

REPORT FOR THE FIRST QUARTER OF 2018

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- Interim condensed consolidated financial statements of the Capital Group of PROCHEM S.A. as at and for the period of three months ended 31 March 2018
- Financial information of 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

Sales revenue and profit expressed in PLN and the 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 the first quarter of 2018 - 4.1784 PLN/EURO
- For the first quarter of 2017 - 4.2891 PLN/EURO

Balance sheet data were 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 amount to:

- 4.2085 PLN/EURO as at 31 March 2018
- 4.1709 PLN/EURO as at 31 December 2017

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

Description	Reporting period ended 31 March		Reporting period ended 31 March	
	2018	2017	2018	2017
	In PLN thousands		In EURO thousands	
Consolidated statement of profit and loss				
Revenues from sale	20 027	27 054	4 793	6 308
Gross profit on sales	883	3 555	211	829
Results from operating activities	-1 232	218	-295	51
Before tax profit	-898	-133	-215	-31
Profit for the period assigned to:	-973	939	-233	219
Shareholders of the Parent Entity	-949	889	-227	207
Non-controlling interest	-24	50	-6	12
Profit/diluted profit per one share (in PLN/EURO)- assigned to shareholders of the parent entity	-0.24	0.23	-0.06	0.05
Consolidated statement of cash flows				
Net cash provided by (used in) operating activities	3 472	105	831	24
Net cash provided by (used in) investing activities	-206	-169	-49	-39
Net cash provided by (used in) financing activities	-23 276	209	-5 571	49
Total cash flow, net	-20 010	145	-4 789	34
Consolidated statement of financial position				
Description	As at		As at	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
	In PLN thousands		In EURO thousands	
Total assets	127 583	156 824	30 316	37 600
Total non-current assets	82 681	82 670	19 646	19 821
Total current assets	44 902	74 154	10 669	17 779
Equity attributable to owners of the parent company	80 259	105 242	19 071	25 232
Non-controlling interest	6 500	6 524	1 544	1 564
Total equity	86 759	111 766	20 615	26 797
Total non-current liabilities	5 089	4 692	1 209	1 125
Total current liabilities	35 735	40 366	8 491	9 678
Book value per one ordinary share (in PLN/EURO)-assigned to shareholders of the parent company	20.61	27.02	4.90	6.48
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 three months ended 31 March 2018

Selected financial data of PROCHEM S.A.

Description	Reporting period ended 31 March		Reporting period ended 31 March	
	In 2018	In 2017	In 2018	In 2017
	In PLN thousands		In EURO thousands	
<i>Separate statement of profit and loss</i>				
Revenues from sale	9 854	8 452	2 358	1 971
Gross profit on sales	-739	1 542	-177	360
Results from operating activities	-1 444	-211	-346	-49
Before tax profit	-1 326	-255	-317	-59
Profit for the period	-1 150	873	-275	204
Net profit/diluted profit per one ordinary share (in PLN/EURO)	-0.30	0.22	-0.07	0.05
<i>Statement of cash flows</i>				
Net cash provided by (used in) operating activities	3 644	-1 130	872	-263
Net cash provided by (used in) investing activities	-58	135	-14	31
Net cash provided by (used in) financing activities	-16 516	1 333	-3 953	311
Total cash flow, net	-12 930	338	-3 094	79
	As at		As at	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
	In PLN thousands		In PLN thousands	
<i>Separate statement of financial position</i>				
Total assets	74 167	93 512	17 623	22 421
Total non-current assets	54 411	54 142	12 929	12 981
Total current assets	19 756	39 370	4 694	9 440
Total equity	40 826	65 976	9 701	15 811
Total non-current liabilities	8 951	1 422	2 127	34
Total current liabilities	24 390	26 114	5 795	6 261
Book value per one ordinary share (in PLN/EURO)	10.48	16.94	2.49	4.00
Weighted average number of ordinary 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 true and fair preparing of interim condensed consolidated financial statements

In compliance with the requirements of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information provided 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 three months of 2018 and comparable data were prepared according to International Accounting Standard 34 „Interim Financial Reporting”, which was adopted by European Union and reflect financial position and property situation, as well as financial performance of PROCHEM S.A. Group in a true, fair and clear way.

Vice President
Krzysztof Marczak

Vice President
Marek Kiersznicki

President of the Management Board
Jarosław Stępniewski

Warsaw, 25 May 2018

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

**As at and for the period of three months ended
31 March 2018**

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

Consolidated statement of financial position

(all amounts in PLN thousands if not stated otherwise)

	Note No.	As at 31 March 2018	As at 31 December 2017 audited
A s s e t s			
Non-current assets			
Property, plant and equipment	1	22 196	22 481
Intangible assets		215	242
Investment property	2	11 312	11 312
Shares		830	830
Shares valued using the equity method	3	26 439	26 139
Deferred tax assets	4	2 883	2 953
Other financial assets	5	18 806	18 713
Total non-current assets		82 681	82 670
Current assets			
Inventories	6	3 255	2 222
Trade and other receivables	7	19 051	32 236
Amounts due from customers under contracts		11 474	8 415
Other assets	9	2 317	2 466
Cash and cash equivalents		8 805	28 815
Total current assets		44 902	74 154
Total assets		127 583	156 824
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
Own shares	10	-960	-
Revaluation reserve		11 521	11 521
Retained earnings		65 803	89 826
Equity assigned to shareholders of the Parent Entity		80 259	105 242
Non-controlling interest		6 500	6 524
Total equity		86 759	111 766
Non-current liabilities			
Non-current bank loans	11	491	141
Provision to deferred income tax	4	2 460	2 457
Provision to retirement and similar benefits		1 712	1 712
Other non-current liabilities		426	382
Total non-current liabilities		5 089	4 692
Current liabilities			
Bank loans	11	2 622	2 233
Trade payables	12	18 762	27 018
Amounts in favour of customers under contracts	13	7 168	1 913
Liabilities under current income tax		-	6
Other liabilities	14	6 859	8 872
Deferred income		324	324
Total current liabilities		35 735	40 366
Total liabilities		40 824	45 058
Total equity and liabilities		127 583	156 824
Weighted average number of ordinary shares (units)		3 895 000	3 895 000
Book value per one share (in PLN) – assigned to shareholders of the Parent Entity		20.61	27.02

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Explanatory notes to interim condensed consolidated financial statements constitute the integral part thereof.

Consolidated statement of profit and loss

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 31 March 2018	Period ended 31 March 2017
Revenues from sale, including:		20 027	27 054
Revenues from sale of services	15	20 020	27 042
Revenues from sale of goods and materials		7	12
Cost of sales, including :		-19 144	-23 499
Cost of services sold	16	-19 137	-23 489
Cost of merchandise and raw materials		-7	-10
Gross profit on sales		883	3 555
General and administrative expenses	16	-3 567	-3 465
Other operating income	17	1 468	140
Other operating expenses	18	-16	-12
Results from operating activities		-1 232	218
Financial income	19	143	161
Finance expenses	20	-109	-247
Profit sharing in entities valued using the equity method		300	-265
Before tax profit		-898	-133
Income tax		75	-1 072
- current tax		1	49
- deferred tax		74	-1 121
Profit for the period		-973	939

Profit for the period assigned to :

Shareholders of the Parent Entity	-949	889
Non-controlling interest	-24	50
Profit/diluted profit (in PLN per one share) assigned to owners of the Parent Entity	-0.24	0.23

Consolidated statement of comprehensive income

Profit for the period	-973	939
Other comprehensive income (net):	-	-
Total comprehensive income	-973	939

Total comprehensive income assigned to :

Shareholders of the Parent Entity	-949	889
Non-controlling interest	50	50
Weighted average number of ordinary shares	3 895 000	3 895 000
Total comprehensive income per ordinary share (in PLN per share) assigned to owners of the Parent Entity.	-0.24	0.23

Explanatory notes to interim condensed consolidated financial statements constitute the integral part thereof.

Consolidated statement of changes in equity

(all amounts in PLN thousands if not stated otherwise)

	Share capital	Own shares	Revaluation reserve	Retained earnings	Equity assigned to shareholders of the Parent Entity	Equity assigned to non-controlling interest	Total equity
Reporting period from 1 January 2018 to 31 March 2018							
As at the beginning of the period (audited)	3 895	-	11 521	89 826	105 242	6 524	111 766
Net profit of the given period				-949	-949	-24	-973
<i>Other comprehensive income (net)</i>	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-949	-949	-24	-973
Own shares purchased for redemption	-	-960	-	-23 040	-24 000	-	-24 000
Other changes	-	-	-	-34	-34	-	-34
As at the end of the period	3 895	-960	11 521	65 803	80 259	6 500	86 759

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of the Parent Entity	Equity assigned to non-controlling interest	Total equity
Reporting period from 1 January 2017 to 31 March 2017						
As at the beginning of the period (audited)	3 895	12 146	72 542	88 583	6 448	95 031
Prior period error adjustment	--	--	-388	-388	-	-388
As at the beginning of the period after bringing the data to comparability	3 895	12 146	72 154	88 195	6 448	94 643
Net profit of the given period			889	889	50	939
<i>Other comprehensive income (net)</i>	-	-	-	-	-	-
Total comprehensive income	-	-	889	889	50	939
Other changes	-	-54	-36	-90	90	-
As at the end of the period	3 895	12 092	73 395	89 382	6 588	95 970

Explanatory notes to interim condensed consolidated financial statements constitute the integral part thereof.

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Consolidated statement of cash flows

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 31 March 2018	Period ended 31 March 2017
Cash flows – operating activities			
Before tax profit		-898	-133
Total adjustments		4 377	291
Share in profit in entities valued using the equity method		-300	265
Amortization and depreciation		518	532
Interest and profit sharing (dividends)		110	-48
Gain on disposal of property, plant and equipment		-	-7
Change in provisions		-82	-574
Change in inventories	6	-1 033	1 179
Change in receivables and other assets	7	10 275	13 741
Change in current liabilities, except for loans and borrowings	12	-10 231	-14 214
Other adjustments (including change in deferred income)		5 273	-583
Cash provided by (used in) operating activities		3 479	-158
Income tax paid		7	-53
Net cash provided by (used in) operating activities		3 472	105
Cash flows – investing activities			
Inflows		-	10
Disposal of intangible assets and property, plant and equipment		-	10
Outflows		-206	-179
Acquisition of intangible assets and property, plant and equipment		-206	-179
Net cash provided by (used in) investing activities		-206	-169
Cash flows – financing activities			
Inflows		960	1 404
Bank loans		960	1 404
Outflows		-24 236	-1 195
Own shares		-24 000	-
Repayment of bank loans		-140	-1 086
Payment of liabilities under finance lease agreement		-44	-
Interest		-52	-109
Net cash provided by (used in) financing activities		-23 276	209
Total cash flows, net		-20 010	145
Cash and cash equivalents at the beginning of the period		28 815	3 783
Cash and cash equivalents at the end of the period		8 805	3 928

Explanatory notes to interim condensed consolidated financial statements constitute the 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 Statutes 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 model compounds 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.

2. The Management Board and Supervisory Authorities of the Parent Entity

As at the date of preparation hereby 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 quarter of 2018 there were no changes in composition of the Management Board.

As at the date of the interim condensed consolidated financial statements the Supervisory Board comprised the following persons:

- Marek Garliński
- Karol Żbikowski
- Andrzej Karczykowski
- Krzysztof Obłój
- Marcin Pędziński

In the first quarter of 2018 there were no changes in composition of the Supervisory Board.

3. Employment

Average employment in the Capital Group of PROCHEM for the first quarter of 2018 was 386 FTEs, and for the first quarter of 2017 416 FTEs.

Level of employment in the Capital Group of PROCHEM on 31 March 2018 in persons was 383, and on 31 March 2017 422.

4. Description of the Capital Group's organization, with the indication of entities subject to consolidation

PROCHEM S.A. Capital Group (hereinafter referred to as „Capital Group”, „Group”), in addition to the data of 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%);
- 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 indirectly (80.0%);
- ELPRO Sp. z o. o. seated in Krakow – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o. o. seated in Krakow – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. seated in Krakow – subsidiary indirectly (85.4%), including 73.0% share in capital and voting right belongs to company Prochem Inwestycje subsidiary in 100%. Company Elektromontaż Kraków S.A. prepares consolidated financial statements, which comprises data of subsidiary in 100% : ELMONT-POMIARY Sp. z o. o. seated in Krakow 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 holds company 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 share in capital and voting right belongs to company Prochem Inwestycje).

Jointly-controlled entities and associated entities valued using the equity method:

- ITEL Sp. z o. o. seated in Gdynia – 42.0% of share (18.7% of share in voting right and capitals belongs directly to Prochem S.A., and 23.3% belongs to Prochem 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 including the control until the date of loss of control by the Parent Company, and the jointly-controlled entities and associated entities from the date of exercising of joint control and of exertion significant influence.

Company Predom Projektowanie Sp. z o. o. was excluded from consolidation. The company has not commenced activities. Value of shares was included in the impairment losses.

1. Adopted accounting principles

Principle of presentation and statement of compliance

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group for three months of 2018 was prepared according to IAS 34 “Interim Reporting”, in the shape it was approved by European Union, and in accordance with 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 from 2009 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 2017.

The hereby interim condensed consolidated financial statements of PROCHEM S.A. Capital Group, was prepared assuming a going concern in foreseeable future.

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

Financial statements of all the subsidiaries were prepared for the same reporting period as financial statements of the 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, which in a large extent depends 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 and investment properties in-progress measured at fair value.

Significant accounting policies and changes in IFRS

In preparing of the interim condensed consolidated financial statements hereby, 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 2017.

New standards, interpretations and changes in published IFRS

A number of new standards, amendments to standards and interpretations are not effective yet for annual periods ended 31 December 2017 and they have not been applied in the consolidated financial statements, except for the adopted new standards IFRS 15 - Revenue from Contracts with Customers and IFRS 9 – Financial Instruments, which were described below.

The Group retrospectively applied the IFRS 15 and IFRS 9 standards with effect from 1 January 2018. According to the option allowed by the standard, the Group resigned from restating of comparable data. Data as at 31 December 2017 as well as for the first quarter of 2017 were prepared based on IAS 39, IAS 18 and IAS 11.

The previously applied selected accounting principles in the scope of sales revenues (IAS 18, IAS 11) and financial instruments (IAS 39) were disclosed in the financial statements for 2017.

IFRS 15

The Group applies the principles of IFRS 15 taking into account the assumptions adopted in this model. This model assumes that revenue should be recognized when (or in the extent in which) the entity transfers the control over the goods or services to the customer, and in the amount, to which entity expects to be entitled. Depending on the meeting of determined criteria, the revenues:

- are distributed over time in a way that reflects the implementation of the contract by the entity, or to which entity expects to be entitled.
 - are recognized once, in such a time when the control over the goods or services is transferred to the customer.
- The analysis made by the Group did not show the impact of the application of IFRS 15 on the financial statements prepared in previous years.

IFRS 9

At the moment of initial recognition, financial assets should be classified into one of three categories:

- financial assets measured at amortized cost;
- financial assets measured at fair value through profit or loss; or
- financial assets measured at fair value through other comprehensive income.

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

The Group qualifies financial assets to the appropriate category depending on the business model of financial assets management and the characteristics of contractual cash flows for a given financial asset.

Component of financial assets is classified into the category of measured on initial recognition at amortized cost if the following two conditions are met:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Component of financial assets is classified into the category of measured at fair value through other comprehensive income:

- the Group's objective is to hold assets in order both to receive cash flows from the contracts as well as their selling,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Other financial assets are measured at fair value through profit or loss for the current period.

The impact of the implementation of IFRS 9 on the change in the classification of financial assets as at 1 January 2018 is presented below.

Classes of financial instruments	Classification under IAS 39	Classification under IFRS 9
Financial assets available for sale	Available for sale	Measured at fair value through profit or loss
Security deposits from contracts for construction	Loans and receivables	Measured at amortized cost
Trade and other receivables	Loans and receivables	Measured at amortized cost
Loans granted	Loans and receivables	Measured at amortized cost
Derivative financial instruments not covered by hedge accounting	Financial assets measured at fair value through profit or loss	Measured at fair value through profit or loss
Cash and cash equivalents	Loans and receivables	Measured at amortized cost

IFRS 9 did not introduce changes to the classification of financial liabilities.

In the scope of hedge accounting, the Group has decided to continue the existing measurement and classification methods.

IFRS 9 introduces a new approach to estimating the impairment of financial assets. Currently, the impairment model is based on the calculation of expected losses as opposed to the model resulting from IAS 39, which was based on the concept of losses incurred.

To estimate the expected credit losses in relation to trade receivables, the Group applied the simplified method allowed by IFRS 9. For the purpose of estimating the expected credit loss, the Group uses the provisions ratio, which takes into account historical data.

Taking into account the above calculation methodology for expected credit losses, the value of receivables may also be updated individually in case if in the individual assessment of the Management Board the risk of non-recoverability is significant, in particular in relation to:

- receivables from contractors placed in liquidation or bankruptcy
- receivables contested by debtors and such receivables from debtor, payments of which are in arrears and according to assessment of property and financial situation of the debtor the payment of contractual receivable is burdened with significant risk.

As a result of individual analysis, in case when despite significant overdue of receivables, the Group has a credible declaration of the contractor's payment, the creation of a write-off may be suspended.

The implementation of IFRS 9 did not significantly affect the amounts of write-downs as at 31 March 2018 as well as at 1 January 2018. Due to the fact that the calculated amount of impairment allowance as at 1 January 2018 in accordance with the adopted model of expected credit losses did not significantly differ from the amounts already recognized in the financial statements as at December 31, 2017, the Company took advantage of possibilities provided by IFRS 9 and in result did not make restatement of the data of earlier periods, and because of that an adjustment was not made of the initial balance of the Company's retained earnings under the implementation of this IFRS.

The company has not decided to apply the following Standards and amendments to standards that have been published and endorsed in the EU, but have not yet entered into force and will introduce them on the date of adoption.

Changes in estimates

In the applied accounting principles 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 the Management Board best knowledge in relation to current and future events and actions in particular areas of activity. They relate to the valuation of pension benefits, assessing the stage of execution, and the profitability of long-term contracts (gross margin).

Transactions in foreign currencies

Transactions in foreign currencies are initially recognized at the exchange rate of the NBP effective as at the transaction date. Balance sheet items of assets and liabilities expressed in foreign currencies are measured at the average NBP exchange rate in force at the balance sheet date. Gains and losses arising from the settlement of such transactions and carrying value of assets and liabilities expressed in foreign currencies are recognized in the statement of profit and loss.

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.

6. Restatement of financial statements

On January 1, 2017 the Group made an adjustment of the error resulting from the lack of deferred tax on the revenues determined from the valuation of long-term contracts.

The following table shows adjustments in the consolidated statement of financial position and consolidated income statement for the comparable periods.

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Consolidated statement of financial position as at 31 March 2017 - restated

(all amounts in PLN thousands if not stated otherwise)

A s s e t s	31 March 2017	adjustment	31 March 2017 restated
Non-current assets			
Deferred tax assets	6 221	-388	5 833
Total non-current assets	83 399	-388	83 011
Total assets	145 204	-388	144 816
E q u i t y a n d l i a b i l i t i e s			
Equity			
Retained earnings	72 612	-388	72 224
Owner's equity	88 599	-388	88 211
Total equity	95 187	-388	94 799
Total equity and liabilities	145 204	-388	144 816

**Consolidated statement of profit and loss
from 1 January 2017 to 31 March 2017**

(all amounts in PLN thousands if not stated otherwise)

	31 March 2017	adjustment	31 March 2017 restated
Before tax profit	-133	-	-133
Income tax :	-289	-783	-1 072
- current tax	49	-	49
- deferred tax	-338	-783	-1 121
Profit for the period	156	783	939

**7. Explanatory notes to interim condensed consolidated financial statement
as at and for the period ended 31 March 2018**

Note No. 1 – Property, plant and equipment

	As at 31 March 2018	As at 31 December 2017
Property, plant and equipment, including:	21 5953	22 000
- land	4 182	4 208
- buildings, premises and civil engineering objects	14 949	15 152
- machinery and equipment	512	544
- vehicles	1 042	1 125
- other PPE	910	971
Construction under progress	601	481
Total property, plant and equipment	22 196	22 481

PPE – ownership structure	As at 31 March 2018	As at 31 December 2017
a) own	9 973	10 258
b) used under rental, lease or other agreement, including:	12 223	12 223
- lease	692	692
- outlays on PPE not owned	10 979	10 979
- value of the right of perpetual usufruct	552	552
Total carrying amount of PPE	22 196	22 481

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

In pursuance to the agreement dated July 23, 2004, the Group leases property consisting of 3 buildings with a total area of 6 227.5 square m on a plot of 3,311 square m located in Warsaw at Emilia Plater 18 Street and Hoża 76/78 Street. The duration of the contract is 30 years from the date of signing the contract.

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 Group, fair value is measured with sufficient frequency so that the carrying amount did not significantly differ from fair value, wherein not less frequently than once every two years.

Carrying amount as at 31 March 2018 does not significantly differ from fair value. The measurement at fair value as at 31 December 2017 was made by the independent valuers not associated with the Group. The valuers have the right qualifications to carry out valuations of land, buildings and structures, as well as current experience in such valuations in locations where are located assets of the Group. Valuation was carried out by reference to the market transaction prices for similar assets.

Changes in PPE

	Change in PPE for the period from 1 January 2018 to 31 March 2018	Change in PPE for the period from 1 January 2017 to 31 December 2017
Gross value - as at opening balance sheet	39 537	38 576
increase (due to)	189	1 616
- acquisition	189	1 616
decrease (due to)	-1	-655
- disposal of PPE	-	-221
- liquidation of PPE	-1	-434
Gross value as at closing balance sheet	39 725	39 537
Depreciation and impairment		
Accumulated depreciation – as at opening balance sheet	16 899	15 706
- increase (depreciation for the period)	474	1 834
- decrease due to disposal	-	-217
- decrease due to liquidation	-1	-424
Accumulated depreciation – as at closing balance sheet	17 372	16 899
Impairment of non-current assets	-157	-157
PPE net value – as at closing balance sheet	22 196	22 481

Note No. 2 – Investment property

	As at 31 March 2018	As at 31 December 2017
Property under construction	1 128	1 128
Buildings and constructions	5 917	5 917
Land	4 267	4 267
Total investment property	12 747	11 312

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

<i>Investment properties by titles</i>	Change in investment property for the period from 1 January 2018 to 31 March 2018	Change in investment property for the period from 1 January 2017 to 31 December 2017
Investment property – land		
As at opening balance sheet	4 267	5 352
- increase due to transfer from PPE	-	-
- decrease due to disposal of property	-	-1 085
As at closing balance sheet	4 267	4 267
Investment property under construction		
As at opening balance sheet	1 128	1 128
- change due to:		
a) increase due to acquisition	-	-
As at closing balance sheet	1 128	1 128
Property - buildings and constructions		
As at opening balance sheet	5 917	6 270
- change due to:	-	-353
a) increase due to disposal	-	-353
As at closing balance sheet	5 917	5 917
Total investment properties by titles – net as at balance sheet date	11 312	11 312

Pursuant to the Accounting Policy adopted by the Group, fair value is measured with sufficient frequency so that the carrying amount did not significantly differ from fair value, wherein not less frequently than once every two years.

Carrying amount as at 31 March 2018 does not significantly differ from fair value. The measurement at fair value as at 31 December 2017 was made by the independent valutors not associated with the Group. The valutors have the right qualifications to carry out valuations of land, buildings and structures, as well as current experience in such valuations in locations where are located assets of the Group. Valuation was carried out by reference to the market transaction prices for similar assets.

Details concerning investment property and information on the hierarchy of fair values as at 31 March 2018.

	Level 1	Level 2	Level 3	Fair value as at 31 March 2018
	In PLN thousands	In PLN thousands	In PLN thousands	In PLN thousands
Investment property	-	-	11 312	11 312

There were no displacements between the levels 1, 2 and 3 in the first quarter of 2018.

Note No. 3 – Shares value using the equity method

	As at 31 March 2018	As at 31 December 2017
- Shares – net value	26 439	26 139
- Write-downs of shares	1 011	1 011
Shares, gross value	27 450	27 150

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Change in shares valued using the equity method	As at 31 March 2017	As at 31 December 2017
a) as at the beginning of the period	26 139	22 678
- shares at cost	26 139	22 678
b) changes (due to)	300	3 461
- share in the current year result	300	3 461
As at the end of the period, net value	26 439	26 139
d) write-down	1 011	1 011
As at the end of the period gross value	27 450	27 150

Note No. 4 – Deferred income tax

Changes in the values of provisions and deferred income tax assets for the first quarter of 2017 are shown in the table below.

Deferred income tax assets	As at 31 March 2018	As at 31 December 2017
As at the beginning of the period	6 073	8 890
Increase	1 875	2 045
Decrease	-1 656	-4 862
As at the end of the period	6 292	6 073

Provision for deferred income tax	As at 31 March 2018	As at 31 December 2017
As at the beginning of the period	5 577	5 747
Increase	809	2 218
Decrease	-517	-2 388
As at the end of the period	5 869	5 577

Surplus of deferred income tax asset	As at 31 March 2018	As at 31 December 2017
Deferred income tax assets	6 292	6 073
Provision for deferred income tax	-5 869	-5 577
Surplus of deferred income tax asset	423	496

Presentation in the statement of financial position	As at 31 March 2018	As at 31 December 2017
Deferred income tax assets	2 883	2 953
Provision for deferred income tax	-2 460	- 2 457
Surplus of deferred income tax asset	423	496

Note No. 5 – Other financial assets

Total other financial assets	As at 31 March 2018	As at 31 December 2017
a) from jointly-controlled entities	18 806	18 713
- borrowings	18 806	18 713
Total other financial assets	18 806	18 713

Loans granted – as at 31 March 2018

- Loans granted to jointly-controlled company Irydion sp. z o. o. seated in Warsaw:
 - In the amount of PLN 12 165 thousand, including: amount of the loan PLN 11 000 thousand, accrued interest as at balance sheet day amounts to PLN 1 165 thousand. The interest rate is set annually according to WIBOR 6M rate, repayment date 22 September 2031;
 - In the amount of PLN 6 641 thousand, including: amount of the loans PLN 6 000 thousand, accrued interest as at balance sheet day amounts to PLN 641 thousand. The interest rate is set at fixed rate of 3% per year, repayment date 22 September 2031.

Increase:

- Accrued interest on loans granted in the amount of PLN 93 thousand.

Loans granted – as at 31 December 2017

- Loans granted to company IRYDION Sp. z o. o. seated in Warsaw :
 - in the amount of PLN 12 117 thousand, including amount of the loan PLN 11 000 thousand, accrued interest PLN 1 117 thousand. The interest rate is set annually according to WIBOR 6M rate, repayment date of the loan with interest 22 September 2031.
 - In the amount of PLN 6 596 thousand, including: amount of the loans PLN 6 000 thousand, accrued interest as at the balance sheet day amounts to PLN 596 thousand. The interest rate is set at fixed rate of 3% per year, repayment date of the loan with interest 22 September 2031.

Note No. 6 – Inventories

	As at 31 March 2018	As at 31 December 2017
Materials	2 678	2 092
Semi-finished products and work-in-process	577	130
Total inventories	3 255	2 222
Write-downs of inventories	575	575

Note No. 7 – Trade and other receivables

	As at 31 March 2018	As at 31 December 2017
Trade receivables, including:	21 324	34 182
Write-down of trade receivables	-5 397	-5 508
Trade receivables, net	15 927	28 674
including:		
- with repayment period up to 12 months	11 937	26 161
- with repayment period over 12 months	3 990	2 513
Receivables from taxes, subsidies, custom duties, social and health insurance and other benefits	774	864
Other receivables	2 746	3 094
Write-downs of other receivables	-396	-396
Net other receivables	2 350	2 698
Total receivables, net	19 051	32 236
Trade and other receivables from related entities	As at 31 March 2018	As at 31 December 2017
- trade receivables from jointly-controlled entities	581	6 957
- other from jointly-controlled entities	866	946
Total current trade and other receivables from related entities, net	1 447	7 903
Write-downs of receivables from related entities	-	-

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Total current trade and other receivables from related entities, gross 1 447 7 903

Change in write-downs of trade and other receivables	As at 31 March 2018	As at 31 December 2017
As at the beginning of the period	5 904	5 851
a) increase (due to)	-	380
- write downs of receivables	-	380
b) decrease (due to)	111	327
- payments received	1	60
- the use of write-downs created in the previous periods	-	1
- resolving of write-downs	1	266
Write-downs of trade and other receivables	5 793	5 904

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

Note No. 8 – Other assets

Other assets by type :	As at 31 March 2018	As at 31 December 2017
a) prepayments	2 317	2 466
- cost of property and personal insurance	246	350
- software maintenance costs	361	540
- subscriptions	13	18
- deferred costs	1 686	1 555
- other	11	3
Total other assets	2 317	2 466

The item - *other prepayments* - comprises the valuation of contracts for construction services that 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	23July1991	1October1991
Founding	inscribed	-	6 816	6 816	Cash	23July1991	1October1991
Founding	bearer	-	1 810 104	1 810 104	Cash	23July1991	1October1991
B	inscribed	-	750	750	Cash	29July1993	1January1993
B	bearer	-	681 750	681 750	Cash	29July1993	1January1993
C	bearer	-	530 000	530 000	Cash	20 April 1994	1January1994
D	bearer	-	865 000	865 000	Cash	5 September 1994	1January1994
Total number of shares			3 895 000				
Total share capital				3 895 000			
Nominal value of 1 share = PLN 1.00							

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

The share capital of the Parent Company amounts to PLN 3 895 thousand 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 2017.

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

Changing the rights from the issuer's securities

According to the information held by the Group 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 (in pcs)	Number of votes	% of votes in total number of votes	% of share capital
1. Steven Tappan	698 656	698 656	17.93	17.94
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”.	387 521	387 521	9.95	9.95
3. Funds managed by Esaliens TFI including: - Esaliens Parasol FIO - Esaliens Akcji Skoncentrowany FIZ	354 525	354 525	9.10	9.10
4. Andrzej Karczykowski	201 882	201 882	5.18	5.18

In the period from the publication of the annual report for 2017, the Group did not obtain any information about the change in the shareholding.

The company PROCHEM S.A. holds 960,000 own shares purchased within an offer to purchase own shares for the purpose of redeeming no more than 960,000 shares of the Company with a nominal value of PLN 1 each which was announced under the Resolution No. 4 of the Extraordinary Meeting of January 26, 2018 by the Company on February 28, 2018. The transaction of purchase of own shares for redemption was settled on March 21, 2018. These shares constitute 24.65% of the share capital of the Company and correspond to 960,000 votes at the General Meeting of the Company, which constitutes 24.64% of votes at the General Meeting. As a result of their redemption, there will be changes in the proportions of shares held by the existing shareholders.

Note No. 11 – Bank loans

	As at 31 March 2018.	As at 31 December 2017
- current bank loans	2 622	2 233
- non-current bank loans	491	141
Total loans	3 113	2 374

Bank loans

Name of the bank	Registered office	Amount of the loan according to agreement (in PLN thousands)	Amount of the loan to be repaid (in PLN thousands)	Terms of interest	Repayment date	Collateral
By Prochem S.A.						
mBank SA	Warsaw	5000 Credit in overdraft	-	WIBOR for O/N deposits in PLN + margin	30 November 2018	Promissory note in blank, judicial lien on shares
By Elektromontaż Kraków SA						
ING Bank Śląski	Kraków	2 500	1 662	WIBOR for 1- month deposits in PLN+ margin	19November2018	Mortgage up to PLN 3 750 thousand on real estate
Deutsche Bank	Kraków	500	488	WIBOR for 1- month deposits in PLN+ margin	15 July 2018	Mortgage up to PLN 2 250 thousand on real estate
By Atutor Integracja Cyfrowa Sp. z o. o.						

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Bank Millennium S.A.	Warsaw	150	-	WIBOR 1 month plus margin	Not applicable	Granting the bank a power of attorney for collection and for the repayment from the accounts, and authorization for the blocking the funds in the case when loan is not repaid in time
By Pro-Inhut Sp. z o. o.						
ING Bank Śląski	Dąbrowa Górnicza	472 Credit in overdraft	472	WIBOR 1 month plus margin	8 December 2018	No collateral
ING Bank Śląski S.A.	Dąbrowa Górnicza	500	491	WIBOR for 1-month deposits in PLN + margin	17 May 2019	lack

Note No. 12 – Trade payables

	As at 31 March 2018	As at 31 December 2017.
a) to associated entities and to jointly-controlled entities -	10	10
- from supplies and services, with maturity period:	10	10
- up to 12 months	10	10
b) to other entities -	18 752	27 008
- from supplies and services, with maturity period:	18 752	27 008
- up to 12 months	14 396	22 416
- above 12 months	4 356	4 592
Total trade payables	18 762	27 018

Note No. 13 – Amounts due to customers under long-term contracts

	As at 31 March 2018	As at 31 December 2017
Advances and prepayments received	6 063	958
Amounts due to the ordering parties under long-term contracts	1 105	955
Amounts due to customers under long-term contracts	7 168	1 913

Disclosures specified in IFRS15 are presented in the table below.

Description	31 March 2018	31 December 2017
	(in PLN thousands)	(in PLN thousands)
Value of revenues according to contracts	280 035	219 689
Value of revenues invoiced	182 924	179 418
Planned liabilities under the performance of contracts	266 497	210 153
Realized contractual obligations	185 993	180 945
Amounts due from customers	10 107	8 805
Amounts due to suppliers	7 168	1 913

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Note No. 14 – Other liabilities

	As at 31 March 2018	As at 31 December 2017
a) to other entities	3 169	4 473
- due to taxes, duties, insurance and other benefits	1 566	3 337
- due to remuneration	424	399
-other (by type)	1 179	737
• liabilities to employees	19	51
• liabilities to shareholders	28	16
• liabilities under lease agreement	272	625
• other liabilities	860	45
b) other short-term provisions	2 402	4 399
- provision for costs related to long-term contracts	123	477
- provision for costs (movable part of salary, contracts of mandate)	510	2 143
- cost of audit	72	69
- short-term provision for retirement benefits	433	328
- provision for unused annual leaves	1 264	1 382
Total other liabilities	5 571	8 872

Liabilities under lease

In PLN thousands	Current value	Interest	Future minimum payments under lease	Current value	Interest	Future minimum payments under lease
	In 2018	In 2018	In 2018	In 2017	In 2017	In 2017
Up to one year	451	14	465	591	34	625
1 to 5 years	313	18	331	265	22	287
total	764	32	796	856	56	912

Note No. 15 - Revenues from sale of services

Revenues from sale of services (type of service and type of activity)	Period ended 31March 2018	Period ended 31March 2017
Revenues from sale of services, including:	20 020	27 042
- from jointly-controlled entity	3 389	457

Revenues from sales (territorial structure)	Period ended 31March 2018	Period ended 31March 2017
Domestic market	20 020	24 042
- including from jointly-controlled entities	3 389	457
Exports	-	-

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

The gross amount due from ordering parties/buyers for the work 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 the total revenues of the entity for three months of 2018 is included in Note No. 22.

Note No. 16 – Cost of services sold

	Period ended 31March 2018	Period ended 31March 2017
a) amortization and depreciation	518	532
b) consumption of materials and energy	3 915	6 455
c) outsourcing	8 835	10 409
d) taxes and levies	145	480
e) remuneration	7 701	7 192
f) social security and other benefits	1 512	1 548
g) other types of costs (by category)	1 184	1 144
- property and personal insurance	138	129
- business trips	358	357
- State Fund for Rehabilitation of Disabled Persons (PFRON)	52	56
- rental of cars	234	234
- other	402	368
Total costs by type	23 810	27 760
Change in inventories, products and accruals and prepayments	-1 106	-806
General and administrative expenses (negative value)	-3 567	-3 465
Cost of services sold	19 137	23 489

Note No. 17- Other operating income

	Period ended 31March 2018	Period ended 31March 2017
a) gain on sale of non-financial non-current assets	3	40
b) reversal of write downs of	110	5
- receivables	110	5
c) other, including:	1 355	95
- received compensation, fines and penalties	74	74
- writing off of the expired liabilities	1 346	-
- other	9	21
Total other operating income	1 468	140

Note No. 18 – Other operating expenses

	Period ended 31March 2018	Period ended 31March 2017
a) write-downs (of):	-	-
- receivables	-	-
b) other, including:	16	12
- litigation costs	1	1
- write-off of the expired liabilities	-	4
- paid compensation, fines and penalties	1	-
- other	14	7
Total other operating expenses	16	12

Note No. 19 – Financial income

	Period ended 31March 2018	Period ended 31March 2017
a) interest on loans granted	93	93
- from jointly-controlled entities	93	93
b) other interest	45	4
- from other entities	45	4
c) the surplus of foreign exchange gains	-	34
d) other	5	30
Total financial income	143	161

Note No. 20 – Finance costs

	Period ended 31March 2018	Period ended 31March 2017
a) interest on bank loans	40	85
b) other interest	16	52
- for other entities	16	52
c) the surplus of foreign exchange losses	4	-
d) other, due to :	49	110
- commission on bank guarantees	30	80
- commission on loans	16	21
- other	3	9
Total finance costs	109	247

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

Differences between the amounts established directly from the financial statements and those presented in the statement of cash flows resulted from a transfer of particular amounts from operating activity to investing activity and financing activity.

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

	In 2018	In2017
Change in current receivables	10 275	13 741
Receivables as at 1 January	32 236	56 652
Other assets as at 1 January	10 881	11 135
Receivables under non-current assets sold	-15	-18
Receivables under disposal of assets	-	-367
Receivables under income tax	-641	-347
Opening balance sheet after adjustments	42 461	67 055
Receivables as at 31March	20 418	41 220
Other assets as at 31March	12 424	12 773
Receivables from non-current assets sold	-15	-18
Receivables from sale of financial assets	-	-367
Receivables under income tax	-641	-297
Closing balance sheet after adjustments	32 186	53 314
Change in current liabilities except for current borrowings and special funds	- 10 231	-14 214
Trade payables as at 1 January	27 018	39 525

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Other liabilities as at 1 January	8 872	8 086
Provision to current retirement benefits	-328	-433
Provision to annual leaves	-1 382	-1 305
Provision to audit	-71	-87
Provision to other current costs	-477	-641
Liabilities under operating lease	-276	-10
Liabilities to shareholders	-16	-28
Opening balance sheet after adjustments	33 340	45 357
Trade payables as at 31 March	18 762	27 267
Other liabilities as at 31 March	6 859	5 571
Provision to current retirement benefits	-328	-433
Provision to annual leaves	-1 307	-1 264
Provision to audit	-42	-72
Provision to other current costs	-499	-123
Liabilities under lease	-320	-10
Liabilities to shareholders	-16	-40
Closing balance sheet after adjustment	31 143	31 143
Change in other adjustments as at 31 March 2018	5 273	-583
Change in deferred income - advances received	5 105	333
Amounts due to the ordering parties under long-term contracts	150	-981
Adjustments of sales of subsidiary	-	-18
Other adjustments	18	83

Note No. 22- Information on operating segments

Operating segment is a component part of the Group:

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

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

Expenses of the segment are expenses, which are composed of costs related to the sale to external customers.

Segment result is determined on the level of operating income.

The activities of the companies from Capital Group and the Issuer, for the managing purposes were divided into the eleven basic operational sectors such as: execution (general contracting), design services and other engineering services (supervisions along with the project engineer service), the lease of the construction equipment, and other activities, covering among others the income from the sublet, sale of photocopying services and other.

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 weights.

In the period from January 1, 2018 to March 31, 2018 and in the analogous period of the previous year, there were no revenues from activity, achieved outside Poland (exports).

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Information on major customers which share in the sales revenue recognized in the consolidated profit and loss statement for 2018 exceeded 10 % of the total revenues from sale:

In the period from January 1, 2018 to March 31, 2018 and in the analogous period of the previous year, there were no revenues from activity, achieved outside Poland (exports).

Information on major customers which share in the sales revenue for the first quarter of 2018 exceeded 10 % of the total revenues from sale:

- Irydion Sp. z o. o. jointly-controlled company – revenues in the amount of PLN 3 389 thousand, what constituted 16.9% of share in sales revenues, which were disclosed in the segment of "General Contracting" and "Design services and other engineering services".

Detailed data on the activities of the companies from the Group in the individual segments are shown in the tables below.

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

For the period from 1 January 2018 to 31 March 2018	General contracting	Design services and other engineering services	Rental of construction equipment	Electrical installations	Rental of office space and real estate	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues from external clients	5 902	4 919	385	7 407	1 092	7	31	284	-	20 027
Total segment revenues	5 902	4 919	385	7 407	1 092	7	31	284	-	20 027
Result of the segment	204	-2 950	-51	431	159	-1	-128	-348	-	-2 684
Financial income									143	143
Finance costs									-109	-109
Net financial income/finance costs									34	34
Profit sharing in associated entities									300	300
Profit on other operating activities									1 452	1 452
Before tax loss									-898	-898
Income tax									75	75
Profit for the current period									-973	-973
Profit assigned to non-controlling interest									-24	-24
Profit for the period assigned to shareholders of the parent entity									-949	-949
Assets as at 31 March 2018										
Segment assets (related to activity)	7 619	7 732	630	7 140	17 033	-	-	176	-	40 330
Unallocated assets (among others shares and other financial assets)									87 253	87 253
Total assets	7 619	7 732	630	7 140	17 033	-	-	176	87 253	127 583
Other information related to segment										
For the period from 1 January 2018 to 31 March 2018										
Depreciation of property, plant and equipment	24	35	22	135	172	-	-	13	65	474
Amortization of intangible assets	-	2	-	5	2	-	-	-	35	44

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Note - operating segments, continuation

For the period from 1 January 2017 to 31 March 2017	General contracting	Design services and other engineering services	Rental of construction equipment	Electrical installations	Rental of office space and real estate	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues from external clients	3 109	9 522	715	11 975	1 153	12	38	530	-	27 054
Total segment revenues	3 109	9 522	715	11 975	1 153	12	38	530	-	27 054
Result of the segment	408	-677	186	128	157	2	-119	5	-	90
Financial income									161	161
Finance costs									-247	-247
Net financial income/finance costs									-86	-86
Profit sharing in associated entities									-265	-265
Profit on other operating activities									128	128
Before tax loss									-133	-133
Income tax									-289	-289
Profit for the current period									156	156
Profit assigned to non-controlling interest									50	50
Profit for the period assigned to shareholders of the parent entity									106	106
Assets as at 31 March 2017										
Segment assets (related to activity)	25 582	9 976	500	7 927	16 810	-	384	34	-	61 213
Unallocated assets (among others shares and other financial assets)									83 991	83 991
Total assets	25 582	9 976	500	7 927	16 810	-	384	34	83 991	145 204
Other information related to segment for the period from 1 January 2017 to 31 March 2017										
Depreciation of property, plant and equipment	25	18	25	136	174	-	-	11	86	475
Amortization of intangible assets	-	9	-	4	4	-	-	-	40	58

Information about the geographical areas

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

	1 January-31 March 2018	1 January-31 March 2017
Poland	20 027	27 054
Belarus	-	-
Total sale revenues	20 027	27 054

Geographical breakdown of property, plant and equipment and intangible assets

	31 March 2018	31 December 2017
Poland	33 723	34 035
Belarus	-	-
Total property plant and equipment and intangible assets	33 723	34 035

Note No. 23 - Collateral granted and received and contingent liabilities and contingent assets

	As at		including Prochem S.A. As at	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
<i>Collateral granted</i>				
Bank guarantee of good performance and statutory warranty	12 420	22 235	7 796	16 680
Guarantee of reimbursement of advance payment	2 358	-	2 358	-
Tender guarantee	50	37	50	37
Total collateral granted	14 828	22 272	10 204	16 717
Contingent liabilities				
- surety for bills of exchange issued by subsidiary Pro-Inhut sp. z o. o. seated in Dąbrowa Górnicza for the benefit of an investor to secure the claims under good performance	247	247	247	247
Total collateral granted and contingent liabilities	15 075	22 519	10 451	16 964

	As at		Including Prochem S.A. As at	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
<i>Collateral received</i>				
Bank guarantee of good performance	6 113	5 087	6 113	5 087
Total collateral granted	6 113	5 087	6 113	5 087

Note No. 24 - Profit distribution and loss coverage

The Management Board of PROCHEM S.A. proposes to allocate Issuer's net profit in the amount of PLN 12 684 166.55 to reserve capital.

Note No. 25- Financial instruments and financial risk management

Financial assets

As at 31 March 2018 (in PLN thousands)	Categories of financial instruments		
	Note No.	Loans, receivables and other	Total
Classes of financial instruments			
Receivables from supplies and services	7	16 344	16 344
Cash		8 805	8 805
Loans granted	5 and 8	18 806	18 806
Total		43 955	43 955

stan na 31 grudnia 2017 roku (in PLN thousands)	Categories of financial instruments		
	Note No.	Loans, receivables and other	Total
Classes of financial instruments			
Receivables from supplies and services	7	28 674	28 674
Cash		28 815	28 815
Loans granted	5 and 8	18 713	18 713
Total		76 202	76 202

Financial liabilities

As at 31 March 2018 (in PLN thousands)	Categories of financial instruments			Total
	Note No.	Financial liabilities measured at amortized costs	Liabilities excluded from IAS 39	
Classes of financial instruments				
Loans	11	3 113	-	3 113
Finance lease		-	796	796
Trade payables	12	18 762	-	18 762
Total		21 875	796	22 671

As at 31 December 2017 (in PLN thousands)	Categories of financial instruments			Total
	Note No.	Financial liabilities measured at amortized costs	Liabilities excluded from IAS 39	
Classes of financial instruments				
Loans	11	2 374	-	2 374
Finance lease		-	912	912
Trade payables	12	27 018	-	27 018
Total		29 392	912	30 304

The fair value of financial instruments approximates to the carrying amount due to their short-term nature and the floating interest.

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

Related entities include entities controlled and jointly-controlled entities, as well as those on which the Issuer has an influence or is a member of key management personnel of the entity or Parent Entity, and close family members of this staff (hereinafter referred to related persons).

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 the first quarter of 2018 key management personnel and persons related to key management personnel, in addition to remuneration did not conclude other transactions with the companies from the Capital Group of PROCHEM S.A.

Remuneration of the key management personnel

In the first quarter of 2018 in the Issuer's enterprise was paid:

1. remuneration to the Members of the Management Board in total amount of PLN 241.8 thousand,
2. remuneration to the Members of the Supervisory Board in total amount of PLN 84.9 thousand.

In the first quarter of 2018 the remuneration paid to the Members of the Management Board for performing functions in the Management Boards and in the Supervisory Boards of companies belonging to the Capital Group amounted to PLN 142.3 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 influence 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 entities include trade settlements and under loans.

Guarantees and sureties granted to related entities are presented in Note No. 23.

Reporting period

(in PLN thousands)

from 1 January to 31 March 2018

	Sale of services	Purchase of services	Financial income – interest on loans	Finance costs – interest on borrowing
Subsidiaries	82	407	75	29
Jointly-controlled entities and associated entities	3 389	823	93	-
	Trade and other receivables	Receivables under loans granted	Trade payables	Liabilities under borrowings
Subsidiaries	1 144	18 395	1 041	8 479
Jointly-controlled entities and associated entities	1 447	18 806	10	-

Comparative period

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

(in PLN thousands)

from 1 January to 31 March 2017

	Sale of services	Purchase of services	Financial income – interest on loans	Finance costs – interest on borrowing
Subsidiaries	44	70	76	34
Jointly-controlled entities and associated entities	457	932	93	-
	Trade and other receivables	Receivables under loans granted	Trade payables	Liabilities under borrowings
Subsidiaries	540	18 338	2 724	7 036
Jointly-controlled entities and associated entities	2 123	18 428	18	-

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

PROCHEM S.A. was a party to the proceedings before the court concerning the settlement of the contract in the formula of a Management Contracting (GRI) for an investment project under the name "Pipeline in a section from the ST- 1 Adamowo - to raw material base Plebanka" which was concluded with PERN S.A. and interrupted on 10 November 2005.

PROCHEM S.A. filed a lawsuit to the court for payment of PLN 41, 301 thousand under the final settlement of the contract. PERN S.A. filed a counter-claim from the cross action against the Company for the payment of PLN 129,444 thousand as the settlement of the contract.

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

- from the principal action, has adjudged from PERN jointly and severally for the benefit of the Issuer and a member of the consortium:
 - ✓ 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 126 400.44 with statutory interest from 16 January 2007 until the date of payment.
- from the cross action, dismissed the action of PERN in its entirety.

PERN S.A. lodged an appeal from the above judgment, on October 30, 2017 the appeal was dismissed by the Court of Appeal in Warsaw. Due to the dismissal of the appeal, the verdict of 22 October 2015 became final and the cash adjudged was transferred to the Issuer's account.

On April 5, 2018, was delivered to the Company's proxy a copy of the cassation complaint filed by PERN S.A. against the court sentence as above. Based on the legal opinion prepared by the Parent Company's proxy, the Management Board of the Parent Company is of the opinion that complaint lodged by PERN has no grounds, does not contain the necessary statutory premises, and is fraught with formal deficiencies, and being such the complaint should not be accepted by the Supreme Court for the considering. If, however, the complaint would be accepted for examination, the Supreme Court should dismiss it, due to the lack of justified basis. Therefore, the complaint creates a low risk to the stability of the judgments delivered in this case.

The value of this proceeding exceeds 10% of the equity of the Issuer.

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

Note No. 29 – Events after the reporting date

They did not occur.

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

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

The impact on the results achieved in the first quarter of 2018 was the shifting of the commencement of implementation of contracts signed or being in the final stage of negotiations for the Issuer's services, as well as related costs of maintaining the production potential, which was not fully used.

Description of factors which in the issuer's estimation will have an impact on the financial results achieved in the prospects of at least subsequent quarter

The Issuer is conducting intensive activities that will lead to the signing of several significant orders in the near future. These orders in subsequent quarters will cause improving both in terms of revenues from sales of services and results on activities. The completion of the construction and commercialization of the Astrum Business Park project in Warsaw will have a large impact on the results of the Issuer and the Capital Group.

Position of the Management Board 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 forecast of financial results neither for the Company nor for the PROCHEM S.A. Capital Group for 2018.

Information on granting surety of loan or borrowing or giving a guarantee by the Issuer or by its subsidiary - jointly to one entity or subsidiary of this entity, if the total value of existing surety or guarantee is equivalent to at least 10% of the Issuer's equity

In the first quarter of 2018 the companies belonging to the Capital Group did not grant any sureties and guarantees to related entities.

Statement of changes in the ownership of the issuer's shares or rights to them (options) by managing persons and supervising persons of the issuer, according to the information held by the issuer, in the period from the previous quarterly report

As at the date of the financial statements hereby, according to the statements received, the following members of the Management Board and Supervisory Board of the company held shares of PROCHEM S.A.:

- Jarosław Stępniewski – 68,383 pcs;
- Marek Kiersznicki – 59,474 pcs;
- Krzysztof Marczak – 36,908 pcs;
- Marek Garliński – 73,996 pcs;
- Andrzej Karczykowski – 201,882 pcs;

From the day of submitting the previous report, there were no changes in the number of shares held by 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)

	As at 31 March 2018	As at 31 December 2017 audited
A s s e t s		
Non-current assets		
Property, plant and equipment	912	964
Intangible assets	154	177
Investment properties	246	246
Shares in subsidiaries	8 478	8 478
Shares in equity-accounted investees	4 502	4 502
Deferred tax assets	2 919	2 743
Other financial assets	37 200	37 032
Total non-current assets	54 411	54 142
Current assets		
Inventories	27	28
Trade and other receivables	8 808	17 620
Amounts due from customers under contracts	4 580	-
Other financial assets	131	130
Other assets	498	2 950
Cash and cash equivalents	5 712	18 642
Total current assets	19 756	39 370
Total assets	74 167	93 512
E q u i t y a n d l i a b i l i t i e s		
Equity		
Share capital	3 985	3 895
Own shares	-960	-
Revaluation reserve	107	107
Retained earnings	37 784	61 974
Total equity	40 826	65 976
Non-current liabilities		
Non-current loans	8 479	950
Provision for retirement and similar benefits	472	472
Total non-current liabilities	8 951	1 422
Current liabilities		
Trade payables	12 585	18 350
Amounts owed to customers under agreements	7 168	-
Other liabilities	4 637	5 851
Deferred income	-	1 913
Total current liabilities	24 390	26 114
Total liabilities	33 341	27 536
Total equity and liabilities	74 167	93 512
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Book value per one share (in PLN)	10.48	16.94

Unconsolidated statement of profit and loss for the period from 1 January 2018 to 31 March 2018

(all amounts in PLN thousands if not stated otherwise)

	Period ended 31 March 2018	Period ended 31 March 2017
Revenues from sale, including:	9 854	8 452
Revenues from sale of services	9 853	8 452
Revenues from sale of goods and materials	1	-
Cost of sales, including:	-10 593	-6 910
Cost of services sold	-10 593	-6 910
Cost of merchandise and raw materials sold	-	-
Gross profit on sales	-739	1 542
General and administrative expenses	-2 153	-1 824
Other operating income	1 458	72
Other operating expenses	-10	-1
Results from operating activities	-1 444	-211
Financial income	203	191
Finance expenses	-85	-235
Before tax profit	-1 326	-255
Income tax expense :	-176	-1 128
- current tax	-	-
- deferred tax	-176	-1 128
Profit for the period	-1 150	873
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)	-0.30	0.22

Unconsolidated statement of comprehensive income

Profit for the period	-1 150	873
Other comprehensive income (net):	-	-
Total comprehensive income	-1 150	873
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)	-0.30	0.22

Unconsolidated statement of changes in equity

(all amounts in PLN thousands if not stated otherwise)

	Share capital	Revaluation reserve	Retained earnings	Total equity
Reporting period from 1 January 2018 to 31 March 2018				
As at the beginning of the period (audited)	3 895	107	61 974	65 976
Net profit (loss) of the given period	-	-	-1 150	-1 150
Repurchase of own shares for redemption	-960	-	-23 040	-24 000
<i>Other comprehensive income (net)</i>	-	-	-	-
Total comprehensive income	-960	-	-24 190	-25 150
As at the end of the period	2 935	107	37 784	40 826

Reporting period from 1 January 2017 to 31 March 2017.

	Share capital	Revaluation reserve	Retained earnings	Total equity
Reporting period from 1 January 2017 to 31 March 2017				
As at the beginning of the period	3 895	837	48 727	53 459
Error adjustment	-	-	-388	-388
As at the beginning of the period (after adjustment)	3 895	837	48 339	53 071
Net profit (loss) of the given period	-	-	873	873
<i>Other comprehensive income (net)</i>	-	-	-	-
Total comprehensive income	-	-	873	873
As at the end of the period	3 895	837	49 212	53 944

Unconsolidated statement of cash flows

For the period from 1 January 2018 to 31 March 2018 roku

(all amounts in PLN thousands if not stated otherwise)

	Period ended 31 March 2018	Period ended 31 March 2017
Cash flows – operating activities		
Gross loss	-1 326	-255
Total adjustment	4 970	-875
Amortization and depreciation	133	162
Interest and profit sharing (dividends)	-124	-64
Change in provisions	10	-524
Change in inventories	1	-
Change in receivables and other assets	6 684	9 227
Change in current liabilities except for loans and borrowings	-6 989	-9 071
Other adjustments (including change in deferred income)	5 255	-605
Cash provided by (used in) operating activities	3 644	- 1 130
Income tax paid	-	-
Net cash provided by (used in) operating activities	3 644	-1 130
Cash flows – investing activities		
Inflows	-	145

Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of three months ended 31 March 2018

Disposal of intangible assets and property, plant and equipment	-	3
Proceeds from financial assets in related entities, including:	-	142
- repayment of interest on loans granted	-	142
Outflows	-58	-10
Acquisition of intangible assets and property, plant and equipment	-58	-10
Net cash provided by (used in) investing activities	-58	135
<hr/>		
Cash flows – financing activities		
Inflows from loans received	-	1 404
Borrowings	7 500	-
Purchase of own shares for redemption	-24 000	-
Interest, commission paid	-16	-71
Net cash provided by (used in) financing activities	- 16 516	1 333
<hr/>		
Total cash flows, net	-12 930	338
Cash and cash equivalents as at the beginning of the period	18 642	245
Cash and cash equivalents as at the end of the period	5 712	583

Approval of the financial statements

Hereby the interim condensed consolidated financial statements of the PROCHEM S.A. Capital Group for the period from January 1, 2018 to March 31, 2018, containing the financial information of the company PROCHEM S.A., has been approved for publication by the Management Board of the Parent Company PROCHEM S.A. on 25 May 2018.

Signatures of the Members of the Management Board

25 May 2018 Jarosław Stępniewski President of the Management Board
date first name and surname position signature

25 May 2018 Marek Kiersznicki Vice President
of the Management Board
date first name and surname position signature

25 May 2018 Krzysztof Marczak Vice President
of the Management Board
date first name and surname position signature

Signature of the person responsible for bookkeeping

25 May 2018 Barbara Auguścińska-Sawicka Chief Accountant
date first name and surname position signature