

## **REPORT FOR THE FIRST HALF OF 2018**

**Contents:**

- Interim condensed consolidated financial statements of the Capital Group of Prochem S.A. as at and for the period of six months ended 30 June 2018

and

- Selected financial data
- Statement of the Management Board
- Management Board Report on the activities of Prochem S.A. Capital Group for the first half of 2018.

[\*\*www.prochem.com.pl\*\*](http://www.prochem.com.pl)

**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 2018**

**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 half of 2018 - 4.2395 PLN/EURO
- For the first half of 2017 - 4.2474 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:

- 4.3616 PLN/EURO as at 30 June 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 30 June		Reporting period ended 30 June	
	In 2018	In 2017	In 2018	In 2017
	In PLN thousands		In EURO thousands	
<b>Consolidated statement of profit and loss</b>				
Revenues from sale	50 247	53 690	11 852	12 640
Gross profit on sales	3 264	6 178	770	1 455
Results from operating activities	-1 024	39	-242	9
Before tax profit	-1 592	686	-375	162
Profit for the period assigned to:	-1 602	931	-378	219
Shareholders of the Parent Entity	-1 453	842	-343	198
Non-controlling interest	-149	89	-35	21
Profit/diluted profit per one share (in PLN/EURO)- assigned to shareholders of the parent entity	-0.37	0.22	-0.09	0.05
<b>Consolidated statement of cash flows</b>				
Net cash provided by (used in) operating activities	-3 645	-4 976	-860	-1 172
Net cash provided by (used in) investing activities	-431	1 551	-102	365
Net cash provided by (used in) financing activities	-22 882	3 362	-5 397	792
Total cash flow, net	-26 958	-63	-6 359	-15
Description	As at		As at	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	In PLN thousands		In EURO thousands	
<b>Consolidated statement of financial position</b>				
Total assets	124 749	156 824	28 602	37 600
Total non-current assets	81 592	82 670	18 707	19 821
Total current assets	43 157	74 154	9 895	17 779
Equity attributable to owners of the parent company	79 743	105 242	18 283	25 232
Non-controlling interest	6 276	6 524	1 439	1 564
Total equity	86 019	111 766	19 722	26 797
Total non-current liabilities	5 566	4 692	1 276	1 125
Total current liabilities	33 164	40 366	7 604	9 678
Book value per one ordinary share (in PLN/EURO)-assigned to shareholders of the parent company	20.47	27.02	4.69	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 six months ended 30 June 2018**

**Statement of the Management Board**

**Statement of the Management Board on the true and fair preparing of interim condensed consolidated financial statements**

The Management Board of Prochem S.A. of the Parent Company of the Capital Group of Prochem S.A. declares, that interim condensed consolidated financial statements were prepared in compliance with requirements of IAS 34 "Interim Financial Reporting" and with the Regulation of the Minister of Finance dated 29 March 2018 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 of 2018 item 757) („Regulation”) and presents financial position of the Capital Group of Prochem S.A. as at 30 June 2018 and 31 December 2017, results of its operations and cash flows for the period of 6 months ended on June 30, 2018 and June 30, 2017;

- Report of the Management Board on the activities of the Capital Group of Prochem S.A. for the first half of 2018 contains a true picture of the Group's development, achievements and financial position, including a description of basic risks and threats.

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

The Management Board of Prochem S.A. declares, that Misters Audytor Adviser Sp. z o. o. seated in Warsaw, Wiśniowa 40 Street, 02-520 Warszawa, the entity authorized to audit financial statements entered on the list of audit firms under number 3704 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 the Capital Group of Prochem S.A., have met the requirements for the issue of impartial and independent report from review, in accordance with the proper laws.

Vice President of  
the Management Board  
Krzysztof Marczak

Vice President of  
the Management Board  
Marek Kiersznicki

President of  
the Management Board  
Jarosław Stępniewski

Warsaw, 31 August 2018

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

**As at and for the period of six months ended  
30 June 2018**

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[www.prochem.com.pl](http://www.prochem.com.pl)

**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 2018**

**Consolidated statement of financial position**

(all amounts in PLN thousands if not stated otherwise)

	Note No.	As at 30 June 2018	As at 31 December 2017
<b>A s s e t s</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1	21 901	22 481
Intangible assets		225	242
Investment property	2	11 312	11 312
Shares		830	830
Shares valued using the equity method	3	25 464	26 139
Deferred tax assets	4	2 961	2 953
Other financial assets	5	18 899	18 713
<b>Total non-current assets</b>		<b>81 592</b>	<b>82 670</b>
<b>Current assets</b>			
Inventories	6	2 902	2 222
Trade and other receivables	7	21 903	32 236
Amounts due from customers under contracts	12	13 853	8 415
Other assets	8	2 642	2 466
Cash and cash equivalents		1 857	28 815
<b>Total current assets</b>		<b>43 157</b>	<b>74 154</b>
<b>Total assets</b>		<b>124 749</b>	<b>156 824</b>
<b>E q u i t y a n d l i a b i l i t i e s</b>			
<b>Equity</b>			
Share capital	9	3 895	3 895
Own shares		-960	-
Revaluation reserve		11 521	11 521
Retained earnings		65 287	89 826
<b>Equity assigned to shareholders of the Parent Entity</b>		<b>79 743</b>	<b>105 242</b>
<b>Non-controlling interest</b>		<b>6 276</b>	<b>6 524</b>
<b>Total equity</b>		<b>86 019</b>	<b>111 766</b>
<b>Non-current liabilities</b>			
Non-current bank loans	10	856	141
Provision to deferred income tax	4	2 462	2 457
Provision to retirement and similar benefits		1 688	1 712
Other non-current liabilities		560	382
<b>Total non-current liabilities</b>		<b>5 566</b>	<b>4 692</b>
<b>Current liabilities</b>			
Bank loans	10	3 064	2 233
Trade payables	11	22 406	27 018
Amounts owed to recipients under contracts	12	1 095	1 913
Liabilities under current income tax		-	6
Other liabilities	13	6 275	8 872
Deferred income	14	324	324
<b>Total current liabilities</b>		<b>33 164</b>	<b>40 366</b>
<b>Total liabilities</b>		<b>38 730</b>	<b>45 058</b>
<b>Total equity and liabilities</b>		<b>124 749</b>	<b>156 824</b>
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		20.47	27.02

**Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

**Consolidated statement of profit and loss**

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 June 2018	Period ended 30 June 2017
Revenues from sale, including:		50 247	53 690
Revenues from sale of services	15	49 191	53 586
Revenues from sale of goods and materials		1 056	104
Cost of sales, including :		-46 983	-47 512
Cost of services sold	16	-46 010	-47 421
Cost of merchandise and raw materials		-973	-91
<b>Gross profit on sales</b>		<b>3 264</b>	<b>6 178</b>
General and administrative expenses	16	-7 027	-6 576
Other operating income	17	2 848	515
Other operating expenses	18	-109	-78
<b>Results from operating activities</b>		<b>-1 024</b>	<b>39</b>
Financial income	19	308	324
Finance expenses	20	-200	-594
Profit sharing in entities valued using the equity method		-676	917
<b>Before tax profit</b>		<b>-1 592</b>	<b>686</b>
Income tax		10	-245
- current tax		14	94
- deferred tax		-4	-339
<b>Profit for the period</b>		<b>-1 602</b>	<b>931</b>

Profit for the period assigned to:			
Shareholders of the Parent Entity		-1 453	842
Non-controlling interest		-149	89
Profit/diluted profit (in PLN per one share) assigned to owners of the Parent Entity		-0.37	0.22

**Consolidated statement of comprehensive income**

<b>Profit for the period</b>		<b>-1 602</b>	<b>931</b>
<b>Other comprehensive income (net):</b>		<b>-</b>	<b>-</b>
<i>Other comprehensive income that will be reclassified to profit or loss:</i>		<i>-</i>	<i>-</i>
Exchange rate differences from the translation of an entity operating abroad		-	-
<b>Total comprehensive income</b>		<b>-1 602</b>	<b>931</b>

Total comprehensive income assigned to :			
Shareholders of the Parent Entity		-1 453	842
Non-controlling interest		-149	89
Weighted average number of ordinary shares (units)		3 895 000	3 895 000
Total comprehensive income per ordinary share (in PLN per share) assigned to owners of the Parent Entity		-0.37	0.22

**Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

**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
<b>Reporting period from 1 January 2018 to 30 June 2018</b>							
<b>As at the beginning of the period</b>	<b>3 895</b>	<b>-</b>	<b>11 521</b>	<b>89 826</b>	<b>105 242</b>	<b>6 524</b>	<b>111 766</b>
Net profit of the given period				-1 453	-1 453	-149	-1 602
<i>Other comprehensive income (net)</i>	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-1 453</b>	<b>-1 453</b>	<b>-149</b>	<b>-1 602</b>
Own shares purchased for redemption		-960		-23 040	-24 000	-	-24 000
Dividend paid	-	-	-	-	-	-102	-102
Other changes	-	-	-	-46	-46	3	-43
<b>As at the end of the period</b>	<b>3 895</b>	<b>-960</b>	<b>11 521</b>	<b>65 287</b>	<b>79 743</b>	<b>6 276</b>	<b>86 019</b>

	Share capital	Own shares	Revaluation reserve	Retained earnings	Equity assigned to shareholders of the Parent Entity	Equity assigned to non-controlling interest
<b>Reporting period from 1 January 2018 to 30 June 2018</b>						
<b>As at the beginning of the period (audited)</b>	<b>3 895</b>	<b>12 146</b>	<b>72 542</b>	<b>88 583</b>	<b>6 448</b>	<b>95 031</b>
Error adjustment	-	-	-388	-388	-	-388
<b>As at the beginning of the period (restated)</b>	<b>3 895</b>	<b>12 146</b>	<b>72 154</b>	<b>88 195</b>	<b>6 448</b>	<b>94 643</b>
Net profit of the given period	-	-	842	842	89	931
<i>Other comprehensive income (net)</i>	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>842</b>	<b>842</b>	<b>89</b>	<b>931</b>
Payment of dividend	-	-	-	-	-53	-53
Other changes – change in the share in the capital of subsidiaries (including redemption of shares)	-	-	13	13	-13	-
<b>As at the end of the period (after the review)</b>	<b>3 895</b>	<b>12 146</b>	<b>73 009</b>	<b>89 050</b>	<b>6 469</b>	<b>95 519</b>

**Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

**Consolidated statement of cash flows**

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 June 2018	Period ended 30 June 2017
<b>Cash flows – operating activities</b>			
Before tax profit		-1 592	686
Total adjustments		-2 033	-5 513
Share in the profit of entities valued using the equity method		676	-917
Amortization and depreciation		1 024	1 013
Interest and profit sharing (dividends)		-73	24
Gain on disposal of property, plant and equipment		-116	-16
Gain on investment		-	371
Change in provisions		-47	-980
Change in inventories	6	-680	1 761
Change in receivables and other assets	7	4 717	8 433
Change in current liabilities, except for loans and borrowings	12	-6 134	-15 285
Other adjustments (including change in deferred income)		-1 400	83
<b>Cash provided by (used in) operating activities</b>		<b>-3 625</b>	<b>-4 827</b>
Income tax paid		-20	-149
<b>Net cash provided by (used in) operating activities</b>		<b>-3 645</b>	<b>-4 976</b>
<b>Cash flows – investing activities</b>			
<b>Inflows</b>		<b>-</b>	<b>2 023</b>
Disposal of intangible assets and property, plant and equipment		-	19
Disposal of real estate		-	1 439
From financial assets, including:		-	565
a) in subsidiaries – disposal of financial assets		-	367
b) in other entities		-	198
- repayment of a loan with interest		-	198
<b>Outflows</b>		<b>-431</b>	<b>-472</b>
Acquisition of intangible assets and property, plant and equipment		-431	-472
<b>Net cash provided by (used in) investing activities</b>		<b>-431</b>	<b>1 551</b>
<b>Cash flows – financing activities</b>			
<b>Inflows</b>		<b>1 387</b>	<b>5 279</b>
Bank loans		1 387	5 279
<b>Outflows</b>		<b>-24 269</b>	<b>-1 917</b>
Other than payments to owners, expenditures under distribution of profit		-24 102	-59
Repayment of bank loans		-	-1 429
Payment of liabilities under finance lease agreement		-54	-193
Interest		-113	-236
<b>Net cash provided by (used in) financing activities</b>		<b>-22 882</b>	<b>3 362</b>
Total cash flows, net		-26 958	-63
<b>Cash and cash equivalents at the beginning of the period</b>		<b>28 815</b>	<b>3 783</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>1 857</b>	<b>3 720</b>



## **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.” In the connection with above, the Representation Office was established for the period of implementation of the project. An application was filed to close the Representation Office on May 31, 2018.

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

As at the date of preparation hereby consolidated 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

The Management Board of Prochem S.A. has been appointed by Resolution No. 16/X of the Supervisory Board of Prochem S.A. of June 12, 2018.

In the first half of 2018 there were no changes in composition of the Management Board.

#### *Composition of the Supervisory Board of Prochem S.A.*

As at the date of preparation hereby consolidated financial statements the Supervisory Board of Prochem S.A. comprises of the following persons :

- Marek Garliński Chairman of the Management Board
- Karol Żbikowski Vice Chairman of the Management Board
- Andrzej Karczykowski
- Krzysztof Oblój
- Marcin Pędziński

In the first half 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 half of 2018 was 383 FTEs, and in the first half of 2017 411 FTEs.

Level of employment in the Capital Group of Prochem as at 30 June 2018 was 391 persons, and on 30 June 2017 417 persons. As at 31 December 2017 employment in Capital Group was 403 persons.

**Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

**4. Description of the organization of the Capital Group, 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%);
- Pro-Organika Sp. z o. o. seated in Warsaw – subsidiary directly (91.4%);
- PREDOM Sp. z o. o. seated in Wrocław – subsidiary indirectly (81.7% of share in capital and profit, 72.3% of votes);
- Prochem Zachód Sp. z o. o. seated in Warsaw – subsidiary directly (80.0%);
- ELPRO Sp. z o. o. seated in Kraków – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o. o. seated in Kraków – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. seated in Kraków – subsidiary indirectly (85.4%), including 73.0% share in capital and voting rights belongs to company Prochem Inwestycje subsidiary 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 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 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 rights 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 rights 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.

The P.K.I company made redemption of 40 shares of the Company from net profit. As a result of the redemption, the Parent Entity increased its share, which as at 30 June 2017 amounts to 81.7% of the share in the capital and 72.3% of the share in votes.

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.

**5. Adopted accounting principles**

***Principle of presentation and statement of compliance***

Interim condensed consolidated financial statements of Prochem S.A. Capital Group for the first half 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 of 2018 item 757) (“Decree”). The interim condensed consolidated financial

## **Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

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 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 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.

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 revenue (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.

**Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

- 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.

To ensure the comparability of data in the statement of financial position, the following reclassifications of data were made as at December 31, 2017.

Statement of financial position

Assets	As at 31 December 2017 (in PLN thousands)	Reclassification (in PLN thousands)	As at 31 December 2017 after restatement (in PLN thousands)
Other assets	10 881	-8 415	2 466
Amounts due from receivers under agreements	0	8 415	8 415
Equity and liabilities			
Deferred income	2 237	-1 913	324
Amounts owed to receivers due to agreements	0	1 913	1 913

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.

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 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 under contracts for construction	Loans and receivables	Measured at amortized costs

## **Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

Trade and other receivables	Loans and receivables	Measured at amortized costs
Loans granted	Loans and receivables	Measured at amortized costs
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 costs

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. 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 in 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 early apply the following Standards and amendments to standards that have been published and endorsed for use 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).

### ***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. Explanatory notes to interim condensed consolidated financial statements

### Note No. 1 – Property, plant and equipment

	As at 30 June 2018	As at 31 December 2017
<b>Property, plant and equipment, including:</b>	<b>21 901</b>	<b>22 481</b>
- land	4 156	4 208
- buildings, premises and civil engineering objects	15 207	15 152
- machinery and equipment	508	544
- vehicles	1 124	1 125
- other PPE	879	971
- PPE in progress	27	481
<b>Total property, plant and equipment</b>	<b>21 901</b>	<b>22 481</b>

<b>PPE – ownership structure</b>	As at 30 June 2018	As at 31 December 2017
a) own	10 126	10 258
b) used under rental, lease or other agreement, including:	11 775	12 223
- lease	573	692
- outlays on PPE not owned	10 650	10 979
- value of the right of perpetual usufruct	552	552
<b>Total carrying amount of PPE</b>	<b>21 901</b>	<b>22 481</b>

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 30 June 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.

### Changes in property, plant and equipment

	Change in PPE for the period from 1 January 2018 to 30 June 2018	Change in PPE for the period from 1 January 2017 to 31 December 2017
<b>Gross value - as at opening balance sheet</b>	<b>39 537</b>	<b>38 576</b>
increase (due to)	361	1 616
- acquisition	361	1 616
decrease (due to)	-452	-655
- disposal of PPE	-199	-221
- liquidation of PPE	-253	-434
<b>Gross value as at closing balance sheet</b>	<b>39 446</b>	<b>39 537</b>

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<b>Depreciation and impairment</b>		
<b>Accumulated depreciation – as at opening balance sheet</b>	<b>16 899</b>	<b>15 706</b>
- increase - depreciation for the period	941	1 834
- decrease due to disposal	-199	-217
- decrease due to liquidation	-253	-424
<b>Accumulated depreciation – as at closing balance sheet</b>	<b>17 388</b>	<b>16 899</b>
<b>Impairment of PPE</b>	<b>-157</b>	<b>-157</b>
<b>PPE net value – as at closing balance sheet</b>	<b>21 901</b>	<b>22 481</b>

**Note No. 2 – Investment property**

	As at 30 June 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
<b>Total investment property</b>	<b>11 312</b>	<b>11 312</b>

<i>Investment property by titles</i>	Change in PPE for the period from 1 January 2018 to 30 June 2018	Change in PPE for the period from 1 January 2017 to 31 December 2017
<b>Investment property - land</b>		
As at opening balance sheet	4 267	5 352
- decrease - disposal	--	-1 085
<b>As at closing balance sheet</b>	<b>4 267</b>	<b>4 267</b>
<b>Investment property under construction</b>		
As at opening balance sheet	1 128	1 128
- change due to:	-	-
<b>As at closing balance sheet</b>	<b>1 128</b>	<b>1 128</b>
<b>Real estates - buildings and constructions</b>		
As at opening balance sheet	5 917	6 270
- decrease - disposal	-	-353
As at closing balance sheet	5 917	5 917
<b>Total investment properties by titles – net as at balance sheet day</b>	<b>11 312</b>	<b>11 312</b>

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 30 June 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 30 June 2018.

	Level 1	Level 2	Level 3	Fair value as at 30 June 2018
	In PLN thousands	In PLN thousands	In PLN thousands	In PLN thousands
Investment property	-	-	11 312	11 312



**Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

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

**Note No. 3 – Shares valued using the equity method**

	As at 30 June 2018	As at 31 December 2017
- Shares – net value	25 464	26 139
- Write-downs of shares	1 011	1 011
<b>Shares, gross value</b>	<b>26 475</b>	<b>27 150</b>

Change in shares valued using the equity method	As at 30 June 2018	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)		
- share in the current year result	-675	3 461
<b>As at the end of the period, net value</b>	<b>25 464</b>	<b>26 139</b>
c) write-down	1 011	1 011
<b>As at the end of the period, gross value</b>	<b>26 475</b>	<b>27 150</b>

**Note No. 4 – Deferred income tax**

Changes in the values of provisions and deferred income tax assets for the first half of 2018 are shown in the table below.

	As at 30 June 2018	As at 31 December 2017
<b>Deferred income tax assets</b>		
As at the beginning of the period	6 073	8 890
Increase	3 349	2 045
Decrease	-1 744	-4 862
<b>As at the end of the period</b>	<b>7 678</b>	<b>6 073</b>

	As at 30 June 2018	As at 31 December 2017
<b>Provision for deferred income tax</b>		
As at the beginning of the period	5 577	5 747
Increase	2 646	2 218
Decrease	-1 044	-2 380
<b>As at the end of the period</b>	<b>7 179</b>	<b>5 577</b>

	As at 30 June 2018	As at 31 December 2017
Deferred income tax assets	7 678	6 073
Provision for deferred income tax	-7 179	-5 777
<b>Surplus of deferred income tax assets</b>	<b>499</b>	<b>496</b>



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<i>Presentation in the statement of financial position</i>	As at 30 June 2018	As at 31 December 2017
Deferred income tax assets	2 961	2 953
Provision for deferred income tax	-2 462	-2 457
<b>Surplus of deferred income tax assets</b>	<b>499</b>	<b>496</b>

**Note No. 5 – Other financial assets**

	As at 30 June 2018	As at 31 December 2017
a) from jointly-controlled entities	18 899	18 713
- borrowings	18 899	18 713
<b>Total other financial assets</b>	<b>18 899</b>	<b>18 713</b>

**Loans granted – as at 30 June 2018**

- Loans granted to jointly-controlled company Irydion Sp. z o. o. seated in Warsaw:
  - in the amount of PLN 12 215 thousand, including: amount of the loan PLN 11 000 thousand, accrued interest as at balance sheet day amounts to PLN 1 215 thousand. The interest rate is set annually according to WIBOR 6M rate, repayment date 22 September 2031.
  - in the amount of PLN 6 684 thousand, including: amount of the loans PLN 6 000 thousand, accrued interest as at balance sheet day amounts to PLN 684 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 186 thousand.

**Loans granted - as at 31 December 2017**

- Loans granted jointly-controlled 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 loan PLN 6 000 thousand, accrued interest PLN 596 thousand. The interest is set annually according to rate 3% annually, repayment date of the loan with interest 22 September 2031.

**Note No. 6 – Inventories**

	As at 30 June 2018	As at 31 December 2017
Materials	2 368	2 092
Semi-finished products and work-in-process	534	130
<b>Total inventories</b>	<b>2 902</b>	<b>2 222</b>
Write-down of inventories	575	575

**Note No. 7 – Trade and other receivables**

	As at 30 June 2018	As at 31 December 2017
Trade receivables, including:	24 282	34 182
Write-downs of inventories	-5 402	-5 508
<b>Trade receivables, net</b>	<b>18 880</b>	<b>28 674</b>
including:		
- with repayment period up to 12 months	14 440	26 161

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- with repayment period over 12 months	4 440	2 513
<b>Receivables from taxes, subsidies, custom duties, social and health insurance and other benefits</b>	<b>769</b>	<b>864</b>
Other receivables	2 650	3 094
Write-downs of other receivables	396	396
<b>Net other receivables</b>	<b>2 254</b>	<b>2 698</b>
<b>Total receivables, net</b>	<b>21 903</b>	<b>32 236</b>

<b>Trade and other receivables from related entities</b>	<b>As at 30 June 2018</b>	<b>As at 31 December 2017</b>
Trade receivables, including:	584	6 957
- from jointly-controlled entities	584	6 957
Other receivables, including:	866	946
- from jointly-controlled entities	866	946
<b>Total current trade and other receivables from related entities, net</b>	<b>1 450</b>	<b>7 903</b>
Write-downs of receivables from related entities	-	-
<b>Total current trade and other receivables from related entities, gross</b>	<b>1 450</b>	<b>7 903</b>

<b>Change in write-downs of trade and other receivables</b>	<b>As at 30 June 2018</b>	<b>As at 31 December 2017</b>
<b>As at the beginning of the period</b>	<b>5 904</b>	<b>5 851</b>
a) increase (due to)	23	380
- write-downs of receivables	23	380
b) decrease (due to)	129	327
- resolving of write-downs (payments received)	1	60
- the use of write-downs made in the previous periods	17	1
- resolving of write-down	111	266
<b>Write-downs of trade and other receivables</b>	<b>5 798</b>	<b>5 904</b>

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**

<b>Other assets by type :</b>	<b>As at 30 June 2018</b>	<b>As at 31 December 2017</b>
a) prepayments	2 642	2 466
- cost of property and personal insurance	655	350
- software maintenance costs	293	540
- subscriptions	24	18
- deferred costs	1 629	1 555
- other	41	3
<b>Total other assets</b>	<b>2 642</b>	<b>2 466</b>

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**Note No. 9 – Share capital**

SHARE CAPITAL (STRUCTURE)							
Series / emission	Type of share	Type of share preference	Number of shares	Series / emission at nominal value	Capital coverage method	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	23-07-1991	1October1991
Founding	bearer	-	1 810 104	1 810 104	Cash	23-07-1991	1October1991
B	inscribed	-	750	750	Cash	29-07-1993	1October1993
B	bearer	-	681 750	681 750	Cash	29-07-1993	1October1993
C	bearer	-	530 000	530 000	Cash	20-04-1994	1October1994
D	bearer	-	865 000	865 000	Cash	05-09-1994	1October1994
<b>Total number of shares</b>			<b>3 895 000</b>				
<b>Total share capital</b>				<b>3 895 000</b>			
<b>Nominal value of 1 share = PLN 1.00</b>							

Share capital of the Company amounts to PLN 3 895 thousand and is divided into 3 895 000 shares with the nominal value of PLN 1 each. The number of shares has not changed compared to as at 31 December 2017.

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

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 held	% of votes in total number of votes	% of share capital
1. Steven Tappan	900 000	900 000	23.10	23.10
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”.	387 521	387 521	9.95	9.95
3. Fundusze zarządzane przez 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 submission of the annual report for 2017, the Group has received the following information about the change in the shareholding:

- On June 22, 2018, received from the shareholder Mr. Steven Tappan a notice of a change in the share held so far as a result of the purchase of 176 226 shares of the company Prochem S.A. entitling to 176 226 votes at the General Meeting. Before the change Mr. Steven Tappan held a total of 723 774 shares of Prochem S.A., which constituted 18.58% of the share capital and entitled to 723 774 votes, constituting 18.58% of the total number of votes at the General Meeting of the Company. After the change Mr. Steven Tappan holds a total of 900 000 shares of Prochem S.A., which constitute 23.11% of the share capital and entitle to 900 000 votes constituting 23.10% of total number of votes at the Company's General Meeting.

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

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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. 10 – Bank loans**

	As at 30 June 2018	As at 31 December 2017
- non-current bank loans	856	141
- current bank loans	3 064	2 233

**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
<b>NON-CURRENT</b>						
By Pro-Inhut Sp. z o. o.						
ING Bank Śląski	Sosnowiec	200 working capital loan	287	WIBOR 1 month plus margin	17 May 2019	Guarantee provided by Bank Gospodarstwa Krajowego under a portfolio agreement, promissory note in blank
ING Bank Śląski	Sosnowiec	300 working capital loan	569	WIBOR 1 month plus margin	8 December 2019	Guarantee provided by Bank Gospodarstwa Krajowego under a portfolio agreement, promissory note in blank
<b>CURRENT</b>						
By Prochem S.A.						
mBank SA	Warsaw	5000 Credit in overdraft	159	WIBOR for O/N deposits in PLN + margin	30 November 2018	Promissory note in blank
By Company Elektromontaż Kraków SA						
ING Bank Śląski	Kraków	2 500	1 757	WIBOR for 1-month deposits in PLN + margin	19 November 2018	Mortgage
Deutsche Bank	Kraków	500	453	WIBOR for 1-month deposits in PLN + margin	28 February 2019	Mortgage
Pekao S.A.	Kraków	150	-	WIBOR for 1-month deposits in PLN + margin	31 March 2019	Promissory note in blank
By Atutor Integracja Cyfrowa Sp. z o. o.						
Bank Millennium S.A.	Warsaw	150	148	WIBOR 1 month plus margin	15 April 2019	Granting the bank a power of attorney for collection and for repayment from the accounts, and authorization for the blocking the funds in case when loan is not repaid in time
By Pro-Inhut Sp. z o. o.						
ING Bank Śląski	Dąbrowa Górnicza	200 working capital loan	74	WIBOR 1 month plus margin	24 September 2018	Guarantee provided by Bank Gospodarstwa Krajowego under a portfolio agreement, promissory note in blank
ING Bank Śląski	Dąbrowa Górnicza	200 working capital loan	92	WIBOR 1 month plus margin	24 September 2018	Guarantee provided by Bank Gospodarstwa Krajowego under a portfolio agreement, promissory note in blank

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ING Bank Śląski	Dąbrowa Górnicza	200 working capital loan	124	WIBOR 1 month plus margin	24 September 2018	Guarantee provided by Bank Gospodarstwa Krajowego under a portfolio agreement, promissory note in blank
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**Note No. 11 – Trade payables**

	As at 30 June 2018	As at 31 December 2017
a) to associated entities and jointly-controlled entities:	971	10
- from supplies and services, with maturity period:	971	10
- up to 12 months	971	10
a) to other entities :	21 435	27 008
- from supplies and services, with maturity period:	21 435	27 008
- up to 12 months	17 003	22 416
- over 12 months	4 432	4 592
<b>Total trade payables</b>	<b>22 406</b>	<b>27 018</b>

**Note No. 12 - Amounts owed to recipients under agreements**

	As at 30 June 2018	As at 31 December 2017
- advance payments and prepayments received	293	958
- amounts owed to the ordering parties under long-term contracts	802	955
<b>Amounts due to recipients under long-term agreements</b>	<b>1 095</b>	<b>1 913</b>

Disclosures specified in MSSF15 are presented in the table below

Description	As at 30 June 2018	As at 31 December 2017
Value of revenues according to contracts	362 441	219 689
Value of revenues invoiced	199 752	179 418
Planned liabilities under the performance of contracts	340 885	210 153
Realized contractual obligations	208 577	180 945
Amounts due from customers	13 853	8 415
Amounts owed to suppliers	1 095	1 913

**Note No. 13 – Other liabilities**

	As at 30 June 2018	As at 31 December 2017
a) to other entities	3 461	4 473
- under taxes, duties, insurance and other benefits	2 653	3 337
- under remuneration	404	399
- other (by type)	404	737
• liabilities to employees	8	51
• liabilities to shareholders	18	16
• liabilities under lease agreement	295	625
• other liabilities	83	45
b) other short-term provisions	2 814	4 399

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- provision for costs related to long-term contracts	657	477
- provision for costs (movable part of salary, contracts of mandate)	578	2 143
- cost of audit	30	69
- short-term provision for retirement benefits	315	328
- provision for unused annual leaves	1 234	1 382
<b>Total other liabilities</b>	<b>6 275</b>	<b>8 872</b>

**Note No. 14 – Deferred income**

	As at 30 June 2018	As at 31 December 2017
Other	324	324
<b>Deferred income as at the end of the period, including:</b>	<b>324</b>	<b>324</b>
<b>Non-current liabilities</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>	<b>324</b>	<b>324</b>

**Note No. 15 - Revenues from sale of services**

Revenues from sale of services (type of service and type of activity)	Period ended 30 June 2018	Period ended 30 June 2017
Revenue from sale of services, including:	<b>49 191</b>	<b>53 586</b>
- from jointly-controlled entity	7 098	2 828

Revenue from sales (territorial structure)	Period ended 30 June 2018	Period ended 30 June 2017
Domestic market	49 078	53 586
- including from jointly-controlled entity	7 098	2 828
Exports	113	-

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. 12.

Information on major customers, whose total value of revenues from sales of services exceeds 10% of the total revenues of the entity for the first quarter of 2018 is included in Note No. 22.

**Note No. 16 – Costs of services sold**

	Period ended 30 June 2018	Period ended 30 June 2017
a) amortization and depreciation	1 024	1 013
b) consumption of materials and energy	7 241	9 991
c) outsourcing	25 284	24 206
d) taxes and levies	324	664
e) remuneration	16 047	14 600
f) social security and other benefits	3 156	2 939
g) other costs by type, including:	2 241	2 189
- property and personal insurance	537	501
- business trips	611	696

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- PFRON (State Fund for Rehabilitation of Disabled Persons)	101	111
- rental of cars	454	452
- other	538	429
<b>Costs by type, total</b>	<b>55 317</b>	<b>55 602</b>
Change in inventories, products and accruals and prepayments	-2 280	-1 605
General and administrative expenses (negative value)	-7 027	-6 576
<b>Cost of services sold</b>	<b>46 010</b>	<b>47 421</b>

**Note No. 17- Other operating income**

	Period ended 30 June 2018	Period ended 30 June 2017
a) gain on sale of non-financial non-current assets	116	378
b) reversal of write-downs of	126	8
- receivables	111	8
- other	15	-
c) other, including:	2 606	129
- received compensation, fines and penalties	317	75
- writing-off of the expired liabilities	2 287	-
- other	2	54
<b>Total other operating income</b>	<b>2 848</b>	<b>515</b>

**Note No. 18 – Other operating expenses**

	Period ended 30 June 2018	Period ended 30 June 2017
a) loss on disposal of non-financial non-current assets	-	4
b) write-downs of:	23	28
- receivables	23	28
c) other, including:	86	46
- litigation costs	45	7
- paid compensation, fines and penalties	6	5
- other	35	34
<b>Total other operating expenses</b>	<b>109</b>	<b>78</b>

**Note No. 19 – Financial income**

	Period ended 30 June 2018	Period ended 30 June 2017
a) interest on loan granted	186	186
- from jointly-controlled entities	186	186
b) other interest	47	9
- from other entities	47	9
c) the surplus of foreign exchange gains	11	12
d) other, including:	64	117
- other	64	117
<b>Total financial income</b>	<b>308</b>	<b>324</b>

**Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

**Note No. 20 – Finance costs**

	Period ended 30 June 2018	Period ended 30 June 2017
a) interest on bank loans	83	169
b) other interest	17	34
- for other entities	17	34
c) the surplus of foreign exchange losses	1	102
d) other, due to :	99	289
- commission on bank guarantees	66	143
- commission on loans	30	58
- other	3	88
<b>Total finance costs</b>	<b>200</b>	<b>594</b>

**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	In 2017
<b>Change in current receivables</b>	<b>4 717</b>	<b>8 433</b>
Receivables as at 1 January	32 236	56 652
Other assets as at 1 January	10 881	11 135
Receivables from non-current assets sold	-15	-18
Receivables from sale of assets	-	-367
Receivables under income tax	-641	-347
<b>Opening balance sheet after adjustments</b>	<b>42 461</b>	<b>67 055</b>
Receivables as at 30 June	21 903	44 381
Amounts owed to recipients under agreements as at 30 June	13 853	-
Other assets as at 30 June	2 642	14 530
Receivables from non-current assets sold	-13	-15
Receivables under income tax	-641	-274
<b>Closing balance sheet after adjustments</b>	<b>37 744</b>	<b>58 622</b>
<b>Change in current liabilities except for current borrowings and special funds</b>	<b>-6 134</b>	<b>-15 285</b>
Trade payables as at 1 January	27 018	39 525
Other liabilities as at 1 January	8 872	8 086
Provision for current retirement benefits	-328	-433
Provision for annual leaves	-1 382	-1 305
Provision for audit	-71	-87
Provision for other current costs	-477	-641
Other differences under discount of liabilities	-	250
Liabilities under operating lease	-276	-10
Liabilities to shareholders	-16	-28
<b>Opening balance sheet after adjustments</b>	<b>33 340</b>	<b>45 357</b>
Trade payables as at 30 June	22 406	26 882
Amounts owed to recipients under agreements as at 30 June	1 095	-



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Other liabilities as at 30 June	6 275	4 709
Provision for current retirement benefits	-314	-397
Provision for annual leaves	-1 234	-777
Provision for audit	-30	-23
Provision for current other costs	-657	-289
Other differences under discount of liabilities	-	242
Liabilities under lease	-330	-245
Liabilities to shareholders	-5	-30
<b>Closing balance sheet after adjustments</b>	<b>27 206</b>	<b>30 072</b>
	<b>-1 400</b>	<b>83</b>
Change in deferred income – advances received	-728	1 383
Change in deferred income under amounts owed to ordering parties under long-term contracts	-955	-1 432
Change in other deferred income	-	-18
Other	283	150

**Note No. 22- Information on 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 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.

The segment result is determined at the level of the operating result, without taking into account other operating activities.

Activities of the Capital Group for the managing purposes were divided into the eleven basic operational sectors such as: construction services shown in the general contracting, design services and other engineering services (supervisions along with the project engineer service), lease of the construction equipment, assembly of electrical installations, lease of office space and real estate, management of real estates, maintenance, commercial activity, IT services and other activity. 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.

Income from operations outside Poland (Exports) in the period from January 1, 2018 until June 30, 2018 amounted to PLN 113 thousand (i.e. 0.2% of revenues from sales), in the analogous period of the previous year revenues did not occur.

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

- Irydion Sp. z o. o. jointly-controlled company – revenues in the amount of PLN 7 098 thousand, what constitutes 14.4% of share in sales revenue, which were shown in the segment of „General contracting” and „Design services and other engineering services”.
- A client who operates on the market of the general contracting – revenues in the amount PLN 7 416 thousand, what constitutes 15.1% of share in sales revenue, which were shown in the segment „General contracting” and „Design services and other engineering services”.

Assets not assigned/not allocated to the segments are mainly shares in jointly controlled and in associated entities and loans granted. With respect to the assets mentioned above, no indications of possible impairment

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were identified as at June 30, 2018. In addition, the Group carried out analysis of the implemented construction service contracts as at the balance sheet date against the results budgeted. For all contracts for which budgeted expenses exceeded budgeted revenues, the Group created provisions for loss coverage as at the balance sheet date. Detailed data on the operations of the Group companies in individual segments are presented in the following tables.

For the period from 1 January 2018 to 30 June 2018	General contracting	Design services, and other engineering services	Rental of construction equipment	Electrical installations	Rental of office space and real estate	Property management	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues from external clients	20 332	11 450	1 783	13 293	2 442	-	94	7	270	576	-	50 247
<b>Total segment revenues</b>	<b>20 332</b>	<b>11 450</b>	<b>1 783</b>	<b>13 293</b>	<b>2 442</b>	<b>-</b>	<b>94</b>	<b>7</b>	<b>270</b>	<b>576</b>	<b>-</b>	<b>50 247</b>
Result of the segment	<b>460</b>	<b>-4 260</b>	<b>183</b>	<b>-304</b>	<b>278</b>	<b>-</b>	<b>-191</b>	<b>-2</b>	<b>-205</b>	<b>278</b>	<b>-</b>	<b>-3 763</b>
Financial income											308	308
Finance costs											-200	-200
Net financial income/finance costs											108	108
Profit sharing in associated entities											-676	-676
<b>Profit on other operating activities</b>											<b>2 739</b>	<b>2 739</b>
<b>Before tax profit</b>											<b>-1 592</b>	<b>-1 592</b>
Income tax											10	10
<b>Profit for the current period</b>											<b>-1 602</b>	<b>-1 602</b>
<b>Profit assigned to non-controlling interest</b>											<b>-149</b>	<b>-149</b>
<b>Profit for the period assigned to shareholders of the parent entity</b>											<b>-1 453</b>	<b>-1 453</b>
<b>Assets as at 30 June 2018</b>												
Segment assets (related to activity)	8 949	7 088	1 036	6 118	16 849	-	58	-	-	968	-	41 066
Assets not assigned/not allocated (among others shares and other financial assets )											83 683	83 683
<b>Total assets</b>	<b>8 949</b>	<b>7 088</b>	<b>1 036</b>	<b>6 118</b>	<b>16 849</b>	<b>-</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>968</b>	<b>83 683</b>	<b>124 749</b>
<b>Other information related to segment</b>												
<b>For the period from 1 January 2018 to 30 June 2018</b>												
Depreciation of property, plant and equipment	46	60	48	273	347	-	16	-	27	123		940
Amortization of intangible assets	-	6	-	10	1	-	-	-	-	-	67	84

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*Note operating segments - continuation*

For the period from 1 January 2017 to 30 June 2017	General contracting	Design services and other engineering services	Rental of construction equipment	Electrical installations	Rental of office space and real estate	Property management	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues from external clients	8 617	21 075	1 392	18 985	2 207	-	289	104	73	948	-	53 690
<b>Total segment revenues</b>	<b>8 617</b>	<b>21 075</b>	<b>1 392</b>	<b>18 985</b>	<b>2 207</b>	<b>-</b>	<b>289</b>	<b>104</b>	<b>73</b>	<b>948</b>	<b>-</b>	<b>53 690</b>
Result of the segment	<b>703</b>	<b>-1 923</b>	<b>305</b>	<b>7</b>	<b>356</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>-209</b>	<b>350</b>	<b>-</b>	<b>-398</b>
Financial income											324	324
Finance costs											-594	-594
Net financial income/finance costs											-270	-270
Profit sharing in associated entities											917	917
<b>Profit on other operating activities</b>											<b>437</b>	<b>437</b>
<b>Before tax profit</b>											<b>686</b>	<b>686</b>
Income tax											-245	-245
<b>Profit for the current period</b>											<b>931</b>	<b>931</b>
<b>Profit assigned to non-controlling interest</b>											<b>89</b>	<b>89</b>
<b>Profit for the period assigned to shareholders of the parent entity</b>											<b>842</b>	<b>842</b>
<b>Assets as at 30 June 2017</b>												
Segment assets (related to activity)	25 582	9 976	500	7 927	16 810	-	-	-	384	34	-	61 213
Assets not assigned/not allocated (among others shares and other financial assets )											87 148	87 148
<b>Total assets</b>	<b>25 582</b>	<b>9 976</b>	<b>500</b>	<b>7 927</b>	<b>16 810</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>384</b>	<b>34</b>	<b>87 148</b>	<b>148 361</b>
<b>Other information related to segment</b>												
<b>For the period from 1 January 2017 to 30 June 2017</b>												
Depreciation of property, plant and equipment	52	35	51	239	348	-	35	-	21	135		916
Amortization of intangible assets	-	11	-	9	6	-	-	-	-	-	71	97

### ***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.

	<b>1 January -30 June 2018</b>	<b>1 January -30 June 2017</b>
Poland	50 134	53 690
Other countries	113	-
<b>Total sales revenue</b>	<b>20 247</b>	<b>53 690</b>

Geographical breakdown of property, plant and equipment and intangible assets

	<b>30 June 2018</b>	<b>31 December 2017</b>
Poland	33 438	34 035
Other countries	-	-
<b>Total property plant and equipment and intangible assets</b>	<b>33 438</b>	<b>34 035</b>

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

<i>Collateral granted</i>	<b>As at 30 June 2018</b>	<b>As at 31 December 2017</b>
Bank guarantee of good performance and statutory warranty	13 032	11 475
Guarantee of reimbursement of advance payment	2 973	1 177
Tender guarantee	1 120	-
<b>Total collateral granted</b>	<b>17 125</b>	<b>12 652</b>
<b>Contingent liabilities</b>		
- surety of 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
<b>Total collateral granted and contingent liabilities</b>	<b>17 372</b>	<b>12 899</b>

<i>Collateral received</i>	<b>As at 30 June 2018</b>	<b>As at 31 December 2017</b>
Bank guarantee of good performance	5 690	3 866
<b>Total contingent assets</b>	<b>5 690</b>	<b>3 866</b>

### ***Note No. 24 - Profit distribution***

The Group's financial result is not subject to distribution.

Pursuant to the Resolution No. 15 of the Ordinary General Meeting of 21 June 2018 the Issuer's net profit for 2017 in the amount of PLN 12 684 166.55 will be entirely allocated to the reserve capital.

### ***Note No. 25 - Dividends***

Dividend has not been paid.

### ***Note No. 26 - Financial instruments and financial risk management***

<b>Financial assets</b> As at 30 June 2018 (in PLN thousands)	<b>Categories of financial instruments</b>		
	<b>Note No.</b>	<b>Loans, receivables and other</b>	<b>Total</b>
<b>Classes of financial instruments</b>			
Receivables from supplies and services	7	18 880	18 880
Cash		1 857	1 857
Loans granted	5	18 899	18 899
<b>Total</b>		<b>39 636</b>	<b>39 636</b>

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As at 31 December 2017 (in PLN thousands)	Categories of financial instruments		
	Note No.	Loans, receivables and other	Total
<b>Classes of financial instruments</b>			
Receivables from supplies and services	7	28 674	28 674
Cash		28 815	28 815
Loans granted	5	18 713	18 713
<b>Total</b>		<b>76 202</b>	<b>76 202</b>

**Financial liabilities**

As at 30 June 2018 (in PLN thousands)	Categories of financial instruments			Total
	Note No.	Financial liabilities measured at amortized cost	Liabilities excluded from IAS 39	
<b>Classes of financial instruments</b>				
Loans	10	3 920	-	3 920
Finance lease		-	760	760
Trade payables	11	22 406	-	22 406
<b>Total</b>		<b>26 326</b>	<b>760</b>	<b>27 086</b>

As at 31 December 2017 (in PLN thousands)	Categories of financial instruments			Total
	Note No.	Financial liabilities measured at amortized cost	Liabilities excluded from IAS 39	
<b>Classes of financial instruments</b>				
Loans	10	2 374	-	2 374
Finance lease		-	912	912
Trade payables	11	27 018	-	27 018
<b>Total</b>		<b>29 392</b>	<b>912</b>	<b>30 304</b>

**Fair value of financial instruments** - does not differ from the book value.

***Note No. 27 - Transactions with related entities 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.

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 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 half of 2018 in the Issuer's enterprise was paid:

1. Remuneration to the Members of the Management Board in total amount of PLN 885.0 thousand, including remuneration established on profit for 2017 amounted to PLN 393.0 thousand

**Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

2. Remuneration paid to the Members of the Supervisory Board in total amount of PLN 160.0 thousand.

In the first half 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 264.0 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 30 June 2018**

	Sale of services	Purchase of services	Financial income - interest on loans	Financial income – dividends received
Jointly - controlled entities and associated entities	7 098	1 695	186	-

**As at 30 June 2018**

	Trade receivables	Receivables under loans granted	Other receivables	Trade payables
Jointly - controlled entities and associated entities	584	18 899	866	971

**Comparative period**  
(in PLN thousands)

**from 1 January to 30 June 2017**

	Sale of services	Purchase of services	Financial income - interest on loans	Financial income – dividends received
Jointly - controlled entities and associated entities	2 828	1 842	187	-

**As at 30 June 2017**

	Trade receivables	Receivables under loans granted	Other receivables	Trade payables
Jointly - controlled entities and associated entities	3 247	18 522	933	373

**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.

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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 a 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 reporting date***

They did not occur.

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

**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**



**Interim condensed consolidated financial statements of Prochem S.A. Capital Group as at and for the period of six months ended 30 June 2018**

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

In the first half of 2018 the Parent Entity:

- 1) granted a loan to a subsidiary Pro-Inhut Sp. z o. o. seated in Dąbrowa Górnicza in the amount of PLN 130 thousand. The interest rate was set at 3.25% annually, repayment date 30 September 2018.
- 2) drew a loan from a subsidiary Elmont Inwestycje Sp. z o. o. in the amount of PLN 7 500 thousand drew a loan from a subsidiary. The interest rate was set according to WIBOR 3M rate in force at the end of each calendar year plus a margin 0.5 p.p.. Repayment date was set on 31 December 2019.

**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**

Asa at the date of the financial statements hereby, according to the statements received, the following members of the Management Board and the Supervisory Board held shares of PROCHEM SA:

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

**Note No. 31- Approval of the financial statements**

Interim condensed consolidated financial statements of the Capital Group of Prochem S.A. for the period from 1 January 2018 to 30 June 2018 was approved for publication by the Management Board of Prochem S.A. on 31 August 2018.

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

31 August 2018	Jarosław Stępniewski	President of the Management Board	.....
date	first name and surname	position	signature

31 August 2018	Marek Kiersznicki	Vice President of the Management Board	.....
date	first name and surname	position	signature

31 August 2018	Krzysztof Marczak	Vice President of the Management Board	.....
date	first name and surname	position	signature

**Signature of the person responsible for bookkeeping**

31 August 2018	Barbara Auguścińska-Sawicka	Chief Accountant	.....
date	first name and surname	position	signature