

REPORT FOR THE FIRST HALF OF 2016

Contents:

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

and

- Selected financial data
- Statement of the Management Board
- Management Board Report on the activities of PROCHEM S.A. Capital Group in the first half of 2016.

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

Selected financial data

Revenues from sales and profit expressed in PLN and 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 amounted to:

- For the first half of 2016 - 4.3805 PLN/EUR
- For the first half of 2015 - 4.1341 PLN/EUR

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

- 4.4255 PLN/EUR as at 30 June 2016
- 4.2615 PLN/EUR as at 31 December 2015

Selected financial data of PROCHEM S.A. Capital Group

Description	Reporting period ended 30 June		Reporting period ended 30 June	
	2016	2015	2016	2015
	In PLN thousands		In EURO thousands	
<i>Consolidated profit and loss account</i>				
Revenues from sales	79 728	84 314	18 201	20 395
Gross profit on sales	-14 728	10 560	-3 362	2 554
Results from operating activities	-21 852	2 602	-4 988	629
Before tax profit	-23 991	2 610	-5 477	631
Profit for the period assigned to:	-21 823	972	-4 982	235
Shareholders of Parent Entity	-21 869	953	-4 992	231
Non-controlling interest	46	19	11	5
Profit/(loss)/diluted profit (loss) per one share (in PLN/EURO)- assigned to shareholders of parent company	-5.61	0.24	-1.28	0.06
<i>Consolidated statement of cash flows</i>				
Net cash provided by (used in) operating activities	-16 812	-5 085	-3 838	-1 230
Net cash provided by (used in) investing activities	4 158	16 156	949	3 908
Net cash provided by (used in) financing activities	2 277	-1 425	520	-345
Total cash flows, net	-10 377	9 646	-2 369	2 333
<i>Consolidated statement of financial position</i>				
Description	As at		As at	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
	In PLN thousands		In EURO thousands	
Total assets	183 081	214 436	41 370	50 319
Total non-current assets	82 908	81 783	18 734	19 191
Total current assets	100 173	132 653	22 635	31 128
Equity attributable to owners of parent company	89 882	116 357	20 310	27 304
Non-controlling interest	6 417	8 738	1 450	2 050
Total equity	96 299	125 095	21 760	29 355
Total non-current liabilities	4 475	5 153	1 011	1 209
Total current liabilities	82 307	84 188	18 598	19 755
Book value per one ordinary share (in PLN/EURO) –assigned to owners of parent company	23.08	29.87	5.21	7.01
Weighted average number of shares (units)	3 895 000	3 895 000	3 895 000	3 895 000

Statement of the Management Board

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

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

- interim condensed consolidated financial statements of PROCHEM S.A Capital Group for the first half of 2016 and comparable data were prepared according to International Accounting Standard 34 „Interim Financial Reporting”, which was adopted by European Union and reflects in true, fair and clear way its financial position and its financial performance;
- Management Board Report on the activities of PROCHEM S.A. Capital Group in the first half of 2016 gives a true picture of the development, achievements and financial situation of the Group, including basic risks and threats.

Statement of the Management Board on the entity authorized to review the interim condensed separate financial statements

The Management Board of PROCHEM S.A. declares that KPMG Audit Sp. z o. o. sp. k., the entity authorized to audit financial statements has been appointed in accordance with legal regulations and that the entity and the auditors conducting the audit of interim condensed consolidated financial statements of PROCHEM S.A. have met the conditions for the issue of an impartial and independent report in accordance with the proper laws.

Vice President
Krzysztof Marczak

Vice President
Marek Kiersznicki

President of the Management Board
Jarosław Stępniewski

Warsaw, 31 August 2016

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

**As at and for the period of six months ended
30 June 2016**

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

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

Consolidated statement of financial position

(all amounts in PLN thousands if not stated otherwise)

	Note No.	As at 30 June 2016 (upon audit)	As at 31 December 2015 (under examination)
A s s e t s			
Non-current assets			
Property, plant and equipment	1	23 747	23 814
Intangible assets		434	508
Investment properties	2	11 960	11 960
Shares		830	830
Shares valued using equity method	3	22 733	24 000
Deferred tax assets	4	5 062	2 716
Other financial assets	5	18 142	17 955
Total non-current assets		82 908	81 783
Current assets			
Inventories	6	3 904	7 071
Trade and other receivables	7	68 119	83 991
Other financial assets	8	459	2 799
Other assets	9	14 473	15 197
Cash and cash equivalents		13 218	23 595
Total current assets		100 173	132 653
Total assets		183 081	214 436
E q u i t y a n d l i a b i l i t i e s			
Equity			
Share capital	10	3 895	3 895
Revaluation reserve		12 161	11 584
Retained earnings		73 826	100 878
Equity assigned to shareholders of parent entity		89 882	116 357
Non-controlling interest		6 417	8 738
Total equity		96 299	125 095
Non-current liabilities			
Provision for deferred income tax	4	2 236	2 883
Provision for retirement and similar benefits		1 839	1 854
Other non-current liabilities		400	416
Total non-current liabilities		4 475	5 153
Current liabilities			
Bank loans	11	14 771	11 772
Trade -payables	12	46 178	51 451
Provisions for current income tax		60	1 447
Other liabilities	14	12 136	8 142
Deferred income	13	9 162	11 376
Total current liabilities		82 307	84 188
Total liabilities		86 782	89 341
Total equity and liabilities		183 081	214 436
Weighted average number of ordinary shares (units)		3 895 000	3 895 000
Book value per one share (in PLN) assigned to shareholders of Parent Entity		23.08	29.87

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

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

Consolidated profit and loss account

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 June 2016 (upon audit)	Period ended 30 June 2015 (upon audit)
Revenues from sales, including:		79 728	84 314
Revenues from sale of services	15	76 216	82 164
Revenues from sale of goods and materials		3 512	2 150
Cost of sales, including:		-94 456	-73 754
Cost of services sold	16	-91 306	-70 732
Cost of merchandise and materials sold		-3 150	-3 522
Gross profit on sales		-14 728	10 560
General and administrative expenses	16	-7 249	-7 217
Other operating income	17	222	325
Other operating expenses	18	-97	-1 066
Results from operating activities		-21 852	2 602
Financial income	19	441	1 028
Gain on disposal of shares in subsidiaries		-	190
Finance costs	20	-1 313	-932
Profit sharing in entities valued using the equity method		-1 267	-278
Before tax profit		-23 991	2 610
Income tax		-2 168	1 638
- current tax		826	1 680
- deferred tax		-2 994	-42
Profit for the period		-21 823	972

Profit for the period assigned to :

Shareholders of Parent Entity	-21 869	953
Non-controlling interest	46	19
Profit/diluted profit per one ordinary share (in PLN per one share) assigned to owners of Parent Company	-5.61	0.24

Consolidated statement of comprehensive income

Profit for the period	-21 823	972
Other comprehensive income net:	4	-232
<i>Other comprehensive income that will be reclassified to profit or loss:</i>	4	-232
Foreign exchange differences from the translation of the entity operating abroad	4	-232
Total comprehensive income	-21 819	740

Total comprehensive income assigned to :

Shareholders of Parent Entity	-21 865	721
Non-controlling interest	46	19
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Total comprehensive income per one ordinary share (in PLN per one share) assigned to owners of Parent Entity	-5.61	0.19

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

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

Consolidated statements of changes in equity

(all amounts in PLN thousands if not stated otherwise)

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent entity	Equity assigned to non-controlling interest	Total equity
Reporting period from 1 January 2016 to 30 June 2016						
As at the beginning of the period (under examination)	3 895	11 584	100 878	116 357	8 738	125 095
Net profit/(loss) of the given period	-	-	-21 869	-21 869	46	-21 823
<i>Net other comprehensive income</i>	-	4	-	4	-	4
Total comprehensive income	-	4	-21 869	-21 865	46	-21 819
Payment of dividend	-	-	-6 193	-6 193	-143	-6 336
Repurchase of own shares for redemption (Elektromontaż) - change in the structure of shareholding	-	271	527	798	-1 061	-263
Acquisition of shares in Elektromontaż Kraków SA from a non-controlling shareholder	-	305	475	780	-1 150	-370
Other changes	-	-3	8	5	-13	-8
As at the end of the period (upon audit)	3 895	12 161	73 826	89 882	6 417	96 299

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent entity	Equity assigned to non-controlling interest	Total equity
Reporting period from 1 January 2015 to 30 June 2015						
As at the beginning of the period (under examination)	3 895	11 973	97 568	113 436	9 243	122 679
Net profit/(loss) of the given period	-	-	953	953	19	972
<i>Net other comprehensive income</i>	-	-232	-	-232	-	-232
Total comprehensive income	-	-232	953	721	19	740
<i>Transakcje z udziałowcami</i>						
Payment of dividend	-	-	-1 363	-1 363	-11	-1 374
Repurchase of own shares for redemption (Elektromontaż) - change in the structure of shareholding	-	11	19	30	-39	-9
Other changes (among others sale of subsidiary Prochem Serwis)	-	-6	185	179	-112	67
As at the end of the period (upon audit)	3 895	11 746	97 362	113 003	9 100	122 103

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

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

Consolidated statement of cash flows

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 June 2016 (upon audit)	Period ended 30 June 2015 (upon audit)
Cash flows – operating activities			
Gross profit/(loss)		-23 991	2 610
Total adjustments		9 368	-6 989
Share in profit of entities valued using the equity method		1 267	278
Amortisation and depreciation		1 204	1 204
Interest and profit sharing (dividends)		80	157
Gain on disposal of property, plant and equipment		31	-8
Loss on investment		-	-124
Change in provision		-317	-478
Change in inventories	6	3 167	-2 997
Change in receivables and other assets	21	11 308	-7 029
Change in current liabilities, except for borrowings and loans	21	-7 500	3 070
Other adjustments (including change in deferred income)		128	-1 062
Cash provided by (used in) operating activities		-14 623	-4 379
Income tax paid		-2 189	-706
Net cash provided by (used in) operating activities		-16 812	-5 085
Cash flows – investing activities			
Inflows		5 369	16 963
Disposal of intangible assets and property, plant and equipment		5 292	3
Disposal of real estate		-	16 378
Inflows from financial assets, including:		77	582
a) in subsidiaries – disposal of financial assets		-	566
b) in other entities		77	16
- repayment of loan with interest		77	-
- other inflows		-	16
Outflows		-1 211	-807
Acquisition of intangible assets and property, plant and equipment		-1 165	-507
For financial assets, including:		-46	-300
a) in subsidiaries acquisition of financial assets		-3	-
b) in other entities:		-43	-300
- loans granted		-	-300
- other outflows		-43	-
Net cash provided by (used in) investing activities		4 158	16 156
Cash flows – financing activities			
Inflows		3 106	3 018
Bank loans		3 106	3 000
Other financial inflows		-	18
Outflows		-829	-4 443
Other than payments to shareholders, expenses under profit distribution		-405	-20
Repayment of bank credits		-112	-3 975
Repayment of borrowings		-	60
Payment of liabilities under finance lease		-22	-41
Interest		-274	-347
Other outflows		-16	-

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

Net cash provided by (used in) financing activities	2 277	-1 425
Total cash flows net	-10 377	9 646
Cash and cash equivalents as at the beginning of the period	23 595	6 606
Cash and cash equivalents at the end of the period	13 218	16 252

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

Explanatory Notes to interim condensed consolidated financial statements

1. Establishment of the Parent Entity and principal activity

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

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

2. The Management Board and Supervisory authorities of the Parent Company

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

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

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

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

- Marek Garliński
- Andrzej Karczykowski
- Krzysztof Obłój
- Michał Suflida
- Karol Żbikowski

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

- 1) have been dismissed from the Supervisory Board:
 - Steven Tappan,
 - Wiesław Kiepiel.
- 2) have been appointed to the Supervisory Board:
 - Michał Suflida,
 - Karol Żbikowski.

3. Employment

In the first half of 2016 average employment in PROCHEM S.A. Capital Group was 460 FTEs, and in the first half of 2015 498 FTEs.

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

Level of employment in persons in PROCHEM Capital Group as at 30 June 2016 was 474, and as at 30 June 2015 499. On 31 December 2015 the employment in the Capital Group was 481 persons.

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

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

Subsidiaries covered by full consolidation:

- Prochem Inwestycje Sp. z o. o. seated in Warsaw – subsidiary directly (100.0%);
- PRO-INHUT Sp. z o. o. seated in Dąbrowa Górnicza – subsidiary indirectly (93.2%);
- Pro-Organika Sp. z o. o. seated in Warsaw – subsidiary directly (91.4%);
- PREDOM Sp. z o. o. seated in Wrocław – subsidiary indirectly (81.1% of share in capital and profit, 71.4% of votes);
- Prochem Zachód Sp. z o. o. seated in Warsaw – subsidiary directly (80.0%);
- ELPRO Sp. z o. o. Kraków – subsidiary indirectly (92.7%, including 85.4% in the 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o. o. Kraków – subsidiary indirectly (92.7%, including 85.4 % in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. – subsidiary indirectly (85.4%), including 73.0% of the capital and votes belongs to Prochem Inwestycje subsidiary in 100%. Elektromontaż Kraków S.A. prepares consolidated financial statements, which contains data of the subsidiary in 100%: ELMONT-POMIARY Sp. z o. o. seated in Kraków and two associated companies ELPRO Sp. z o. o. and Elmont-Inwestycje Sp. z o. o.;
- IRYD Sp. z o. o. seated in Warsaw – subsidiary indirectly 100%;
- ATUTOR Integracja Cyfrowa Sp. z o. o. seated in Warsaw – subsidiary indirectly (87.3% of share belongs directly to Prochem Inwestycje Sp. z o. o. 100% subsidiary);
- Prochem RPI Sp. z o. o. seated in Warsaw – subsidiary in 100% (with the 3.3% of the share capital and voting rights held by the company Prochem Inwestycje).

Jointly controlled entities and associates valued using the equity method:

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

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

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

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

5. Adopted accounting principles

Principles of presentation

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

In connection with net loss of PLN 21,823 thousand, which has been noted in the first half of 2016, and which is linked in main extent with incurring of additional costs as well as with decreasing of a gross margin on the long-term contract implemented in Belarus, what consequently led to the breach of conditions of the loan agreements, as it was described in note 10, appeared the uncertainty as to the possibility of continuing the business of the Company. The Management Board has carried out analysis of own monetary resources, financial assets, available mortgage protections, granted credit limits and possibilities for introduction of program of adapting the operating costs to planned revenues. Despite the breach of conditions of loan agreements the Management does not expect their termination and expects the continuation of financing on the same or similar level for at least the next 12 months. Based on the analysis and measures taken by the Board to reduce costs, in the opinion of the Board, despite the possibility of short-term tensions in the liquidity situation of the Issuer, the principle consisting in assuming a going concern, that was adopted during preparing of interim condensed financial statements is correct. Irrespective of it, in the next twelve months is expected consideration by the court of appeal lodged by PERN SA from the judgment of 22 October 2015, which adjudged an amount of PLN 87 million in favor of a consortium with the participation of the Issuer (including interest for delay in payment). The Issuer's share in this amount is approximately 50% - detailed information is presented in Note 28.

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

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

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

Seasonality

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

Principles of preparation of consolidated financial statements

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

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

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

Significant accounting policies and changes in IFRS

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

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

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

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

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

Changes in estimates

In accounting principles that are applied the greatest significance, besides accounting estimates, has the professional judgment of the management, which has an impact on the amounts reported in the financial statements, including those in explanatory notes. Assumptions of such estimates are based on management's best knowledge in relation to current and future events and actions in different areas of activity. They relate to the valuation of pension benefits, assessing the stage of execution, and the profitability of long-term contracts (gross margin).

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

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

Functional currency and presentation currency of financial statements

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

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

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

Other explanatory notes

Note No. 1 – Property, plant and equipment

	As at 30 June 2016	As at 31 December 2015
Property, plant and equipment, including:	23 377	23 779
- land	4 677	4 732
- buildings, premises and civil engineering objects	16 049	16 486
- machinery and equipment	849	906
- vehicles	969	807
- other fixed assets	833	848
- construction under progress	370	35
Total property, plant and equipment	23 747	23 814

PPE – ownership structure	As at 30 June 2016	As at 31 December 2015
a) own	10 763	11 030
b) used under rental, lease or other agreement, including:	12 984	12 784
- lease	642	442
- outlays on foreign PPE	11 790	11 790
- value of right of perpetual usufruct	552	552
Total PPE of balance sheet	23 747	23 814

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

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

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

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

Changes in PPE

	Change in PPE in the period from 1 January 2016 to 30 June 2016	Change in PPE in the period from 1 January 2015 to 31 December 2015
Gross value - as at opening balance sheet	43 655	44 012
increase (due to)		
- acquisition	1 101	1 283
- PPE under construction	766	1 264
decrease (due to)		
- disposal of PPE	335	19
- liquidation of PPE	-565	-1 640
- other changes, including non-current assets of subsidiary sold	-184	-221
	-374	-26
	-7	-1 393
Gross value at closing balance sheet	44 191	43 655
Depreciation and impairment		
Accumulated depreciation – as at opening balance sheet	19 841	18 774
- increase (depreciation for the period)	1 094	2 295
- decrease due to sale	-30	-223
- decrease due to liquidation	-466	-22
- other changes, including depreciation of non-current assets of subsidiary sold	5	-983
Accumulated depreciation as at closing balance sheet	20 444	19 841
PPE net – as at closing balance sheet	23 747	23 814

Note No. 2 – Investment properties

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

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

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

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

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

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

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

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

Note No. 3 – Shares valued using the equity method

	As at 30 June 2016	As at 31 December 2015
- Shares – net value	22 733	24 000
- Write-down of shares	-	400
Gross value of shares	22 733	24 400

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

Change in shares valued using the equity method	As at 30 June 2016	As at 31 December 2015
a) as at the beginning of the period	24 000	25 136
- shares at cost	24 000	25 136
b) changes (due to)	- 1 267	- 1 136
- share in the result of the current year	- 1 267	- 1 136
As at the end of the period, net value	22 733	24 000
c) write-down	-	400
As at the end of the period, gross value	22 733	24 400

Note No. 4 –Deferred income tax

Changes in the values of reserves and deferred income tax assets for the first half of 2016 is shown in the table below.

Income tax assets	As at 30 June 2016	As at 31 December 2015
As at the beginning of the period	5 662	6 051
Increase	4 429	3 697
Decrease	-2 286	-4 086
As at the end of the period	7 805	5 662

Provision for deferred income tax	As at 30 June 2016	As at 31 December 2015
As at the beginning of the period	5 829	6 709
Increase	1 295	2 752
Decrease	-2 145	-3 632
As at the end of the period	4 979	5 829

	As at 30 June 2016	As at 31 December 2015
Deferred tax assets	7 805	5 662
Provision for deferred income tax	-4 979	-5 829
Surplus of deferred tax asset	2 826	-167

<i>Presentation in statement of financial position</i>	As at 30 June 2016	As at 31 December 2015
Deferred tax assets	5 062	2 716
Provision for deferred income tax	-2 236	- 2 883
Surplus of deferred tax asset	2 826	-167

Note No. 5 – Other financial assets

	As at 30 June 2016	As at 31 December 2015
a) from jointly-controlled entities	18 142	17 955
- borrowings	18 142	17 995
Total other financial assets	18 142	17 995

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

Loans granted – as at 30 June 2016

- Loans granted to the jointly-controlled company Irydion sp. z o. o. seated in Warsaw:
 - in the amount of PLN 11 817 thousand, including: amount of the loan PLN 11 000 thousand, interest accrued as at the balance-sheet day PLN 817 thousand. Interest rate is set annually according to WIBOR 6M, repayment date 22 September 2031;
 - in the amount of PLN 6 325 thousand, including: amount of the loan PLN 6 000 thousand, interest accrued as at the balance-sheet day PLN 325 thousand. The interest is set at fixed rate of 3 % annually, repayment date 22 September 2031.

Increase:

- Interest accrued on loans granted in the amount of PLN 187 thousand.

Loans granted - as at 31 December 2015

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

Note No. 6 – Inventories

	As at 30 June 2016	As at 31 December 2015
Materials	3 164	6 220
Semi-finished products and work in progress	132	128
Goods	608	723
Total inventories	3 904	7 071
Write-down of inventories	285	285

Note No. 7 - Trade and other receivables

	As at 30 June 2016	As at 31 December 2015
Trade receivables, including:	69 227	85 643
Write-down of trade receivables	-7 321	-7 404
Net trade receivables, including:	61 906	78 239
- with repayment period up to 12 months	58 066	74 208
- with repayment period over 12 months	3 840	4 031
Receivables from taxes, subsidies, customs duties, social and health insurance and other benefits	5 159	4 851
Other receivables	1 456	1 303
Write-down of other receivables	-402	-402
Net other receivables	1 054	901
Total receivables, net	68 119	83 991

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

Trade and other receivables from related entities	As at 30 June 2016	As at 31 December 2015
Trade receivables, including:	7 444	7 432
- from jointly-controlled entities	7 444	7 432
Total current trade receivables and other from related entities	7 444	7 432
Write-down of receivables from related entities	-	-
Total current trade receivables and other receivables from related entities, gross value	7 444	7 432

Change in write-down of trade and other receivables	As at 30 June 2016	As at 31 December 2015
As at the beginning of the period	7 806	6 949
a) increase (due to)	15	1 104
- write-down for receivables	15	1 104
b) decrease (due to)	98	247
- payment received	97	198
- the use of write-downs which were created in the previous periods	-	6
- other exclusion of the company from consolidation (sale of shares in subsidiary)	-	37
- resolving of write-down	1	6
Write-downs of trade and other receivables	7 723	7 806

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

As at 30 June 2016 the outstanding balance of trade receivables includes receivables overdue with a carrying amount PLN 17 364 thousand from security deposit under the statutory warranty, to which the Group did not create write-downs. The Group considers that they will be recovered, what was described in Note No 28 – *Information on significant proceedings pending before the court.*

Note No. 8 – Other financial assets

	As at 30 June 2016	As at 31 December 2015
a) from other entities:	459	2 799
- current loans granted	198	273
b) other financial assets- discounted the security deposit constituting the collateral of a bank guarantee of reimbursement of advance payment	261	2 526
Total other financial assets	459	2 799

Loans granted - as at 30 June 2016

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

Increase

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

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

Decrease

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

Loans granted - as at 31 December 2015

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

Note No. 9 – Other assets

Other assets by type :

	As at 30 June 2016	As at 31 December 2015
a) prepayments	1 999	1 412
- cost of property and personal insurance	449	281
- software maintenance costs	654	631
- subscriptions	28	37
- deferred costs	48	449
- other	820	14
b) other accruals and prepayments	12 474	13 785
- amounts due from the ordering parties under long-term contracts	12 474	13 785
Total other assets	14 473	15 197

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

Note No. 10 – Share capital

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

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

The share capital of the Company amounts to PLN 3 895 thousands and is divided into 3 895 000 shares with the nominal value of PLN 1 each. The number of shares did not change with comparison to as at 31 December 2015. Total number of votes from all shares is 3 896 160.

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

Name of the shareholder	Number of shares held (units)	Number of votes held	% of votes in total number of votes	% of share capital
1. Porozumienie PHC, including:	1 173 561	1 174 661	30.15	30.13
Steven Tappan	510 000	510 000	13.09	13.09
2. Legg Mason Parasol Fundusz Inwestycyjny Otwarty („Legg Mason Parasol FIO”), Fundusz Własności pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty and Legg Mason Akcji Skoncentrowany Fundusz Inwestycyjny zamknięty.	560 549	560 549	14.39	14.39
Total the above mentioned funds, including: - Legg Mason Parasol Fundusz Inwestycyjny Otwarty („Legg Mason Parasol FIO”)	284 054	284 054	7.29	7.29
3. QUERCUS Parasolowy SFIO, QUERCUS Absolute Return FIZ, QUERCUS Absolutnego Zwrotu FIZ.	399 715	399 715	10.26	10.26
Total the above mentioned funds, including: QUERCUS Parasolowy SFIO	399 715	399 715	10.26	10.26
4. Otwarty Fundusz Emerytalny PZU „Złota Jesień”.	387 521	387 521	9.95	9.95

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

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

- on 11 June 2016 at the Annual Meeting of Shareholders the Group was informed about change in number of shares held by QUERCUS Towarzystwo Funduszy Inwestycyjnych S.A. – QUERCUS parasolowy SFIO, QUERCUS Absolutne Return FIZ oraz QUERCUS Absolutnego Zwrotu FIZ – has increased (through common Funds) its share in total number of votes in company PROCHEM S.A. by 4 752 of shares. On the date when the information was received the Funds jointly held 399 714 shares of the Issuer, representing 10.26 of the share capital and 10.26 of the total number of votes at the General Meeting.

Note No. 11 – Current bank loans

	As at 30 June 2016	As at 31 December 2015
- loans	14 771	11 772

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

Bank loans

Name of the bank	Registered office	Amount of the loan acc. to agreement (in PLN thousands)	Amount of the loan to be repaid (in PLN thousands)	Terms of interest	Repayment date	Security
By Prochem S.A.						
mBank SA	Warsaw	6000 Credit in overdraft	2 498	WIBOR for O/N deposits in PLN + margin	30 June 2017	Promissory note in blank
mBank SA	Warsaw	6000 Revolving working capital loan	6 000	WIBOR for 1 month deposits in PLN + margin	30 June 2017	Promissory note in blank
ING Bank Śląski S.A.	Katowice	3.000 Credit in overdraft	2 813	WIBOR for 1 month deposits in PLN + margin	14 November 2016	Statement on submission to execution
By company PROORGANIKA Sp. z o. o.						
Bank BZWBK	Wrocław	300 Credit in overdraft	236	WIBOR for 1 month deposits in PLN + margin	26 June 2017	lack
mBank SA	Warsaw	100 Credit in overdraft	29	WIBOR for O/N deposits in PLN + margin	26 June 2017	without security
mBank SA	Warsaw	130 Working capital loan	130	WIBOR for 1 month deposits in PLN + margin	30 September 2016	Promissory note in blank
By company Elektromontaż Kraków SA						
ING Bank Śląski	Kraków	2 500	2 268	WIBOR for 1 month deposits in PLN + margin	19 October 2016	Mortgage
Deutsche Bank	Kraków	500	436	WIBOR for 1 month deposits in PLN + margin	15 July 2016	Mortgage
By Atutor Integracja Cyfrowa Sp. z o. o.						
Bank Millennium S.A.	Warsaw	100	-	WIBOR 1 month plus margin	Not applicable	Without security
By Pro-Inhut Sp. z o.o.						
ING Bank Śląski	Dąbrowa Górnicza	400 kredyt w rachunku bankowym	361	WIBOR 1 month plus margin	24 September 2016	Without security

As at 30 June 2016, the Company breached the terms of the loan agreement granted by the bank ING as result of achieving negative level of EBITDA in the period of the first half of 2016 and also has breached conditions of loan agreements granted by mBank, because were exceeded indicated in the contracts: the level of the ratio of net profit margin for the period of the first half of 2016 no less than 1%, as well as current liquidity ratio of June 30, 2016 no less than 1,2 ("covenants"). Breach of covenants did not affect the change in the presentation of loans in the statement of financial position, which was prepared as at 30 June 2016, as according to the signed agreements, loans are to be repaid in less than 12 months.

Due to the breach of covenants in loan agreements the Management Board conducts talks with banks, who are conducting financing of the current operations of the Issuer, in order to maintain the current level of granted credit limits, however the Management Board does not expect termination by the banks of loan agreements and expects the continuation of financing under existing contracts at the level that is not changed significantly during the period of the subsequent 12 months.

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

Note No. 12 – Trade payables

	As at 30 June 2016	As at 31 December 2015
a) to other entities -	46 178	51 451
- for supplies and services, with maturity:	46 178	51 451
- up to 12 months	41 956	48 854
- more than 12 months	4 222	2 597
Total trade payables	46 178	51 451

Note No. 13 – Deferred income

	As at 30 June 2016	As at 31 December 2015
Advanced payments received	404	6 200
Amounts due to the ordering parties under long-term contracts	7 890	4 854
Other	868	322
Deferred income at the end of the period, including:	9 162	11 376
Non-current liabilities	-	-
Current liabilities	9 162	11 376

In 2013 the Group received advance payment in the amount of PLN 30 767 thousand (7 230 thousands of EURO) – 15% of value of the contract signed with company from Belarus for implementation of the investment project „Turnkey construction of system for the production of highly purified paraffin, oils, lubricants and cooling greases and pattern material with the expansion of power complex”. Amount of the advance payment was recognized in deferred income and is settled against invoices issued for completed services and supplies. As at 30 June 2016 amount of unsettled advance payment was PLN 386 thousand (EURO 90,9 thousand).

Note No. 14 – Other liabilities

	As at 30 June 2016	As at 31 December 2015
a) to other entities	9 898	4 609
- due to taxes, duties, insurance and other benefits	2 331	3 669
- due to remuneration	339	351
- other (by type)	7 228	589
• liabilities to employees	3	16
• liabilities to shareholders	6 193	21
• liabilities under lease	318	181
• other liabilities	714	371
b) other current provisions	2 238	3 533
- provision for costs, concerning long-term contracts	323	385
- provision for costs (movable part of remuneration, contract of mandate)	-	993
- cost of audit	35	104
- current provision for retirement benefit	574	587
- provision for unused annual leaves	1 306	1 464
Total other liabilities	12 136	8 142

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

Note No. 15 - Revenue from sale of services

Revenues from sale of services (type of service and type of activity)	Period ended 30 June 2016	Period ended 30 June 2015
Revenues from sale of services, including:	76 216	82 164
- from jointly-controlled entities	12 688	9 543

Revenues from sale (territorial structure)	Period ended 30 June 2016	Period ended 30 June 2015
Domestic market	67 467	46 430
- including from jointly-controlled entities	12 688	9 543
Exports	8 749	35 734

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

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

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

Note No. 16 – Cost of services

	Period ended 30 June 2016	Period ended 30 June 2015
a) amortization and depreciation	1 204	1 204
b) consumption of materials and energy	6 304	8 606
c) outsourcing	68 580	45 701
d) taxes and levies	920	548
e) remuneration	17 172	17 339
f) social security and other benefits	3 499	3 440
g) other types of generic costs (by category), including:	3 175	3 263
- property and personal insurance	574	602
- business trips	901	807
- State Fund for Rehabilitation of Disabled Persons PFRON	104	140
- other	1 596	1 714
Total costs by type	100 854	80 101
Change in inventories, products and accruals and prepayments	-2 299	-2 652
General and administrative expenses (negative value)	-7 249	-7 217
Cost of services	91 306	70 232

Note No. 17- Other operating income

	Period ended 30 June 2016	Period ended 30 June 2015
a) gain on sale of non-financial non-current assets	7	8
b) grants	-	70
c) reversal of impairment allowance (due to)	98	154
- for receivables	98	154
d) other, including:	117	93

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- the reimbursement of costs of litigation	8	4
- received compensation, fines and penalties	69	-
- revenues from car rental	4	4
- other	36	85
Total other operating income	222	325

Note No. 18 – Other operating expenses

	Period ended 30 June 2016	Period ended 30 June 2015
a) loss on sale of non-financial non-current assets	43	66
b) write-down:	16	862
- for receivables	16	862
c) other, including:	38	138
- cost of litigation	8	51
- paid penalties, fines and compensation	-	28
- other	30	59
Other operating expenses	97	1 066

Note No. 19 – Financial income

	Period ended 30 June 2016	Period ended 30 June 2015
a) interest on loans granted	188	187
- from jointly-controlled entities	188	187
b) other interest	81	24
- from other entities	81	24
c) surplus of foreign exchange losses	171	717
d) other, due to:	1	100
- other	1	100
Total financial income	441	1 028

Note No. 20 – Finance costs

	Period ended 30 June 2016	Period ended 30 June 2015
a) interest on bank loans	226	267
b) other interest	14	40
- for other entities	14	40
c) surplus of foreign exchange losses	845	119
d) other, due to:	228	506
- commissions on bank guarantees	172	145
- commission on loans	52	78
- other	4	283
Total finance costs	1 313	932

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

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

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

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

	in 2016	in 2015
Change in current receivables	11 308	-7 029
Receivables as at 1 January	83 991	66 534
Other assets as at 1 January	15 197	13 544
Receivables from sale of non-current assets	-45	-49
Adjustment of receivables of subsidiary in 2013	-	360
Receivables from sale of assets	-	-396
Receivables from sale of real estate	-5 240	-
Receivables under income tax	-497	-
Opening balance sheet after adjustments	93 406	79 993
Exclusion as at the opening balance of the amounts due of the sold subsidiary	-	-1 990
Opening balance sheet after exclusions	93 406	78 003
Receivables as at 30 June	68 119	71 581
Other assets as at 30 June	14 473	17 615
Receivables of non-current assets sold	-21	-54
Receivables under income tax	-473	-4 110
Closing balance sheet after adjustments	82 098	85 032
Change in current liabilities except for borrowings, loans and special funds	-7 500	3 070
Trade payables as at 1 January	51 451	31 229
Other liabilities as at 1 January	8 142	7 809
Provision for current retirement benefits	-587	-383
Provision to annual leaves	-1 464	-1 402
Provision to audit	-104	-96
Provision to current other costs	-385	-471
Other differences under discount of liabilities	250	250
Investment commitments	-46	-
Adjustment of liabilities in the subsidiary for 2013	-	-34
Liabilities under operating lease	-40	-184
Liabilities to shareholders	-3	-2
Opening balance sheet after adjustments	57 214	36 716
Elimination of liabilities of sold subsidiary	-	-1 086
Opening balance sheet after exclusions	57 214	35 630
Trade payables as at 30 June	46 178	35 887
Other liabilities as at 30 June	12 136	5 968
Provision for current retirement benefits	-574	-348
Provision to annual leaves	-1 306	-1 233
Provision to audit	-35	-40
Investment commitments	-18	-193
Provision for current other costs	-323	-187
Other differences under discount of liabilities	250	250
Liabilities under lease	-29	-40
Liabilities under acquisition of shares	-370	-
Liabilities to shareholders	-6 195	-1 364

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

Closing balance sheet after adjustments	49 714	38 700
Change in other adjustments as at 30 June	128	-1 062
Change in deferred income – advances received	- 5 796	-3 366
Change in deferred income in respect of the amounts due to ordering parties under long-term contracts	3 036	1 739
Change in - the security deposit constituting the collateral of a bank guarantee of reimbursement of advance payment*)	2 265	1 461
Elimination of the sold subsidiary	-	-212
Change in other deferred income	546	-137
Other	77	-547

*) In connection with the implementation of the investment project in Belarus, in order to secure the return of received advance payment the Group has granted a bank guarantee of advance refund to the amount of EURO 7,230 thousand. As the security of the guarantee, under a contract concerning a monetary security deposit, the Group has placed a deposit in the bank to the amount of EURO 2,191 thousand. The deposit shall be reduced by the amounts settled during the implementation of the project. As at 30 June 2016 this part of the security deposit which was not accounted for and discounted, was presented in the statement of financial position in the position of other current financial assets in the amount of PLN 261 thousand (Note No. 8).

Note No. 22- Operating segments

Operating segment is a component part of the entity:

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

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

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

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

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

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

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

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

Revenues from activities achieved abroad (exports) in the period from 1 January 2016 to 30 June 2016 amounted to PLN 9 432 thousand (i.e. 11.8% of revenues from sale), in the analogous period of the previous year revenues amounted to PLN 35 734 thousand (i.e. 56.8% of revenues from sale).

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

- Belarusian client – revenues in the amount of PLN 8 749 thousand, what represents 11.0% of total sales revenues, which were shown in the segment of „General contracting”.

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- Irydion Sp. z o. o. jointly-controlled company – revenues in the amount of PLN 12 688 thousand, what represents 15.9% of total sales revenues, which were shown in the segment of „General contracting” and „Design services and other engineering services”.
- Production plant for UTC Aerospace Systems for civil and military aircraft – revenues in the amount of PLN 17 534 thousand, what represents 22.0% of total sales revenues, which were shown in the segment „General contracting” and „Design services and other engineering services”.

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

For the period from 1 January 2016 to 30 June 2016	General contracting	Design services and other engineering services	Rental of construction equipment	Assembly of electrical installations	Lease of office space and real estate	Property management	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues to external customers	48 185	14 394	1 556	8 853	2 435	-	244	3 512	60	489	-	79 728
Total revenues of the segment	48 185	14 394	1 556	8 853	2 435	-	244	3 512	60	489	-	79 728
Result of the segment	-19 730	-3 260	528	434	504	-	-215	212	-151	-299	-	-21 977
Financial income											441	441
Finance costs											-1 313	-1 313
Net financial income											-872	-872
Profit sharing in associated entities											-1 267	-1 267
Profit on other operating activities											125	125
Before tax profit											-23 991	-23 991
Income tax											-2 168	-2 168
Net profit for the current period											-21 823	-21 823
Profit/(loss) assigned to non-controlling interest											46	46
Net profit/(loss) assigned to shareholders of parent entity											-21 869	-21 869
Assets as at 30 June 2016												
Segment assets (related to activity)	47 019	8 604	799	6 496	17 142	-	632	1 647	-	333	-	82 672
Unallocated assets (among others, shares and other financial assets)											100 409	100 409
Total assets	47 019	8 604	799	6 496	17 142	-	632	1 647	-	333	100 409	183 081
Other information related to segment for the period from 1 January 2016 to 30 June 2016												
Depreciation of property, plant and equipment	37	84	50	199	352	-	45	-	-	288	39	1 094
Amortization of intangible assets	-	9	-	12	3	-	-	-	-	-	86	110

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Note concerning operating segments - continuation

For the period from 1 January 2015 to 30 June 2015	General contract ing	Design services and other engineering services	Rental of construction equipment	Assembly of electrical installations	Lease of office space and real estate	Property management	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues to external customers	49 374	13 143	766	13 298	2 501	2 069	281	2 150	100	632	-	84 314
Total revenues of the segment	49 374	13 143	766	13 298	2 501	2 069	281	2 150	100	632	-	84 314
Result of the segment	3 856	-1 554	16	539	409	193	57	33	0	-206	-	3 343
Financial income											1 218	1 218
Finance costs											-932	-932
Net financial income											286	286
Profit sharing in associated entities											-278	-278
Profit on other operating activities											-741	-741
Before tax profit											2 610	2 610
Income tax											1 638	1 638
Net profit for the current period											972	972
Profit/(loss) assigned to non-controlling interest											19	19
Net profit/(loss) assigned to shareholders of parent entity											953	953
Assets as at 30 June 2014												
Segment assets (related to activity)	57 867	8 064	527	12 497	26 374	-	-	1 641	-	2 648	-	109 618
Unallocated assets (among others, shares and other financial assets)											92 017	92 017
Total assets	57 867	8 064	527	12 497	26 374	-	-	1 641	-	2 648	92 017	201 635
Other information related to segment for the period from 1 January 2015 to 30 June 2015												
Depreciation of property, plant and equipment	46	239	44	206	338	50	22	20	-	163	18	1 146
Amortization of intangible assets	-	3	-	7	-	-	-	1	-	-	47	58

Information about the geographical areas

Geographical breakdown of sales revenues was presented in accordance with country of the seat of the ordering party.

	1 January-30 June 2016	1 January -30 June 2015
Poland	66 784	48 580
Belarus	9 432	35 734
Total sales revenues	76 216	84 314

Geographical breakdown of property, plant and equipment and intangible assets

	30 June 2015	31 December 2015
Poland	24 032	36 121
Belarus	149	161
Total property plant and equipment and intangible assets	24 181	36 282

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

	As at 30 June 2016	As at 31 December 2015
<i>Collateral granted</i>		
Bank guarantee of good performance and statutory warranty	28 012	15 999
Payment guarantee	852	852
Guarantee of return of advance payment	898	4 115
Tender guarantee	35	60
Total collateral granted	29 797	21 026
<i>Contingent liabilities</i>		
- Letters of Credit	-	3 564
- Surety of promissory notes issued by subsidiary PRO-INHUT Sp. z o. o. seated in Dąbrowa Górnicza for the benefit of investor in order to secure the claims of a good execution	247	247
Total collateral granted and contingent liabilities	30 044	24 837

	As at 30 June 2016	As at 31 December 2015
<i>Collateral received</i>		
Bank guarantee of good performance	5 010	3 617
Bill of exchange securing terms of the contract	77	77
Total contingent assets	5 087	3 694

Contingent receivables from PERN described in Note No 28.

Note No. 24 - Distribution of profit

Net profit of the Group is not subject to distribution.

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

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

Note No. 25 - Dividends

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

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

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

Note No. 26 - Financial instruments and financial risk management

Financial assets

As at 30 June 2016 (in PLN thousands)	Categories of financial instruments		
	Note No.	Loans, receivables and other	Total
Classes of financial instruments			
Receivables from supplies and services	7	61 906	61 906
Cash		13 218	13 218
Other financial assets – discounted the security deposit constituting the collateral of a bank guarantee of reimbursement of advance payment	8	261	261
Loans granted	5,8	18 340	18 340
Total		93 725	93 725

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

Financial liabilities

As at 30 June 2016 (in PLN thousands)	Categories of financial instruments			
	Note No.	Financial liabilities measured at amortized cost	Total	Note No.
Classes of financial instruments				
Loans	11	14 771	-	14 771
Finance lease		-	607	607
Trade payables	12	46 178	-	46 178
Other liabilities, including - liabilities under dividend	14	13 136	-	13 136
		6 195	-	6 195
Total		74 085	607	74 692

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As at 30 June 2015

(in PLN thousands)	Categories of financial instruments			Total
	Nota	Financial liabilities measured at amortized cost	Liabilities excluded from IAS 39	
Classes of financial instruments				
Loans	11	11 772	-	11 772
Finance lease		-	424	424
Trade payables	12	51 451	-	51 451
Total		63 223	424	63 647

The fair value of financial instruments does not differ from the book value.

Liquidity risk connected with the concentration of sales revenues

In the first half of 2016 the Group realized sales revenues in the amount of PLN 79 728 thousand, including PLN 8 749 thousand (11.0%) concerned the realization of the contract with the Client from Belarus. Accordingly, the Group disclosed in the statement of financial position the following financial instruments related to the above contract.

Classes of financial instruments	As at 30 June 2016	% share in total assets	As at 31 December 2015	% share in total assets
Financial assets				
Receivables from supplies and services	3 283	1.8%	9 435	4.4%
Other financial assets (discounted the security deposit constituting collateral for a bank guarantee of repayment of advance payment)	261	0.1%	2 526	1.2%
Total financial assets	3 544	1.9%	11 961	5.6%
Financial liabilities				
Payables	11 636	6.4%	20 365	9.5%
Total financial liabilities	11 636	6.4%	20 365	9.5%

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

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

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

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

Remuneration of the key management personnel

In the first half of 2016 in the Issuer's enterprise was paid:

1. remuneration to the Members of the Management Board in total amount of PLN 676.1 thousand, including the remuneration based on profit PLN 192.5 thousand;
2. remuneration to the Members of the Supervisory Board in total amount of PLN 384.8 thousand, including the remuneration based on profit PLN 248.5 thousand.

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In the first half of 2016 the remuneration paid to the Members of the Management Board and to the Members of the Supervisory Board for performing functions in the Management Boards and in the Supervisory Boards of companies belonging to the Capital Group amounted to PLN 250.5 thousand.

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

Settlements with related parties comprise trade settlements and under loans.

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

The reporting period

(in PLN thousands)

From 1 January to 30 June 2016				
	Sale of services	Purchase of services	Financial income – interest on loans	Financial income – dividends received
Jointly-controlled entities and associated entities	13 163	-	188	-

on 30 June 2016			
	Trade receivables	Receivables under loans granted	Trade payables
Jointly-controlled entities and associated entities	7 444	18 142	187

Comparative period

(in PLN thousands)

From 1 January to 30 June 2015					
	Sale of services	Purchase of services	Financial income – interest on loans	Financial income – dividends received	Finance costs – interest on loans
Jointly-controlled entities and associated entities	9 543	-	187	-	-

on 30 June 2015			
	Trade receivables	Receivables under loans granted	Trade payables
Jointly-controlled entities and associated entities	1 681	17 767	7

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

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 in which the final the final conclusions of evidence to complement the expert opinions will be clarified, and postponed the hearing until 16 May 2013.

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

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

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

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

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

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

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

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

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

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

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

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

The above mentioned judgment constitutes the judgment of first instance, the parties have the right to lodge an appeal against the judgment.

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

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

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

Note No. 29 – Events after reporting date

The Issuer (Borrower) on July 8, 2016, signed a loan agreement with the company Elmont Investments Sp. o. o. (Lender) for the amount of PLN 6 000 thousand. The interest rate on the borrowing was set at WIBOR 6M plus margin.

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

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

In the six months of 2016 the long-term contract realized in Belarus had an impact on the Company's results.

In connection with the occurrence of unexpected technical and formal problems in the final stage of construction, as well as on the stage of start-up of the installation for the production of highly purified paraffin, oils and lubricants along with extension of Energy complex, what was implemented under an agreement with Mineral Wax Factory S.A. based in Belarus, in Świsłocz, what is associated with the

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necessity to shift the time of completion of the execution in the first half of 2016, the Issuer has made significant adjustment of the gross margin in the long-term contract, which was implemented in Belarus. Gross margin as at 31 December 2015 amounted to 16.5%, and as at 30 June 2016 was corrected to 7.2%. As a result of these events, there was an increase in the estimated costs of implementation by approximately PLN 17.3 million, and further increase by an additional PLN 2 million due to possible penalties for delay in execution of the contract. Lowering of the estimated margin in the above mentioned contract as well as resulting from the downturn in the market of construction and of assembly services, the reducing of the number of orders executed by the Issuer have a significant impact on the results of activity in the first half of 2016 which closed with a net loss of PLN 21,3 million.

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

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

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

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

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

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

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

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

- Jarosław Stępniewski – 80,943 units
- Marek Kiersznicki – 70,393 units
- Krzysztof Marczak – 43,700 units
- Andrzej Karczykowski – 115,186 units
- Marek Garliński – 86,900 units
- Michał Suflida - 48,500 units along with person related.

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

- 3) have been dismissed from the Supervisory Board:
 - Steven Tappan, who holds 510,000 shares of the Company,
 - Wiesław Kiepiel.
- 4) have been appointed to the Supervisory Board:
 - Michał Suflida, who holds 48,500 of shares of the Company (additionally the person related holds 18 500 shares of the Issuer),

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

- Karol Żbikowski.

Note No. 31- Approval of the financial statements

The interim condensed consolidated financial statements of PROCHEM S.A. Capital; Group from 1 January 2016 to 30 June 2016 were approved for issue by the Management Board of PROCHEM S.A. on 31 August 2016.

Signatures of the Members of the Management Board

31 August 2016	Jarosław Stępniewski	Chairman of the Board
date	first name and surname	position	signature

31 August 2016	Marek Kiersznicki	Vice Chairman
date	first name and surname	position	signature

31 August 2016	Krzysztof Marczak	Vice Chairman
date	first name and surname	position	signature

Signature of the person responsible for bookkeeping

31 August 2016	Barbara Auguścińska-Sawicka	Chief Accountant
date	first name and surname	position	signature