FINANCIAL STATEMENT OF PROCHEM S.A.

As at and for the period ending on 31 December 2011

PROCHEM S.A.
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Financial Statement of Company Prochem S.A.

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Financial Statement of PROCHEM S.A. prepared as at and for the period ending on 31 December 2011

Statement of Financial Position

(all amounts in thousands of PLN if not marked otherwise)

	Note No	As at 31 Dec. 2011	As at 31 Dec. 2010
A S S E T S			
Fixed assets			
Tangible assets	1	2 249	3 603
Intangible assets	2	126	111
Shares and stocks in subsidiaries and other entities	3	10 626	10 605
Shares and stocks in associated entities	4	1 288	708
Deferred tax assets	5	841	1 538
Other financial assets	6	18 923	18 120
Total fixed assets		**34 053**	**34 685**
Current assets			
Inventory	7	3 335	2 925
Trade receivables and other receivables	8	67 602	51 098
Other financial assets	9	1 438	997
Other assets	10	19 131	10 023
Cash and cash equivalents	27	16 006	2 074
Fixed assets to be disposed	3	-	3 361
Total current assets		**107 512**	**70 478**
Total assets		**141 565**	**105 163**
E Q U I T Y A N D L I A B I L I T I E S			
Equity			
Share capital	11	3 895	3 895
Retained earnings	12	62 944	59 734
Total equity		**66 839**	**63 629**
Long-term liabilities			
Retirement benefit obligations	13	384	330
Total long-term liabilities		**384**	**330**
Short-term liabilities			
Short-term bank credits	14	-	277
Trade payables	15	69 995	37 596
Other liabilities	16	1 948	3 211
Deferred income	17	2 399	120
Total short-term liabilities		**74 342**	**41 204**
Total liabilities		**74 726**	**41 534**
Total equity and liabilities		**141 565**	**105 163**

Statement of Comprehensive Income

For the period from 1 January 2011 to 31 December 2011
(all amounts in thousands of PLN if not marked otherwise)

	Note No	Period ended on 31 Dec. 2011	Period ended on 31 Dec. 2010
Income from sales, including :		127 630	47 594
Income from sales of services	18	127 448	47 202
Income from sales of goods and materials	19	182	392
Cost of sales, including :		-119 725	-41 876
Cost of services sold	20	-119 577	-41 491
Cost of goods and materials sold		-148	-385
Gross profit from sales		**7 905**	**5 718**
General and administrative expense		-7 517	-6 961
Other operating income	21	2 200	1 812
Other operating costs	22	-1 138	-1 505
Profit (loss) from operating activity		**1 450**	**-936**
Financial income	23	1 570	1 720
Profit from sale of shares of subordinated entities		2 056	-
Finance costs	24	-1 169	-778
Profit before tax		**3 907**	**6**
Income tax :	25	697	-1 259
- current income tax		-	40
- deferred income tax		697	-1 299
Net profit		**3 210**	**1 265**
Other comprehensive income			
Revaluation of fixed assets		-	228
Income tax on other comprehensive income		-	-44
Other comprehensive income (net)		**-**	**184**
Total comprehensive income		**3 210**	**1 449**
Weighted average number of ordinary shares (units)		3 895 000	3 895 000
Profit per one ordinary share/diluted (in PLN per one share)		0.82	0.32
Comprehensive income per one ordinary share (in PLN per one share)		0.82	0.37

Statement of Changes in Owners' Equity

(all amounts in thousands of PLN if not marked otherwise)

	Share capital	Shares of parent entity	Retained earnings	Total equity
The reporting period from 1 January 2011 to 31 December 2011				
As at the beginning of the period	**3 895**	**0**	**59 734**	**63 629**
Net profit of the given period	-	-	3 210	**3 210**
Other comprehensive income (net)	-	-	*0*	*0*
Total comprehensive income	***0***	***0***	***3 210***	***3 210***
At the end of the period	**3 895**	**0**	**62 944**	**66 839**

	Share capital	Shares of parent entity	Retained earnings	Total equity
The reporting period from 1 January 2010 to 31 December 2010				
As at the beginning of the period (restated)	**3 900**	**-5**	**58 367**	**62 262**
Net profit of the given period	-	-	1 265	1 265
Net other comprehensive incomeo	-	-	*184*	*184*
Total comprehensive income	***-***	***-***	***1 449***	***1 449***
Shares of parent entity purchased with aim of redemption	-5	5	-82	-82
As at the end of the period	**3 895**	**0**	**59 734**	**63 629**

Statement of Cash Flow
for the period from 1 January 2011 to 31 December 2011 (indirect method)

(all amounts in thousands of PLN if not marked otherwise)

	Note No	Period ended on 31 December 2011	Period ended on 31 December 2010
Operating cash flow			
Gross profit		3 907	6
Total adjustments		5 759	1 386
Amortization and depreciation		1 393	1 890
Interest and profit sharing (dividends)		-955	-799
(Profit)loss from sale of tangible assets		-310	-82
(Profit)loss from investment activities included in profit and loss account		-2 056	-
Movement in provisions		-11	-1 270
Change in inventory		-410	377
Movement in receivables	27	-25 651	4 553
Movement in current liabilities with the exception of loans and credits	27	33 759	-3 180
Other adjustments		-	-103
Operating cash flow		9 666	1 392
Income tax paid		-	40
Net operating cash flow		**9 666**	**1 352**
Investment cash flow			
Inflows		6 960	5 325
Sales of intangible assets and tangible assets		619	97
From financial assets in affiliated entities including :		6 341	5 228
- dividend received		3	302
- sale of financial assets (shares/stocks)		5 450	-
- repayment of granted loans		694	4 205
- repayment of interest on granted loans		194	721
Outflows		1 889	4 189
Purchase of intangible assets and tangible assets		355	252
For financial assets in affiliated entities including:		1 534	3 937
- purchase of financial assets		634	3 534
- repayment of loan and interest		-	403
- loans granted		900	-
Net cash flow from investment activity		**5 071**	**1 136**
Financial cash flow			
Outflows		805	3 354
Repayment of bank credits		277	-
Repayment of loans		-	2 343
Payment from the title of finance lease		253	722
Interest		275	289
Net cash from financial activity		**-805**	**-3 354**

Total net cash flow		13 932	-866
Increase/(decrease) of net cash and cash equivalents	27	13 932	-866
Cash and cash equivalents at the beginning of the period		2 074	2 940
Cash and cash equivalents at the end of the period		16 006	2 074

Notes on assumed accounting principles (policy) and other explanatory remarks to Financial Statement

1. Formation of the Company and basic scope of its activity

Company PROCHEM S.A. (hereinafter called "Prochem", "Company", "Issuer") with the registered office in Warsaw at 44c Powązkowska Str. The company is entered into the National Court Register (KRS) by the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register under KRS number 0000019753. Basic activity according to Polish Business Classification (PKD 2007) determines symbol 7112Z – operations in the scope of engineering services and associated with it technical consulting. According to Warsaw Stock Exchange Classification the company is being ranked among the construction sector. Company Prochem S.A. is a parent entity in the Capital Group and is drawing up separate consolidated financial statement. Company Prochem S.A. was established as a result of transformation of a state enterprise under the name Przedsiębiorstwo Projektowania I Realizacji Inwestycji Przemysłu Chemicznego "Prochem" (The Office of Designing and the Implementation of an Investment Project of the Chemical Industry). The notarial act and statutes were signed on 1 October of 1991. The company's duration is indefinite.

2. Managing and supervising bodies of the Issuer

As at the date of drawing up this financial statement the Management Board of Prochem S.A. comprises following persons:

Jarosław Stępniewski – Chairman of the Management Board
Marek Kiersznicki - Vice Chairman
Krzysztof Marczak - Management Board Member

As at the date of drawing up this financial statement the Supervisory Board comprises following persons:

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

3. Employment

In 2011 average employment was 203 FTEs. Level of employment as at 31 December 2011 was 200 persons.

4. Applied accounting principles

Base for the preparing

Financial statement of PROCHEM S.A. for the period from 1 January to 31 December 2011 and corresponding period of the comparable year was drawn up according to International Accounting Standards and International Financial Reporting Standard, which were approved by European Union (EU) and were in force as at 31 December 2011. Scope of financial statement is in conformity with Regulation of the Minister of Finance of 19 February 2009 on current and periodic information to be submitted by issuers of securities and the conditions for recognition as equivalent the required information with provisions of the law of the country not being a member state. (Journal of Laws No 33, item 259 with amendments).

This financial statement meets all IFRS requirements approved by EU and gives a true and fair view of the Company's material and financial position as at 31 December 2011 and comparable data as at 31 December 2010, as well as results of such activity in the year ended on 31 December 2011 and comparable data for the year ended on 31 December 2010.
Financial statement of PROCHEM SA as at 31 December 2011 was prepared at assuming continuing economic activity in a foreseeable future and it is stated that circumstances pointing out to the threat to continuing activity by the Issuer don't exist.

Financial statement was drawn up based on the principle of the historical cost, with the exception of:

- land, buildings and constructions,
- investments in subsidiaries, associates or in joint undertakings.

Changes in Accounting Estimates and Accounting Principles (Policy)

Drawing up financial statements according to IFRS approved by EU requires using reliable accounting estimates and assuming as for future events. Items of the financial statement established based on the estimates are subject to a verification if circumstances being base of estimates are changing or as a result of obtaining new information or of progressing course of events or of acquiring greater experience.

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

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

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

Transactions in foreign currencies

Transactions in foreign currencies at first are calculated according to the rate of exchange of the National Bank of Poland being in effect on the day of the conclusion of a deal. Balance sheet items of assets and liabilities expressed in foreign currencies are being evaluated according to the average rate of the National Bank of Poland as at the balance sheet day. Profit and loss arising from accounting for these transactions and balance sheet valuations of assets and liabilities expressed in foreign currencies are included in statement of comprehensive income except for exchange differences concerning assets under construction which are included into costs of these assets and are recognized as adjustments of costs of interest on credit in the foreign currencies.

New standards, interpretations and changes of published IFRS

Standards and interpretations approved by EU

The Company is going to accept changes of IFRS published, but inoperative until 31 December 2011, according to the date of their entry into force. In the current annual reporting period in the Company wasn't made a decision on earlier applying of changed standards and interpretation.

Amendments to IFRS 7 – Financial Instruments: Disclosures – Transfer of financial assets
This amendment requires disclosure of information that may help recipients of financial statement :

- to understand the connection between carried forward component of financial assets which wasn't in the aggregate excluded from financial statement and related ; and
- to evaluate the nature, the risk connected with it, and degree of involvement of the entity in the excluded component of asset.

Amendment defines "keeping the involvement" for applying requirements concerning disclosures.

Amended standard is effective for periods beginning on 1 July 2011 or later. Company doesn't expect that amendment to IFRS 7 should have a significant effect on the financial statement in respect of specific features of the activity of the Company and kind of its financial assets.

Standards and interpretations waiting for approval by EU

Amendments to IFRS 1 – the hyperinflation and removing permanent dates for applying IFRS for the first time.
The amendment is adding the exemption which can be applied as at the day of the transition to IFRS by entity operating in conditions of the hyperinflation. Such exemption allows the Company to valuate assets and liabilities held before functional currency at fair value is established, then to use this fair value as assumed cost of these assets and liabilities for drawing up first financial report according to IFRS. Amendment of standards apply for periods beginning on 1 July 2011 and later. It is not expected that the above change has a significant effect on the financial statement of the Company.

Amendments to IFRS 7 disclosures – Financial instruments – assets and liabilities set-off
Amendments include new requirements in the scope of disclosures concerning assets and liabilities which:

- are compensated in statement of financial position or
- fall under skeleton agreements on compensation or other similar agreements.

Standard apply to period of a year beginning on 1 January 2013 or later. Entity does not expect that the revised standard should have an impact on the financial statements, because do not apply rules to compensate for the existing assets and liabilities or has entered into framework agreements on compensation.

New Standard and its amendments – IFRS 9 Financial Instruments
New Standard replaces requirements included in IAS 39 Financial Instruments: recognition and measurement on classification and valuation of financial assets. Standard excludes categories existing in IAS 39: held-to-maturity, available-for-sale or loans and receivables.
In the moment of initial recognition financial assets would be classified as: financial assets measured at amortised cost or financial assets measured at fair value.
New standard IAS9 (2009) eliminates categories existing in IAS 39: held-to-maturity, available for sale and loans and receivables.
Upon initial recognition financial assets are classified into one of two categories:

1. financial assets measured at amortised cost; or
2. financial assets measured at fair value.

Component of financial assets is carried at amortised cost if following two requirements are met:

1. assets are held within the business model which aims to maintain assets in order to obtain the flows under the contract; and,
2. the contract terms will result in cash flow at certain times being only repayment of capital and interest on the unpaid portion of capital

Profits and losses from valuation of financial assets at fair value are recognized in current period income statement except where the investment on equity instrument is not intended for trading. IFRS 9 gives the possibility of a decision on the valuation of such financial instruments at initial recognition at fair value through other comprehensive income.
Such decision is irreversible. It is possible to make such choice separately for each instrument. Amounts recognized in other comprehensive income may not be reclassified in the profit and loss account in later periods.
Amendments to IFRS of 2010 changing the requirements of IAS 39 Financial Instruments: recognition and measurement on classification and valuation of financial liabilities, exemption of financial assets and liabilities. Standard maintains almost all existing requirements of IAS 39 within the scope of classification and measurement of liabilities and exemption of financial assets and liabilities. Standard requires that change of fair value concerning change of credit risk of liability determined in the moment of initial recognition as being valuated at fair value by financial performance were presented as other comprehensive income. Remaining part of profit or loss from revaluation at fair value is recognized in financial results in the given period. In case when application of this requirement results in lack of commensurability of revenues and costs then total change in fair value is recognized in financial results in the given period. Amounts included in other comprehensive income are not reclassified to financial results in the given period. However, it could be reclassified to equity.

In accordance with IFRS 9 valuation of derivative financial instruments that are linked and must be settled by delivery of unquoted equity instruments whose value cannot be reliably determined there should be at fair value.
These changes alter the disclosure requirements and to transform comparative data on the initial application of IFRS 9 Financial Instruments (2009) and IFRS 9 (2010). Amendments to IFRS 7 requires disclosure of details of the impact of initial adoption of IFRS 9, in a situation when an entity does not restate comparative information in accordance with the requirements of the revised IFRS 9th.
Standard is applicable for periods beginning on 1 January 2015 or later.
Entity does not expect that amendment to IFRS 9 should have a significant effect on the financial statement

Amendments to IFRS 10 – consolidated financial statements and IAS 27 (2011)individual financial statement
IFRS 10 provides one new model for the analysis of control for all entities in which investments were made including special purpose entities falling within scope of SIC-12 (interpretations of accounting standards, giving specific guidance on unclear issues).
IFRS 10 introduces new requirements for the assessment of the controls, which differ from the existing requirements of IAS 27 (2008). In the new model the investor controls the entity in which he made an investment, if (1) is exposed to or has the right to variable reimbursement from the title of involvement in this entity, (2) has the ability to influence these reimbursements by having control and (3) there is a relationship between control and reimbursement.
The new standard also includes requirements for disclosure and the requirement concerning preparation of consolidated financial statements. These requirements were transferred from IAS 27 (2008). Standard is applicable for periods beginning on 1 January 2013 or later. Company expects that new standard should not have an effect on the financial statement of the Company because it is expected that the assessment of control of entities in which the investment was made in accordance with a new standard will not change the conclusions regarding Company's control over these entities.

Amendments to IFRS 11 –Joint agreements
IFRS 11 *Joint agreements* displaces and replaces IAS 31 *Interests in Joint Ventures.* IFRS 11 does not introduce fundamental changes in the general definition of an agreement under common control, although the definition of control and indirect joint control has changed in connection with IFRS 10.
Under the new standard joint agreement are divided into 2 types for which recognition models are defined as follows:

- joint activity is one in which the subjects exercising joint control and called joint administration of the enterprise have the rights to the assets and obligations concerning liabilities associated with the activity
- joint venture is one in which subjects exercising joint control called co-partners are entitled to the net asset of the agreement.

IFRS 11 excludes from IAS 31 those cases where a joint venture even though they are separate entities, this separation is inefficient in some way. Such agreements are treated similarly to a jointly controlled asset/activity in accordance with IAS 31 and now is called a common activity. For other entities jointly controlled according to IAS 31 now known as joint ventures the equity method must be applied. Application of proportionate consolidation is not possible. Standard is applicable for periods beginning on 1 January 2013 or later.
Company expects that new standard should not have an effect on the financial statement of the Company. Since it is expected that the assessment of joint agreements made in accordance with the new standard will not change recognition of existing joint agreements.

Amendments to IFRS 12 – disclosures of investments in other entities
IFRS 12 contains additional requirements for disclosure of significant judgments and assumptions in determining the type of investment in the entity or arrangement, in subsidiaries, joint agreements, associated units, and/or structural entities not covered by consolidation. Standard is applicable for periods beginning on 1 January 2013 or later.
It is expected that at the time of application of IFRS MSSF 12 the number of required disclosures concerning investments in other entities will increase. However, until the first application of this standard the Company is not able to perform the analysis of the impact of this standard on the financial statement

Amendments to IFRS 13 – measurement at fair value

IFRS 13 replaces the guidance on measurement at fair value included in the individual standards with one source of guidance in the scope of measurement at fair value. It defines fair value, establishes a framework for fair value and specifies the requirements for disclosures concerning measurement at fair value. IFRS 13 explains „how" to determine fair value if required or permitted by other standards. IFRS 13 doesn't introduce new requirements for the valuation of assets or liabilities at fair value or does not eliminate exceptions of unenforceable in practice measurement at fair value which currently exist in certain standards.

Standard include a detailed structure of the disclosures which adds to the existing disclosure requirements to provide information that enables users of financial statements to evaluate the methods and data used in making measurement at fair value and for recurring measurement at fair value that use the inaccessible data, the impact of measurements on financial result or other comprehensive income. Standard is applicable for periods beginning on 1 January 2013 or later.

The Company expects that IFRS 13 will have no impact on the financial statement because Management Board believes the methods and assumptions used at valuation of components of assets at fair value are in accordance with IFRS 13.

Amendments to IAS 1- financial statement presentation: presentation of item other comprehensive income

The changes require that

- the entity presented separately these items of other comprehensive income, which may in future be reclassified to financial result from those that will never be reclassified to financial result. When items of other comprehensive income is presented before the relevant tax effects, then the total amount of tax should be allocated to specific parts of other comprehensive income.
- rename the title „Statement of Comprehensive Income" to "Profit and loss and other comprehensive income", other titles can also be used.

Changes are applicable for periods beginning on 1 July 2012 or later.

It is not expected that above change will have significant impact on the financial statement of the Company.

Amendments to IAS 12- taxi - deferred income tax: future realization of component of the assets

The change from 2010 introduce an exception to the current rules of valuation of deferred tax included in paragraph 52 of IAS 12, based on the method of implementation. The exception relates to deferred tax on investment property measured at fair value model under IAS 40 by introducing the assumption that the carrying value of these assets will be realized only through the sale. The intentions of the Management Board will have no meaning unless the investment property will be amortized and will be maintained within the business model which will aim to consume substantially all of the economic benefits of the asset over a period of its life. This is the only case when this assumption will be able to be rejected. Change will be in force for the periods beginning on 1 January 2012 and later. It is not expected that above change will have significant impact on the financial statement of the Company.

Amendments to IAS 19 (2011)- employee benefits

The amendments require that the actuarial profits and losses are recognized directly in other comprehensive income:

- amendments remove the corridor method used in the past by the recognition of actuarial profits and losses, and
- eliminate the possibility of recognition of all changes in liabilities from the title of defined benefits and in assets in the program of employee benefits in financial result, which is currently permitted in accordance with the requirements of IAS 19. The amendments also require that the expected return on plan assets recognized in the profit and loss account was calculated based on the rate used to discount liabilities from the title of defined benefits.

Amendments to IAS 19 are applicable for the periods beginning on 1 January 2013 and later. It is not expected that above change will have significant impact on the financial statement of the Company.

Amendments to IAS 27(2011)- individual financial statement

IAS 27 (2011) leaves the existing requirements of IAS 27 (2008) regarding the accounting and disclosures in the individual financial statement with some minor refinements. Also, the existing requirements of IAS 28 (2008) and IAS 31 concerning individual financial statements were insert in IAS 27 (2011). Standard no longer include the control and the requirements concerning drawing up consolidated financial statements, which were transferred to IFRS 10 *Consolidated financial*

statements. Amendments are applicable for periods beginning on 1 January and later. Entity doesn't expect that above amendments will have significant impact on financial statement because it does not change the entity's accounting policies.

Amendments to 28(2011)- investments in associates and joint ventures
Limited changes were introduced in IAS 28 :

- *Associated companies and joint ventures held for sale . IFRS* 5 *Fixed assets held for sale and Discontinuing Operations* is used for investments, or part of the investment in an associate or joint venture which meets the criteria for classification as held for sale. For held up part of the investment which is not classified as held for sale the equity method is applied until the disposal of part held for sale. After disposal the retained investment is recognized using the equity method if retained investment is still investment in an associate or joint venture,
- *Changes in investments held in associates or joint ventures.* Previously IAS 28 (2008) and IAS 31 indicated that the cessation of significant influence or joint control in all cases resulted in the need for revaluation of retained interests even if significant influence would turn into the joint control. IAS 28 (2011) requires that in such situations retained investments were not revalued.

Amendments are applicable for periods beginning on 1 January 2013 and later.
Entity doesn't expect that amended standard will have significant impact on financial statement because does not have any investments in associates or joint ventures which would impact these amendments.

Amendments to IAS 32- financial instruments: presentation – offsetting financial assets and liabilities
Amendments do not introduce new rules for offsetting assets and financial liabilities; they explain the criteria for compensation which is aimed at removing inconsistencies in their application.
Amendments are indicating that the entity has a legal right to compensation if this title:

- does not depend on future events and
- is feasible both in the normal course of business as in the case of breach of contract, insolvency or bankruptcy of the entity and all third parties.

Amendments are applicable for periods beginning on 1 January 2014 and later. It is not expected that above amendment will have significant impact on financial statement of the Company.

IFRIC 20: *The costs of overburden removal(„stripping costs")incurred in the production phase in open-cast mine*
Interpretation provides the requirements for recognition of overburden removal costs incurred in the production phase, and the valuation of component of the assets concerning the removal of overburden at initial recognition and after initial recognition.
As far as the benefits of removal of overburden in the production phase are realized in the form of manufactured inventories, cost of overburden removal is recognized in accordance with IAS 2 *Inventories.* Overburden removal costs incurred in the production phase, which result in better access to deposits mined in the future, are recognized as component of fixed assets only if all the following criteria are met:

- it is probable that future economic benefits will flow to the entity;
- entity is able to identify the component of the deposit to which access will be improved;
- the costs of disposal of overburden associated with this component can be reliably estimated.

Component of the assets concerning the removal of overburden is recognized as increase in the existing component of the assets. Component of the assets concerning removal of overburden shall be valued at manufacturing cost at initial recognition, and then either at manufacturing cost or at revalued amount upon deduction of depreciation allowances and impairment write off according to the rules applied to an existing component of the asset which is a part.

The interpretation also requires that when the costs associated with component of the asset concerning disposal of overburden and manufactured inventories are not separable the entity has to split the costs connected with removal of overburden in the production phase between component of the asset and inventories based on "appropriate" measure of production.

Effective date of interpretation for periods beginning on 1 January 2013 and later.
Entity doesn't expect that interpretation will have significant impact on financial statement because does not conduct activities related to the removal of overburden.

Functional currency and presentation currency of the statement

The financial statement is being presented in Polish zlotys („zloty" or „PLN") which is functional currency and presentation currency.

Applied accounting principles followed by the Company are introduced below

Tangible assets and intangible assets

Tangible assets are presented in accordance with IAS 16.
Tangible assets include fixed assets and outlay on fixed assets under construction which the entity intends to use in their business activity in a period longer than one year, and which will result in future economic benefits to the entity.
Expenditure on fixed assets include investment outlay as well as incurred expenses for future deliveries of machinery, equipment and services associated with production of fixed assets (transferred advance payments).
Tangible assets are valued initially according to the purchase price or the manufacturing costs. Principles of valuation following the initial approach:

- Land, buildings and constructions buildings are shown in revalued amount, representing its fair value as at the date of the revaluation, set by experts, reduced by the amount of the subsequent accumulated depreciation and subsequent accumulated write downs covering impairment losses. Fair value will be set by experts regularly every two years.
- Other tangible assets are shown according to the purchase price or the manufacturing cost, increased by possible costs of improvements, but reduced by the accumulated depreciation and accumulated write downs covering impairment losses.

Increase in value resulting from the revaluation of land, buildings and constructions is included in other comprehensive income and indicated in total amount in equity as revaluation surplus except for the situation, when the increase in value is reversing a prior write- down for the same item included in the statement of comprehensive income. Reductions arising from the revaluation of land, building and constructions is being included in cost of the period, being ahead of an amount of earlier evaluation of this asset item included in other comprehensive income. A decrease resulting from revaluation included in other comprehensive income is reducing the amount of total surplus arising from the revaluation included in the equity capital.

The company presents right to perpetual usufructs as land.

Value of tangible fixed assets intended for liquidation, withdrawn from use as a result of the change of technology or other reasons, is being revalued by write down. Write down is considered other operating costs.

Tangible fixed assets available for sale are shown according to IFRS 5.

Outlays on tangible assets incurred at a later date are recognized at their carrying value, when it is probable that in this respect will be economic benefit to the entity, and this cost could be reliably measured. All other repair and maintenance costs of tangible fixed assets are recognized in the cost of the period, in which they were incurred.

Profit and loss from selling of tangible assets are set by comparing the sales revenue with the carrying value of the given tangible asset and included in the Statement of the Comprehensive Income.
Tangible fixed assets are subject to depreciation since they are available for use. Allowance for depreciation on fixed assets is provided by systematic, scheduled dividing the initial value into the established service life of the asset component. A straight line depreciation method is applied.

In the financial statement for the current period and comparable periods the following useful life periods were accepted by the Company for depreciation of tangible fixed assets:

- of buildings and constructions 10-40 years
- of technical devices and machines 5-12 years

- of means of transport 5 years
- of tools, devices, movables and equipping 5-10 years

Correctness of applied useful lives, of depreciation methods are verified at the end of each reporting year and where justified is adjusted.
Own land is not depreciated.

Tangible assets- in-progress arising for the operating activity, as well as for purposes not yet identified, are presented in the financial statement at the production cost less recognized write downs covering impairment loss. Manufacturing cost includes all fees and costs of the external financing capitalized according to applied accounting principles. Depreciation on such tangible assets shall begin at the start of their use.

Tangible fixed assets are being subjected to the impairment test if premises pointing at appearing of the impairment exist, in addition for the construction-in-progress in the period of the realization, possible depreciation is determined for every balance sheet day. The effects of the impairment are recognized in other operating costs. Management Board of the Company believes that in 2011 the premises pointing out to the impairment of tangible fixed assets didn't appear.

Intangible assets are presented in accordance with IAS 38.
The component of intangible asset is valuated at purchase price less allowance for amortization and write down covering impairment.

Intangible assets, except the goodwill are being amortized. Allowance for amortization of intangible assets is made by systematic, planned distribution of the initial value in the established service life of the asset component. A straight line of depreciation method is applied.

In the financial statement for the current period and comparable periods the Company accepted useful life period of 3-10 years for amortization of intangible assets.

Correctness of applied useful lives, of amortization methods are verified at the end of each reporting year and where justified is adjusted.

The effects of the impairment are recognized in other operating costs. Management Board of the Company believes that in 2011 the premises pointing out to the impairment of intangible fixed assets didn't appear.

Leases

The company as the lessee

Lease, by which part of the risk and of benefits from the title deed is falling to the Company Prochem S.A. constitutes the financial lease.
Assets subject to this lease are recognized in the financial statement at the lower amount of fixed commencement of use: fair value or present value of minimum lease payments. Each lease payment is divided into the part constituting the liability and the financial part. The liability is being shown in balance sheet in the position "Other liabilities " with the division into the short-term part (payable up to one year) and long-term (paid in the period longer than one year). Finance costs are shown in the Statement of Comprehensive Income. Principles of the amortization and depreciation of assets being a subject of the financial lease and the principles of setting write downs for impairment by assets under finance lease are consistent with principles applied for assets being a property of the Company. Tangible fixed assets held under a lease are depreciated over the economic life of assets. Straight-line method of depreciation is used.

Lease payment under an operating lease and subsequent lease installments are recognized in current costs at using straight-line method over the lease term.

Company as lessor

Lease agreements as which we recognize hiring contracts, according to which the Company retains all the risk and all benefits resulting from having a leased object, are ranked among agreements of the operating lease. Leasing costs are recognized in current costs while income from the title of leased object are recognized in income of the period.

Borrowing costs IAS 23 – borrowing costs recognized as expenses in the period in which they are incurred except for costs that are directly attributable to the acquisition, construction or production of an asset (tangible assets, intangible assets).
Activation of borrowing costs commences when:

1. borrowing costs are borne,
2. expenditures are incurred on that asset,
3. the activities necessary to prepare the asset for its intended use or sale are carried out.

Activation of borrowings costs is suspended in the event of interruption for a longer period of active investment activity. Borrowing costs are activated until the destination of the asset for use or sale.

Investments in subsidiaries, associated or in joint undertakings are included according to IAS 27, 28 or 31 . The Company evaluates the value of shares at cost, i.e. at the price of the purchase reduced by possible write downs.

The carrying value of investment on the date when it ceases to be a subsidiary shall be treated as the purchase price at the time of initial measurement as a financial asset under IAS 39.
As at 31 December 2010 Company's Management Board has evaluated whether premises pointing out to loss of the value of shares held in given entities exist. After carrying out an analysis, the premises which would appoint to the need to recognize write down on account of impairment losses weren't identified.

Current assets

Inventory – in the item of inventory - materials, goods, semi-finished products and work-in-process are shown.
Inventories are evaluated initially at the price of the purchase. As at the balance sheet day the evaluation of materials and goods shall be subject to prudence accounting principle namely these categories are valuated at purchase price, the production cost or the net value possible to get, depending on which of them is lower.
Stock of goods and materials slowly-rotating is covered by the write-down by individual evaluation of the price possible to obtain as at the balance sheet day. Flow of goods is done with the application of FIFO method „First In, First Out".
Write-downs concerning inventory and reversals are recognized in the other costs and operating income.

Loans - are arising when the entity is transferring financial means directly to the debtor, not intending to enter their amount due into the trading. They are being ranked among current assets, provided the date of their maturity doesn't exceed 12 months from the balance sheet day. Loans with the maturity date exceeding 12 months from the balance sheet day are being ranked among fixed assets. At first loans are recognized at their fair value. The evaluation of loans at a later date is according to the amortized cost, using the method of the effective interest rate, less possible write-downs on account of the depreciation.

Receivables are recognized initially at fair value, and subsequently measured at amortized cost using effective interest rate less possible write-downs on account of the depreciation. Write-down covering receivables is made when objective evidence exist that the entity won't receive all amounts due under the original terms of receivables and recognizes it in item other operating costs. The amount of write-down is a difference between the carrying amount and current value of estimated future cash flows, discounted according to effective interest rate.

Cash and cash equivalents include cash in hand and on bank accounts, bank deposits with the original maturity date up to three months and financial assets evaluated at the fair value through the financial result and meet the requirements of the definition of the cash equivalent. Cash and cash equivalents are measured at nominal value. Cash equivalents classified as financial assets are valued at fair value through profit or loss.

Assets held for sale

Fixed assets held for sale are assets meeting the following criteria set out in IFRS 5:

- the management board took decision on their sale,
- active search for potential buyer was initiated,
- assets are available for the sale in the current state,
- the transaction of the sale is highly probable and accounting for it within 12 months from making a decision to sell is possible,
- the selling price is rational in relation to the current fair value,
- the probability of implementing amendments to sales plan of these assets is little.

The reclassification is reflected in the reporting period in which the criteria are met.

Immediately prior to reclassification to the group intended for the sale or the disposal, these assets n are revalued according to accounting rules. The assets intended for the sale (excluding financial assets and investment real estates) are included in the financial statement according to lower of two values: the carrying amount or the fair value less costs to sell. In case of increase, at a later date, of fair value less costs to sell, the income is included however, at the value not higher than write-down recognized earlier.

Upon allocating the given component of assets for the sale the calculation of depreciation allowance is stopped.

Valuation of assets and financial liabilities - at the time of initial recognition, the Issuer shall measure component of assets or liabilities at their fair value, in case of the component of assets or financial liability not qualified as evaluated at the fair value through the financial result, increased by costs of transaction which can be directly attributable to purchase or issue of financial asset such as: fees and commissions paid to advisers, agents, payments imposed by regulatory agencies and the stock exchange and taxes. However costs of transactions don't include the bonus or the discount from in debt instruments, of costs of financing, nor of internal administration cost, or storages cost of instruments.
For purpose of valuation at the end of the reporting period or any other date after initial recognition the Issuer is qualifying financial assets for one of four categories:

1. valuated at fair value through the financial result,
2. investments held to the maturity date,
3. loans and receivables,
4. available for sale assets.

Component of assets valued at fair value through financial result is the component of financial assets which was appointed at initial recognition as valuated at fair value through by the financial result or was categorized as intended for the trade, because:

- was purchased or contracted mainly for the purpose of sale or repurchasing in the short term,
- is a part of the portfolio of determined financial instruments managed together and for which there is evidence of a recent actual pattern of short-term profits, or
- is a derivative instrument (except for derivatives that are effective hedging instruments.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable terms of payment or maturity which the Company intends and is able to keep to its maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which aren't quoted on the active market.

Available- for - sale financial assets are non-derivative financial assets which were classified as available for the sale or not being loans or other amounts due, or investments held-to-maturity and financial assets valuated at fair value through the financial result.

Measure of the fair value of financial assets

The company measures financial assets evaluated at fair value through the financial result, including derivatives being assets and available-for-sale financial assets, not making the deduction by transaction costs which can be borne at the sale or in other way of disposal of assets .

Fair value of financial assets is assessed as follows:

- for instruments quoted on the active market is based on final prices available for the end of the reporting period,
- for debt instruments unquoted on the active market is based on discounted cash flows analysis,
- for futures derivatives (forward) and swap contracts based on discounted cash flows analysis.

Investments in equity instruments (shares) that do not have quoted market price on an active market and which fair value cannot be measured credibly, the Company values at cost, i.e. at purchase price less write-downs.
Financial assets designated as hedged items are valued in accordance with principles of hedge accounting.

Profits or losses arising from the valuation of the component of financial assets, classified as at fair value through the financial result, are included in the financial result.

Profits or losses arising resulting from valuation of the component of financial assets ranked to available - for - sale are included in other comprehensive income, except for write-downs on account of the depreciation and exchange differences which are recognized in the financial result. For debt financial instruments, interest calculated using the method of the effective interest rate is recognized in the financial result.

Measure of financial liabilities according to the amortized cost

The company is valuating loans and other amounts due, including trade receivables using the effective interest rate method. The company uses simplified methods of the valuation of financial assets measured at the amortized cost if doesn't cause distortions of information included in the statement of financial position in particular when the period to the moment of the repayment of the amount due isn't long. Financial assets carried at amortized cost, to which the Company applies simplifications, are measured at initial including in the amount due including at the end of the reporting period in the amount required less write-downs on account of the depreciation.

Measure of the fair value of financial liabilities

The company values financial liabilities classified as at fair value through the financial result (in particular including derivatives not being hedging instruments), as at the last day of the reporting period or any time after the initial recognition at fair value. Irrespective of the nature and purpose of the purchase, the Company, at the initial recognition, classes of selected financial liabilities at fair value through the financial result, if it leads to obtaining more useful information. The fair value of the contracted obligation is based on the current selling price for instruments quoted on the active market.
In the absence of the active market, the fair value of financial liabilities is determined by:

- using the last market transactions conducted directly between well informed, willing parties, or
- reference to the current fair value of the other instrument which is almost the same, or
- analysis of the discounted cash flows.

Measure of financial liabilities at amortized cost

Company measures other financial liabilities at amortized cost using the effective interest rate method. The company uses simplified methods of the valuation of financial assets measured at the amortized cost if doesn't cause distortions of information included in the statement of financial position in particular when the period to the moment of the repayment of the amount due isn't long. Financial liabilities, to which the Company is applying simplifications, are valuated at initial recognition and in the more late period, at the end of the reporting period, in the amount required for payment. Financial guarantee contracts, i.e. contracts that require the Company (issuer) to make specified payments to reimburse the holder for the loss due to a failure of the debtor to

make payment when due under the original or modified terms of a debt instrument that is not classified as liability at fair value through financial result, are measured at the higher value:

- determined according to the principles of valuation of reserves,
- initial value less when appropriate accumulated allowances for amortization.

Reclassifications

The company:

- isn't effecting reclassification of the derivative from category valuated at fair value through the financial result from the moment of taking possession of it or issuing;
- isn't effecting reclassification of the financial instrument from category evaluated at fair value through the financial result, if at initial including the financial instrument was appointed by the Company as valuated at fair value through the financial result and,
- can, if the component of financial assets isn't already held for the purpose of sale or repurchase in the near time (irrespective of the fact that the element of financial assets could to be purchased or contracted mainly for the purpose of the sale or buying in the near time), effect reclassification of the given component of financial assets from the category valuated at fair value through the financial result only in exceptional circumstances, and in case of loans and the amounts due, (if at initial including the component of financial assets had not to be classified as intended for the trade) if entity has an intention and a possibility to keep the component of financial assets in the foreseeable future or up to the date of its maturity,
- isn't effecting reclassification of the financial instrument to category valuated at fair value through the financial result after the initial recognition.

Impairment of financial assets value

At the end of the reporting period the Company is judging whether objective evidence of the impairment of the component of financial assets or groups of financial assets exist.

If objective premises exist, that an impairment of loans and other amounts due or held-to-maturity investments valued at the amortized cost took place, then the Company recognizes the write-down by the value of estimated future cash flows discounted with applying the original effective interest rate of the financial instrument.

If in the next period the loss on account of the impairment reduced, and it is possible to connect this reduction in the objective way with the event following recognition of impairment, then the loss recognized previously from this title is reversed and recognized as the income in the financial result.

If objective premises are appearing, that an impairment of the not-quoted equity instrument which isn't being evaluated at fair value took place, because it isn't possible to evaluate its fair value credibly then amount of write-on on account of loss of the value is set as the difference between amount of the book value of the component of financial assets and current value of estimated future cash flows discounted at applying the current market rate of return for similar financial assets. Write-down set this way isn't subject to reversal.

If objective premises are appearing, that a decrease in value of the component of available-for-sale financial assets took place, then accumulated losses incurred as a result of the negative evaluation, included in statement of comprehensive income, according to principles of valuation of financial assets, are cancelled from the equity and are included in the financial result. If in the next period fair value of debt instrument available for sale increases, and this increase can be linked objectively with the event following including the write-down in the financial result, then the amount of the reversal of write-down is recognized in the financial result.

Write-down covering value of impairment of investment in equity instrument, classified as available for sale isn’t subject to reversal in financial result.

Payments of dividends for shareholders of the Company are being included as liability in the financial statement of the Company in the moment, when the appropriate resolution was passed at the General Meeting of Shareholders of the Company.

Reserves - are established in the justified, credibly assessed value. Reserves are being created when an existing legal obligation is resting with the company (legal or customary) resulting from past events and when it is probable, that fulfilling this duty will cause the necessity of the outflow of financial means as well as it is possible to effect credible estimation of the amount of this obligation.

Social benefits - the group is paying the contributions of the compulsory pension program subject to the gross remuneration, under effective laws and regulations. The company doesn't have other pension programs. With a view to establishing the current value of future obligations concerning retirement gratuities and the costs of the current employment associated with them, actuarial evaluation is applied.

Calculated obligations are equal to discounted payments which in the future will be made, with taking into account among others the rotation of employment, the planned increase of the level of the remuneration and concern the period up to the day of finishing the year under review.
Reserve to retirement gratuity is formed in order to assign costs up to periods which they concern.

Owners' Equity
The equity is being included in books of account with the division into his kinds and according to principles determined by provisions of the law and provisions of statute . Owners' equity includes:

- Share capital – was shown in the nominal value of issued and registered shares .
- Spare capital is being raised from surpluses of the sale of shares above their nominal value and from write down concerning net annual profit as well as revaluation of fixed assets in previous years.
- Revaluation capital covers the difference between fair value and purchase price decreased by deferred tax concerning buildings and constructions and land valued at fair value.
- Reserve capital arisen from profit designed for capital.

Retained earnings include: undivided result from last years, profit (loss) of the current year, payments on account of dividends, effects of mistakes (profits/losses) of previous periods, effects of changes of accounting principle (policy)

Income from sales include fair value of revenues from sales of goods and services.
The income from construction services is being evaluated according to IAS 11 - the construction service agreement. Income from performing of the not finished construction service, according to agreement, made as at the balance sheet day are being established proportionally to the degree of progresses of the service. The degree of the progress of the service is being measured with the share of costs incurred from the day of the conclusion of a contract to the day of setting the income in overall costs of the service. The correctness of calculations of the degree of the progress of the service, as well as expected overall costs and the income from the service is being verified at the end of every quarter.

Income tax - fiscal charges contain the current taxation with corporate income tax and the change in reserves or assets on account of the deferred income tax.
Current tax liabilities are being set on the basis of current tax regulations and the set taxable income.
Current tax liabilities in the current period and previous periods are being included as the obligation in the amount, in which it wasn't paid.
The reserve on account of the deferred income tax is included with the method of obligations, on account of temporary differences between the tax value of assets and obligations and their balance sheet value shown in the financial statement. The deferred income tax is set at applying tax rates indeed being in force at the balance sheet day. Temporary differences concern the different asset pricing and obligations for tax purposes and balance. Assets on account of the income tax are being included if it is probable, that in the future a taxable income is gained which will enable using temporary differences. Deferred income tax assets are also recognized from tax losses deductible in the next years.

Shares in joint undertakings - joint undertaking means arrangements stipulated in the contract, by virtue of which two or more sides are undertaking the business activity being subject to a joint control. Joint undertakings can have different forms and structures, among others: jointly controlled activity, jointly controlled assets and co-controlled entities.

Jointly controlled activity - the most often it is Agreement of the Consortium concluded with a view to increasing production capacities or acquiring the potential essential for realization/acquiring of determined investment topic (of wider scope of work). The Agreement of the Consortium usually regulates the way of the distribution to partners of the income from sales of shared product/services and all joint expenses. Each partner is using it own tangible assets and has own supplies. Each partner of the undertaking is also incurring own costs, entering into obligations as well as raising funds to finance own activity what results in the occurrence of his own obligations.

Co-controlled entities - it is a joint undertaking which requires establishing the legal person, the partnership or other subject, in which each partner of the undertaking is holding shares. Such an entity is acting on the same principles, as other economic entities, except for the fact that arrangements stipulated in the contract between partners of the undertaking are establishing the co-control over the business activity of the subject. Co-controlled entity is controlling assets of a joint undertaking, entering into obligations, bearing costs and bringing income, concluding a contract in his own name, acquiring financial measures with a view to allocating them for the activity of the joint undertaking. This entity is keeping books, drawing up and submitting financial statements. Every partner is contributing to the co-controlled entity in the form of financial means. The contributions should be included in the accounting records of the partner and in the individual financial statement as investment in the co-controlled entity. The partner is evaluating the share in the co-controlled entity under the equity pick-up method. The partner is stopping applying the equity pick-up method with the moment of ceasing exercising the co-control over the co-controlled entity or significant exerting of influence on such an entity.

Shares in the co-controlled entity categorized as available for the sale are being included according to IFRS 5.

5. Transformation of Financial Statements

Financial Statements of Prochem S.A. for the period from 1 January to 31 December 2011 remains comparable with the data included in Statement for the period from 1 January to 31 December 2010 .