Liquidity risk***

The Group is exposed to liquidity risk arising from the relation of current liabilities to current assets.

### *1. Exchange rate risk*

Some contracts for the sale of services are concluded with foreign companies in foreign currencies (EUR, USD). In the event of a significant appreciation of the domestic currency it can have an adverse effect on the Group's results. This risk is partially reduced in a natural way through the purchase of equipment and services necessary for the execution of these contracts abroad, as well as through the purchase of the relevant financial instruments.

### *2. Interest rate risk*

The Group is exposed to the risk of variability in cash flows due to interest rate arising from bank loans based on floating rate WIBOR ON (overnight) and loans granted based on variable WIBOR 6M and rediscount rate.

### ***Liquidity risk associated with the litigation with PERN S.A.***

In the face of a significant prolongation of judicial proceedings in a dispute with PERN which was started in 2006, and currently is held before the District Court in Warsaw on settlement of a contract which was interrupted on November 10, 2005 for the construction management for the investment project under the name of "Pipeline in a section from ST-1 Adamowo- to Plebanka raw materials base", there is a risk of having to meet in 2013 by PROCHEM S.A. obligations toward subcontractors relating to retained guarantee deposits, which as at the balance sheet date amount to PLN 2 928 thousand, before recovery of the security deposit retained by PERN SA. Receivables under the security deposit of the company PROCHEM S.A. from PERN SA as at 30 September 2013 amount to PLN 17 364 thousand.

## **24. Reporting by business and geographical segments**

An operating segment is a component of an entity:

- that engages in business activities from which it may obtain revenues and incur expenses,
- whose results from operating activities are regularly reviewed by the authority responsible for making operating decisions of the Company
- in the case of which separate financial information is available.

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

Segment expenses are expenses that include costs related to sales to external customers.

Segment result is determined at the level of the operating result.

The activities of the companies from the Group and the Issuer for the purposes of management was divided into basic operational departments such as: implementation (general contracting), design service and other engineering services (supervision along with the service of contract engineer), rental of construction equipment, and other activities, which include among other income from subleasing, sale of photocopying services and other.

Segment assets include all assets used by a segment, which consist mainly of receivables, inventories and property, plant and equipment less any provisions and any impairment losses.

Some assets in the common use are attributed to the segments based on reasonable weights.

In the fourth quarter of 2013 revenues from operations achieved abroad amounted to PLN 8 210 thousand.

Detailed data on the activities of PROCHEM S.A. and the Group in the various segments are shown in the following tables.

**Operating segments – PROCHEM S.A. for four quarters of 2013 – results of the segments**  
**The current period from 1 January to 31 December 2013**

For the period from 1 January to 31 December 2013	General contracting	Design and engineering services	Rental of construction equipment	Other	Items not assigned	Total
Revenues from sale to external clients	42 781	35 503	2 762	2 301		83 347
<b>Total revenue of the segment</b>	<b>42 781</b>	<b>35 503</b>	<b>2 762</b>	<b>2 301</b>	-	<b>83 347</b>
<b>Result</b>						
<b>Profit of the segment</b>	<b>212</b>	<b>398</b>	<b>283</b>	<b>81</b>	-	<b>974</b>
Financial income					6 282	6 282
Finance expenses					-1 794	-1 794
<b>Net financial income</b>					<b>4 488</b>	<b>4 488</b>
Profit on other operating activities					2 892	2 892
<b>Profit before tax</b>					<b>8 354</b>	<b>8 354</b>
Income tax					-1 572	-1 572
<b>Profit for the period</b>					<b>6 782</b>	<b>6 782</b>
<b>Assets and liabilities</b>						
Segment assets (related to activity)	25 726	10 388	3 844	776	-	40 734
Assets unallocated (among others shares and other financial assets)	-	-	-	-	83 076	83 076
<b>Total assets</b>	<b>25 726</b>	<b>10 388</b>	<b>3 844</b>	<b>776</b>	<b>83 076</b>	<b>123 810</b>
Depreciation of property, plant and equipment	62	46	178	-	438	724
Amortization of intangible assets	-	-	-	-	93	93

**The comparative period from 1 January to 31 December 2012**

For the period from 1 January to 31 December 2012	General contracting	Design and engineering services	Rental of construction equipment	Other	Items not assigned	Total
Revenues from sale to external clients	59 263	19 034	4 036	3 073	-	85 406
<b>Total revenue of the segment</b>	<b>59 263</b>	<b>19 034</b>	<b>4 036</b>	<b>3 073</b>	-	<b>85 406</b>
<b>Result</b>						
<b>Profit (loss) of the segment</b>	<b>29</b>	<b>-6 595</b>	<b>1 792</b>	<b>362</b>	-	<b>-4 412</b>
Financial income					8 627	8 627
Finance expenses					-1 335	-1 335
<b>Net financial income</b>					<b>7 292</b>	<b>7 292</b>
<b>Loss on other operating activities</b>					<b>-1 002</b>	<b>-1 002</b>
<b>Profit before tax</b>					<b>1 878</b>	<b>1 878</b>
Income tax					-1 178	-1 178
<b>Profit for the period</b>					<b>3 056</b>	<b>3 056</b>
<b>Assets</b>						
Segment assets (related to activity)	36 572	4 554	3 117	1 049		45 292
Assets unallocated (among others shares and other financial assets)					64 355	64 355
<b>Total assets</b>	<b>36 572</b>	<b>4 554</b>	<b>3 117</b>	<b>1 049</b>	<b>64 355</b>	<b>109 647</b>
Depreciation of property, plant and equipment	111	70	263	-	316	760
Amortization of intangible assets	-	-	-	-	65	65

Operating segments – PROCHEM S.A. Capital Group for four quarters of 2013 – results of the segments

The current period from 1 January to 31December 2013

For the period from 1 January to 31 December 2013	General contracting	Design and engineering services	Rental of construction equipment	Assembly of electrical installations	Rental of office space and real estate	Property management	Maintenance	Commercial activity	Development activity	Other IT services	Other	Items not assigned	Total
Revenues from sale to external clients	43 976	40 370	2 762	34 343	5 136	5 238	1 065	6 044	-	344	1 204	-	140 482
<b>Total revenue of the segment</b>	<b>43 976</b>	<b>40 370</b>	<b>2 762</b>	<b>34 343</b>	<b>5 136</b>	<b>5 238</b>	<b>1 065</b>	<b>6 044</b>	<b>-</b>	<b>344</b>	<b>1 204</b>	<b>-</b>	<b>140 482</b>
<b>Result</b>													
<b>Result of the segment</b>	<b>247</b>	<b>750</b>	<b>283</b>	<b>-2 743</b>	<b>807</b>	<b>-61</b>	<b>80</b>	<b>340</b>	<b>-</b>	<b>-</b>	<b>-385</b>	<b>-</b>	<b>-682</b>
Financial income												301	301
Finance expenses												-2 022	-2 022
<b>Net financial income</b>												-1 721	<b>-1 721</b>
Profit sharing in associated entities												402	<b>402</b>
<b>Result of other operating activities</b>												2 074	<b>2 074</b>
<b>Profit before tax</b>												73	<b>73</b>
Income tax												306	306
<b>Profit for the current period</b>												-233	<b>-233</b>
<b>Profit assigned to non- controlling interest</b>												-846	<b>-846</b>
<b>Net profit assigned to shareholders of parent entity</b>												613	<b>613</b>
<b>Assets</b>													
Segment assets (related to activity)	21 049	14 991	3 844	9 215	18 936	2 964	783	1 707	-	106	230	-	73 825
Assets unallocated (among others shares and other financial assets)												119 069	119 069
<b>Total assets</b>	<b>21 049</b>	<b>14 991</b>	<b>3 844</b>	<b>9 215</b>	<b>18 936</b>	<b>2 964</b>	<b>783</b>	<b>1 707</b>	<b>-</b>	<b>106</b>	<b>230</b>	<b>119 990</b>	<b>192 895</b>
Depreciation of property, plant and	94	108	178	333	667	133	84	-	-	-	-	570	2 167

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equipment														
Amortization of intangible assets	-	53	-	10	9	2	3	-	-	-	-	95	172	

**The comparative period from 1 January to 31December 2012**

For the period from 1 January to 31 December 2012	General contracting	Design and engineering services	Rental of construction equipment	Assembly of electrical installations	Rental of office space and real estate	Property management	Maintenance	Commercial activity	Development activity	Other IT services	Other	Items not assigned	Total
Revenues from sale to external clients	60 961	19 971	4 036	31 333	4 978	5 742	1 072	5 975	-	482	2 519	-	136 069
<b>Total revenue of the segment</b>	<b>60 961</b>	<b>19 971</b>	<b>4 036</b>	<b>31 333</b>	<b>4 978</b>	<b>5 742</b>	<b>1 072</b>	<b>5 975</b>	<b>-</b>	<b>482</b>	<b>2 519</b>	<b>-</b>	<b>136 069</b>
<b>Result</b>													
Result of the segment	<b>3</b>	<b>-6 640</b>	<b>1 792</b>	<b>1 733</b>	<b>850</b>	<b>313</b>	<b>112</b>	<b>281</b>	<b>-</b>	<b>-</b>	<b>-459</b>	<b>-</b>	<b>-2 015</b>
Financial income												1 422	1 422
Finance expenses												-1 672	-1 672
Net financial income												-250	-250
Profit sharing in associated entities												384	384
Result of other operating activities												-1 789	-1 789
Profit before tax												-3 670	-3 670
Income tax												-518	-518
<b>Profit for the current period</b>												-3 152	<b>-3 152</b>
<b>Profit assigned to non-controlling interest</b>												706	<b>706</b>
<b>Net profit assigned to shareholders of parent entity</b>												-3 858	<b>-3 858</b>
<b>Assets and liabilities</b>													
Segment assets (related to activity)	30 031	6 755	3 117	17 569	19 366	1 673	216	1 290	36 576	91	3 935	-	120 619
Assets unallocated (among others shares and other financial assets)												65 487	65 487
<b>Total assets</b>	<b>30 031</b>	<b>6 755</b>	<b>3 117</b>	<b>17 569</b>	<b>19 366</b>	<b>1 673</b>	<b>216</b>	<b>1 290</b>	<b>36 576</b>	<b>91</b>	<b>3 935</b>	<b>65 487</b>	<b>186 106</b>

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Depreciation of property, plant and equipment	146	117	263	336	36	762	62	-	-	25	-	449	2 196
Amortization of intangible assets	-	14	-	13	-	2	3	-	-	-	-	68	100

**25. Approval of the financial statements**

Interim condensed financial statements were authorized for issue by the Management Board on 3 March 2014.

**Signatures of the Members of Management Board:**

3 March 2014 date	Jarosław Stępniewski first name and surname	Chairman of the Board position	..... signature
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3 March 2014 date	Marek Kiersznicki first name and surname	Vice Chairman of the Board position	..... signature
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3 March 2014 date	Krzysztof Marczak first name and surname	Vice Chairman of the Board position	..... signature
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**Signature of person responsible for bookkeeping**

3 March 2014 date	Barbara Auguścińska-Sawicka first name and surname	Chief Accountant position	..... signature
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