

## **REPORT FOR THE FIRST HALF OF 2016**

### **Contents:**

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

and

- Selected financial data
- Statement of the Management Board

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

## Selected financial data

Revenues from sales and profit expressed in PLN and the statement of cash flows are translated into EURO at the exchange rate set as the arithmetic mean of average exchange rates announced by the Chairman of the National Bank of Poland on the last day of each month and amounted to:

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

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

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

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

Description	Reporting period ended 30 June		Reporting period ended 30 June	
	2016	2015	2016	2015
	In PLN thousands		In EUR0 thousands	
<i>Separate profit and loss account</i>				
Revenues from sales	60 895	62 893	13 901	15 213
Gross (loss)/profit on sales	-18 429	6 798	-4 207	1 644
Results from operating activities	-22 673	2 009	-5 176	486
Before tax profit	-23 603	3 349	-5 388	810
Profit for the period	-21 262	2 347	-4 854	568
Net(loss)profit/diluted )loss(profit) per one share (in PLN/EURO)	-5.46	0.60	-1.25	0.15
<i>Statement of cash flows</i>				
Net cash provided by (used in) operating activities	-14 677	-66	-3 351	-16
Net cash provided by (used in) investing activities	-596	7 512	-136	1 817
Net cash provided by (used in) financing activities	2 083	-804	476	-194
Total cash flows, net	-13 190	6 642	-3 011	1 607
	As at		As at	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
	In PLN thousands		In EUR0 thousands	
<i>Separate statement of financial position</i>				
Total assets	128 917	157 200	29 130	36 888
Total non-current assets	57 740	55 088	13 047	12 927
Total current assets	71 177	102 112	16 083	23 962
Total equity	55 824	83 275	12 614	19 541
Total non-current liabilities	703	729	159	171
Total current liabilities	72 390	73 196	16 357	17 716
Book value per one ordinary share (in PLN/EURO)	14.33	21.38	3.24	5.02
Weighted average number of shares (units)	3 895 000	3 895 000	3 895 000	3 895 000

## **Statement of the Management Board**

### **Statement of the Management Board on the reliability of interim condensed separate financial statements**

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

- interim condensed separate financial statements of PROCHEM S.A for the first half of 2016 and comparable data were prepared according to International Accounting Standard 34 „Interim Financial Reporting”, which was adopted by European Union and reflects in true, fair and clear way its financial position and its financial performance.

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

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

Vice President  
Krzysztof Marczak

Vice President  
Marek Kiersznicki

President of the Management Board  
Jarosław Stępniewski

Warsaw, 31 August 2016

# **INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF PROCHEM S.A.**

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

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

**Separate statement of financial position**

(all amounts in PLN thousands if not stated otherwise)

	Note No.	As at 30 June 2016 (upon audit)	As at 31 December 2015 (under examination)
<b>A s s e t s</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1	1 786	1 542
Intangible assets		331	414
Shares in subsidiaries	2	10 162	10 162
Shares in jointly-controlled entities and in associates	3	4 620	4 810
Deferred tax assets		4 176	1 834
Other financial assets	5	36 665	36 326
<b>Total non-current assets</b>		<b>57 740</b>	<b>55 088</b>
<b>Current assets</b>			
Inventories	6	2 027	5 247
Trade and other receivables	7	58 026	68 856
Other financial assets	8	459	3 569
Other assets	9	7 086	7 671
Cash and cash equivalents		3 579	16 769
<b>Total current assets</b>		<b>71 177</b>	<b>102 112</b>
<b>Total assets</b>		<b>128 917</b>	<b>157 200</b>
<b>E q u i t y a n d l i a b i l i t i e s</b>			
<b>Equity</b>			
Share capital		3 895	3 895
Revaluation reserve		863	859
Retained earnings		51 066	78 521
<b>Total equity</b>		<b>55 824</b>	<b>83 275</b>
<b>Non-current liabilities</b>			
Provisions for retirement and similar benefits		689	715
Other non-current liabilities		14	14
<b>Total non-current liabilities</b>		<b>703</b>	<b>729</b>
<b>Current liabilities</b>			
Current bank loans	10	11 311	9 024
Current loans	11	950	950
Trade payables	12	43 083	47 154
Provisions for current income tax		-	1 361
Other liabilities	13	8 770	3 670
Deferred income	14	8 276	11 037
<b>Total current liabilities</b>		<b>72 390</b>	<b>73 196</b>
<b>Total liabilities</b>		<b>73 093</b>	<b>73 925</b>
<b>Total equity and liabilities</b>		<b>128 917</b>	<b>157 200</b>
Weighted average number of ordinary shares (units)		3 895 000	3 895 000
Book value per one share (in PLN)		14.33	21.38

The Explanatory Notes are an integral part of these condensed interim separate financial statements.

## Separate profit and loss account

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 June 2016 (upon audit)	Period ended 30 June 2015 (upon audit)
Revenues from sales, including:		<b>60 895</b>	<b>62 893</b>
Revenues from sale of services	15	60 212	62 893
Revenues from sale of goods and materials		683	-
Cost of sales, including:		<b>-79 324</b>	<b>-56 095</b>
Cost of services sold	16	-78 650	-56 095
Cost of merchandise and raw materials		-674	-
<b>Gross profit on sales</b>		<b>-18 429</b>	<b>6 798</b>
General and administrative expenses	16	-4 429	-4 090
Other operating income	17	201	241
Other operating expenses	18	-16	-940
<b>Results from operating activities</b>		<b>-22 673</b>	<b>2 009</b>
Financial income	19	457	2 001
Finance costs	20	-1 387	-661
<b>Before tax profit</b>		<b>-23 603</b>	<b>3 349</b>
Income tax expense :		-2 341	1 002
- current tax		1	1 640
- deferred tax		-2 342	-638
<b>Profit for the period</b>		<b>-21 262</b>	<b>2 347</b>

Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Profit-diluted profit per one ordinary share (in PLN per one share)	-5.46	0.60

## Separate statement of comprehensive income

<b>Profit for the period</b>	<b>-21 262</b>	<b>2 347</b>
<b>Other comprehensive income (net):</b>	<b>4</b>	<b>-232</b>
<i>Other comprehensive income that will be reclassified to profit or loss:</i>	<b>4</b>	<b>-232</b>
Foreign exchange differences from the translation of the entity operating abroad	4	-232
<b>Total comprehensive income</b>	<b>-21 258</b>	<b>2 115</b>
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Total comprehensive income per ordinary share (in PLN per one share)	-5.46	0.54

The Explanatory Notes are an integral part of these condensed interim separate financial statements.

**Separate statement of changes in equity**

(all amounts in PLN thousands if not stated otherwise)

	Share capital	Revaluation reserve	Retained earnings	Total equity
<b>The reporting period from 1 January 2016 to 30 June 2016</b>				
<b>As at the beginning of the period (under examination)</b>	<b>3 895</b>	<b>859</b>	<b>78 521</b>	<b>83 275</b>
Net loss of the given period	-	-	-21 262	-21 262
Net other comprehensive income	-	4	-	4
<b>Total comprehensive income</b>	<b>-</b>	<b>4</b>	<b>-21 262</b>	<b>-21 258</b>
Payment of dividend	-	-	-6 193	-6 193
<b>As at the end of the period (upon examination)</b>	<b>3 895</b>	<b>863</b>	<b>51 066</b>	<b>55 824</b>

The reporting period from 1 January 2015 to 30 June 2015

<b>As at the beginning of the period (under examination)</b>	<b>3 895</b>	<b>1 261</b>	<b>73 671</b>	<b>78 827</b>
Net profit of the given period	-	-	2 347	2 347
Net other comprehensive income	-	-232	-	-232
<b>Total comprehensive income</b>	<b>-</b>	<b>-232</b>	<b>2 347</b>	<b>2 115</b>
Payment of dividend	-	-	-1 363	-1 363
<b>As at the end of the period (upon examination)</b>	<b>3 895</b>	<b>1 029</b>	<b>74 655</b>	<b>79 579</b>

The Explanatory Notes are an integral part of these condensed interim separate financial statements.

**Separate statement of cash flows  
for the period from 1 January 2016 to 30 June 2016**

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 June 2016 (upon audit)	Period ended 30 June 2015 (upon audit)
<b>Cash flows – operating activities</b>			
Profit before tax		-23 603	3 349
<b>Total adjustments</b>		<b>10 310</b>	<b>-2 720</b>
Amortization and depreciation	16	486	486
Interest and profit sharing (dividends)		-207	-1 147
(Profit) on disposal of property, plant and equipment		-4	-8
Change in provisions		-135	-305
Change in inventories		3 220	-1 862
Change in receivables and other assets	21	11 367	-3 560
Change in current liabilities, except for borrowings and loans	21	-5 027	3 708
Other adjustments (including change in deferred income)	21	610	-32
<b>Cash provided by (used in) operating activities</b>		<b>-13 293</b>	<b>629</b>
Income tax paid		-1 384	-695
<b>Net cash provided by(used in) operating activities</b>		<b>-14 677</b>	<b>-66</b>
<b>Cash flows – investing activities</b>			
<b>Inflows</b>		<b>101</b>	<b>7 898</b>
Disposal of intangible assets and property, plant and equipment		36	1
Inflows from financial assets in related entities, including:		65	7 897
- dividend received		65	1 003
- repayment of loans granted		-	6 000
- repayment of interest on loans granted		-	894
<b>Outflows</b>		<b>-697</b>	<b>-386</b>
Acquisition of intangible assets and property, plant and equipment		-697	-266
For financial assets in related entities, including:		-	-120
- loans granted		-	-120
<b>Net cash provided by (used in) investing activities</b>		<b>-596</b>	<b>7 512</b>
<b>Cash flows - financing activities</b>			
Proceeds from loans received		2 287	3 000
Other proceeds		-	18
Repayment of loans		-	-3 576
Interest and commission paid		-204	-246
<b>Net cash provided by (used in) financing activities</b>		<b>2 083</b>	<b>-804</b>
Total cash flows, net		-13 190	6 642
<b>Cash and cash equivalents at the beginning of the period</b>		<b>16 769</b>	<b>2 962</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>3 579</b>	<b>9 604</b>

The Explanatory Notes are an integral part of these condensed interim separate financial statements.



## **The Explanatory Notes to semi-annual condensed separate financial statements**

### **1. Notes on adopted accounting principles (policy) and other explanatory notes to financial statements**

#### **1.1. Adopted accounting principles**

##### *Principles of presentation*

Interim condensed separate financial statements of PROCHEM S.A. for the period from 1 January to 30 June 2016 was prepared according to IAS 34 “Interim Reporting”, which was adopted by European Union and Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities (Official Journal of 2009 no. 33, item 259). The financial statements do not contain the information and disclosures required for complete financial statements and should be read together with the financial statements for the financial year ended 31 December 2015.

Interim condensed separate financial statements consists of: statement of financial position, statement of profit and loss, statement of comprehensive income, statement of changes in equity, statement of cash flows and selected explanatory notes.

The interim condensed separate financial statements of PROCHEM S.A. has been prepared assuming a going concern in the foreseeable future.

In connection with net loss of PLN 21,262 thousand, which has been noted in the first half of 2016, and which is linked in main extent with incurring of additional costs as well as with decreasing of a gross margin on the long-term contract implemented in Belarus, what consequently led to the breach of conditions of the loan agreements, as it was described in note 10, appeared the uncertainty as to the possibility of continuing the business of the Company. The Management Board has carried out analysis of own monetary resources, financial assets, available mortgage protections, granted credit limits and possibilities for introduction of program of adapting the operating costs to planned revenues. Despite the breach of conditions of loan agreements the Management does not expect their termination and expects the continuation of financing on the same or similar level for at least the next 12 months. Based on the analysis and measures taken by the Board to reduce costs, in the opinion of the Board, despite the possibility of short-term tensions in the liquidity situation of the Issuer, the principle consisting in assuming a going concern, that was adopted during preparing of interim condensed financial statements is correct. Irrespective of it, in the next twelve months is expected consideration by the court of appeal lodged by PERN SA from the judgment of 22 October 2015, which adjudged an amount of PLN 87 million in favor of a consortium with the participation of the Issuer (including interest for delay in payment). The Issuer's share in this amount is approximately 50% - details are presented in Note 29.

#### **1.2. Seasonality**

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

#### **1.3. The Representation Office**

In 2013 the Company commenced implementation of investment project „Turnkey construction of system for the production of highly purified paraffin, oils, lubricant and cooling greases and pattern material with the expansion of power complex” in Belarus. Therefore, for the period of

**Interim condensed separate financial statements of PROCHEM S.A. as at and for the period of 6 months ended 30 June 2016**

implementation of the project the Representation Office was established. Term of activity of the Representation has been extended to July 29, 2019.

**1.4. Significant accounting policies and changes in IFRS**

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

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

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

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

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

**1.5. Changes in estimates**

In accounting principles that are applied the greatest significance, besides accounting estimates, has the professional judgment of the management, which has an impact on the amounts reported in the financial statements, including those in explanatory notes. Assumptions of such estimates are based on

management's best knowledge in relation to current and future events and actions in different areas of activity. They relate to the valuation of pension benefits, assessing the stage of execution, and the profitability of long-term contracts (gross margin).

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

Lowering of estimated margin in the contract, and the creation of provision for penalties for delays have a significant impact on the financial result in the first half of 2016.

## **1.6. Functional currency and presentation currency of financial statements**

The financial statements is presented in Polish Zloty ('zloty' or 'PLN') which is the functional currency and presentation currency.

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

- the assets and liabilities shall be translated at the closing rate as at the date of statement of financial position,
- revenues and expenses are translated at the average exchange rate determined as the arithmetic mean of average exchange rates for the whole reporting period, and
- arisen exchange differences are recognized in the statement of comprehensive income.

## **1.7. Employment**

In the first half of 2016 average employment in PROCHEM S.A. was 241 FTEs, and in the first half of 2015 237 FTEs.

Level of employment in persons in PROCHEM S.A. as at 30 June 2016 was 245, and as at 31 December 2015 250.

## **2. Other explanatory notes**

### ***Note No. 1 – property, plant and equipment***

	As at 30 June 2016	As at 31 December 2015
Property, plant and equipment, including:	1 430	1 521
- land	172	172
- buildings, premises and civil engineering objects	82	124
- machinery and equipment	555	582
- vehicles	18	27
- other fixed assets	603	616
Construction under progress	356	21
<b>Total property, plant and equipment</b>	<b>1 786</b>	<b>1 542</b>
<b>PPE – ownership structure</b>	<b>As at 30 June 2016</b>	<b>As at 31 December 2015</b>
a) own	1 786	1 542
<b>Total property, plant and equipment</b>	<b>1 786</b>	<b>1 542</b>

*Interim condensed separate financial statements of PROCHEM S.A. as at and for the period of 6 months ended 30 June 2016*

	Change in PPE from 1 January 2016 to 30 June 2016	Change in PPE from 1 January 2015 to 31 December 2015
<b>Gross value</b>		
<b>As at opening balance sheet</b>	<b>11 067</b>	<b>10 740</b>
increase (due to)	665	527
- acquisition	330	527
- PPE under construction	335	-
decrease (due to)	-236	-200
- sale	-13	-125
- liquidation	-215	-7
- other changes	-8	-68
<b>Gross value at closing balance sheet</b>	<b>11 496</b>	<b>11 067</b>
<b>Depreciation and impairment</b>		
<b>Accumulated depreciation – as at opening balance sheet</b>	<b>9 525</b>	<b>8 763</b>
- increase – depreciation for the period	405	892
- decrease due to sale	-5	-127
- decrease due to liquidation	-215	-3
<b>Accumulated depreciation as at closing balance sheet</b>	<b>9 710</b>	<b>9 525</b>
<b>PPE net – as at closing balance sheet</b>	<b>1 786</b>	<b>1 542</b>

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.

The fair value as at 30 June 2016 which was recognized in the books remained at the level of valuation at the date of 31 December 2014, which was set based on valuation made by independent experts, not associated with the Company. Pursuant to the Accounting Policy adopted by the Company, fair value is determined with sufficient frequency in order that the carrying amount did not significantly differ from fair value, but not seldom than once every two years. The experts have the right qualifications to carry out valuations of land, buildings and structures, as well as current experience in such valuations carried out in locations where there are assets of the Company.

*Note No. 2 – shares in subsidiaries*

Shares in subsidiaries	As at 30 June 2016	As at 31 December 2015
in subsidiaries	10 162	10 162
<b>Shares, net value</b>	<b>10 162</b>	<b>10 162</b>
Write-downs of financial fixed assets	160	160
<b>Shares, gross value</b>	<b>10 322</b>	<b>10 322</b>

*Note No. 3 – Shares in jointly-controlled entities and associated entities*

Shares in jointly-controlled entities and associated entities	As at 30 June 2016	As at 31 December 2015
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*Interim condensed separate financial statements of PROCHEM S.A. as at and for the period of 6 months ended 30 June 2016*

- shares – net value	4 620	4 810
- write-down of shares	590	400
Shares, gross value	5 210	5 210

**Change in write-downs of shares in jointly-controlled entities and in associated entities**

	from 1 January 2016 to 30 June 2016	from 1 January 2015 to 31 December 2015
As at the beginning of the period	400	1 498
Increase, write-down of shares in associated entity	190	400
Decrease, release of write-down of shares in subsidiaries, which was set in the previous periods	-	1 498
As at the end of the period	590	400

**Note No. 4 – Effective tax rate**

	from 1 January 2016 to 30 June 2016	from 1 January 2015 to 31 December 2015
<b>Establishing of effective tax rate</b>		
(in PLN thousands)		
Profit for the period	-21 262	6 213
Income tax expense	-2 341	2 133
Before tax profit	-23 603	8 346
Income tax at the applicable rate of 19 %	-4 485	1 586
Non-tax revenues	684	-2
Non tax-deductible expenses	251	558
Tax loss achieved outside the territory of the Republic of Poland, to which tax asset was not created	1 204	-
Other	5	-9
<b>Income tax</b>	<b>-2 341</b>	<b>2 133</b>

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

Other financial assets	As at 30 June 2016	As at 31 December 2015
a) from subsidiaries, jointly-controlled and associated :	36 665	36 326
- non-current loans granted	36 665	36 326
<b>Total other financial assets</b>	<b>36 665</b>	<b>36 326</b>

**Loans granted – as at 30 June 2016**

- Loans granted to jointly-controlled company Irydion Sp. z o. o. seated in Warsaw:
  - in the amount of PLN 11 817 thousand, including: amount of the loan granted PLN 11 000 thousand, accrued interest as at the balance sheet date amounts to PLN 817 thousand. The interest rate is set annually according to WIBOR 6M, repayment date 22 September 2031.
  - in the amount of PLN 6 325 thousand, including: amount of the loans granted PLN 6 000 thousand, accrued interest as at the balance sheet date amounts to PLN 325 thousand. The interest rate is set at fixed rate of 3% per annum, repayment date 22 September 2031.
- Loans granted to subsidiary Prochem Inwestycje Sp. z o. o.
  - in the amount of PLN 3 621 thousand, including: amount of the loan PLN 3 000 thousand, accrued interest PLN 621 thousand. The interest rate is set annually according to WIBOR 6M in force at the end of each calendar year, repayment date 31 December 2018;

*Interim condensed separate financial statements of PROCHEM S.A. as at and for the period of 6 months ended 30 June 2016*

- in the amount of PLN 14 902 thousand, including: amount of the loan PLN 14 000 thousand, accrued interest PLN 902 thousand. The interest rate is set annually according to WIBOR 6M in force at the end of each calendar year, repayment date 31 December 2018.

**Increase:**

- Accrued interest on loans granted to:
  - 1) Jointly-controlled company Irydion Sp. z o. o. - PLN 187 thousand,
  - 2) subsidiary Prochem Inwestycje Sp. z o. o. – PLN 152 thousand.

**Loans granted – as at 31 December 2015**

- Loans granted to jointly-controlled company Irydion Sp. z o. o. seated in Warsaw:
  - in the amount of PLN 11 720 thousand, including: amount of the loan PLN 11 000 thousand, accrued interest PLN 720 thousand. The interest rate is set annually according to WIBOR 6M, repayment date of the loan with interest 22 September 2031;
  - in the amount of PLN 6 235 thousand, including: amount of the loan PLN 6 000 thousand, accrued interest PLN 235 thousand. The interest rate is set annually at a rate of 3% per annum, repayment date of the loan with interest 22 September 2031.
- Loans granted to subsidiary Prochem Inwestycje Sp. z o. o.:
  - in the amount of PLN 3 594 thousand, including: amount of the loan PLN 3 000 thousand, accrued interest PLN 594 thousand. The interest rate is set annually according to WIBOR 6M in force at the end of each calendar year, repayment date of the loan with interest 31 December 2018;
  - in the amount of PLN 14 777 thousand, including: amount of the loans 14 000 thousand, accrued interest PLN 777 thousand. The interest rate is set annually according to WIBOR 6M in force at the end of each calendar year, repayment date of the loan with interest 31 December 2018.

**Note No. 6 – Inventories**

	As at 30 June 2016	As at 31 December 2015
Materials	2 027	5 247
<b>Inventories net, total</b>	<b>2 027</b>	<b>5 247</b>
Write-down	285	285

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

	As at 30 June 2016	As at 31 December 2015
Trade receivables, including:	58 559	69 988
Write-down of trade receivables	-5 863	-5 945
<b>Net trade receivables, including:</b>	<b>52 696</b>	<b>64 043</b>
- with the repayment period up to 12 months	51 369	62 302
- with the repayment period over 12 months	1 327	1 741
<b>Receivables from taxes, subsidies, custom duties, social and health insurance and other benefits</b>	<b>5 132</b>	<b>4 759</b>
Other receivables	594	450
Write-down of other receivables	-396	-396
<b>Net other receivables</b>	<b>198</b>	<b>54</b>
<b>Receivables net, total</b>	<b>58 026</b>	<b>68 856</b>
<b>Trade and other receivables from related entities</b>	<b>As at 30 June 2016</b>	<b>As at 31 December 2015</b>

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Trade receivables:	8 611	9 098
- from subsidiaries	1 167	1 666
- from associated entities and jointly-controlled entities	7 444	7 432
<b>Current trade and other receivables from related entities net, total</b>	<b>8 611</b>	<b>9 098</b>
Write-downs of receivables from related entities	-	-
<b>Current trade and other receivables from related entities gross, total</b>	<b>8 611</b>	<b>9 098</b>

<b>Change in write-downs of trade and other receivables</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
As at the beginning of the period	6 341	5 515
a) increase (due to)	15	1 107
- write-downs for receivables	15	1 107
b) decrease (due to)	97	281
- payments received	97	275
- the use of provisions created in the previous periods	-	6
<b>Write-downs of current trade and other receivables at the end of the period</b>	<b>6 259</b>	<b>6 341</b>

As at 30 June 2016 and as at 31 December 2015, trade receivables include the security deposits under statutory warranty for construction and assembly works, respectively in the amounts of PLN 20 852 thousand and 22 014 thousand.

On 30 June 2016 the outstanding balance of trade receivables includes receivables overdue with a carrying amount of 17 364 thousand from security deposit under the statutory warranty, to which the Company did not create write-downs. The Issuer believes that these receivables are recoverable as described in note 29–*Information on significant proceedings pending before the court.*

**Note No. 8 – Other financial assets**

	<b>As at 30 June 2016</b>	<b>As at 31 December 2015</b>
a) from subsidiaries indirectly and directly:	-	845
- current loans granted	-	845
b) from other entities:	198	198
- current loans granted	198	198
c) other financial assets- discounted the security deposit constituting the collateral of a bank guarantee of return of advance payment	261	2 526
<b>Total other financial assets</b>	<b>459</b>	<b>3 569</b>
Write-downs of other financial assets	207	207
<b>Gross other financial assets</b>	<b>666</b>	<b>3 776</b>

**Loans granted - as at 30 June 2016**

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

**Increase**

- The charging of interest on loans granted to the company Elektromontaż Krakow SA in the amount of PLN 6 thousand.

**Decrease**

- Offsetting of the loan granted to Elektromontaż Krakow SA with interest in the amount of PLN 851 thousand, including the loan amount 842 thousand. zł, with the obligations arising from supplies and services.

**Loans granted - as at 31 December 2015**

- Loan granted to the Civil Committee of Building of the Cardiologic Hospital of the name of Marshal Józef Piłsudski in Warsaw PLN 198 thousand, including: amount of the loan PLN 133 thousand, accrued interest PLN 65 thousand, interest rate set at the statutory rate, repayment date 30 June 2008. Receivables secured by a mortgage on the right of perpetual usufruct of the land under land register – KW No. 136324.
- Loans granted to subsidiary Elektromontaż Kraków S.A. seated in Kraków:
  1. Loan in the amount of PLN 243 thousand, including amount of the loan PLN 242 thousand, accrued interest PLN 1 thousand, the interest rate is set according to WIBOR 1M in force at the end of each calendar year, repayment date 30 June 2016.
  2. Loan in the amount of PLN 602 thousand, including amount of the loan PLN 600 thousand, accrued interest PLN 2 thousand, the interest rate is set according to WIBOR 1M in force at the end of each calendar year, repayment date 30 June 2016.

**Note No. 9 – Other assets**

Other assets (by type)	As at 30 June 2016	As at 31 December 2015
a) prepayments	1 004	836
- cost of property and personal insurance	332	192
- software maintenance costs	632	592
- other	40	52
b) other prepayments	6 082	6 835
- amounts due from the ordering parties under long-term contracts	6 082	6 835
<b>Total other assets</b>	<b>7 086</b>	<b>7 671</b>

In the position - other prepayments - are recognized amounts due from contracting parties under long-term contracts, which are measured in accordance with IAS 11.

**Note No. 10 – Current bank loans**

	As at 30 June 2016	As at 31 December 2015
Loans	11 311	9 024

Information on bank loans:

Name of the bank	Registered office	Amount of a loan acc. to agreement (in PLN thousands)	The loan amount to be repaid (in PLN thousands)	Terms of interest	Repayment date	Security
mBank SA	Warsaw	6,000 Credit in overdraft	2 498	WIBOR for O/N deposits in PLN + margin	30 June 2017	Promissory note in blank
mBank S.A.	Warsaw	6,000	6 000	WIBOR for 1 month	30 June 2017	Promissory note



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		Revolving working capital loan		deposits in PLN + margin		in blank
ING Bank Śląski S.A.	Katowice	3,000 Credit in overdraft	2 813	WIBOR for 1 month deposits in PLN + margin	14 November 2016	Statement of submission to execution

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

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

**Note No.11 – Current loans**

	As at 30 June 2016	As at 31 December 2015
Current loans granted by related entities	950	950

**Note No. 12 – Trade payables**

	As at 30 June 2016	As at 31 December 2015
a) to subsidiaries	3 786	2 799
- for supplies and services with maturity:	3 786	2 799
- up to 12 months	3 332	2 467
- more than 12 months	454	332
b) to jointly-controlled entities and associated entities	-	16
- for supplies and services, with maturity:	-	16
- up to 12 months	-	16
c) to other entities	39 297	44 339
- for supplies and services, with maturity:	39 297	44 339
- up to 12 months	35 555	41 768
- more than 12 months	3 742	2 571
<b>Total trade payables</b>	<b>43 083</b>	<b>47 154</b>

**Note No. 13 – Other liabilities**

	As at 30 June 2016	As at 31 December 2015
a) to other entities	7 084	882
- due to taxes, duties, insurance and other benefits	868	837
- due to remuneration	18	18
- other (by type)	6 198	27
- liabilities to employees	-	16
- liabilities to shareholders	6 195	2
- liability under the transformation against payment of perpetual usufruct right to right of ownership	3	3

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- other liabilities	-	6
b) other current provisions	1 686	2 788
- provision for losses on contracts	323	385
- provision for future costs	-	993
- cost of audit	35	72
- current provision for retirement benefit	83	83
- provision for unused annual leaves	1 245	1 255
<b>Total other liabilities</b>	<b>8 770</b>	<b>3 670</b>

**Note N. 14 – Deferred income**

	As at 30 June 2016	As at 31 December 2015
Deferred income, including:	8 276	11 037
- deferred income – advance payments received	386	6 183
- amounts due to the ordering parties under long-term contracts	7 890	4 854
<b>Deferred income at the end of the period, including:</b>	<b>8 276</b>	<b>11 037</b>
<b>Non-current liabilities</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>	<b>8 276</b>	<b>11 037</b>

In 2013 the company received an advance for the implementation of an investment project in Belarus in the amount of PLN 30 767 thousand (EURO 7 230 thousand). Amount of the advance payment was recognized in deferred income and is settled against invoices issued for completed services and supplies. As at 30 June 2016 amount of unsettled advance payment was PLN 386 thousand (EURO 90,9 thousand).

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

Revenues from sale of services (type of service and type of activity)	Period ended 30 June 2016	Period ended 30 June 2015
- revenue from sale of services, including:	<b>60 212</b>	<b>62 893</b>
- from related entities, including:	12 784	10 081
• subsidiaries	96	538
• jointly-controlled entities	12 688	9 543
Revenues from sale of services (territorial structure)	Period ended 30 June 2016	Period ended 30 June 2015
Domestic market	51 463	27 159
- including from related entities	12 784	10 081
Exports	8 749	35 734

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

Gross amount due from ordering parties/buyers concerning works under the contracts was presented in Note No. 7.

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

**Note No. 16 – Cost of services**

	Period ended 30 June 2016	Period ended 30 June 2015
a) amortization and depreciation	486	486

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b) consumption of materials and energy	867	1 918
c) outsourcing	68 060	44 315
d) taxes and levies	27	123
e) remuneration	10 727	10 547
f) social security and other benefits	2 189	1 998
g) other types of costs (by category), including:	2 169	2 255
- property and personal insurance	467	512
- business trips	336	234
- State Fund for Rehabilitation of Disabled Persons (PFRON)	104	120
- other	1 262	1 389
<b>Total costs by type</b>	<b>84 525</b>	<b>61 642</b>
Change in inventories, products and accruals and prepayments	-1 446	-1 457
General and administrative expenses (negative value)	-4 429	-4 090
<b>Cost of services</b>	<b>78 650</b>	<b>56 095</b>

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

	<b>Period ended 30 June 2016</b>	<b>Period ended 30 June 2015</b>
a) gain on sale of non-financial non-current assets	4	8
b) grants	-	70
c) reversal of impairment allowance (due to)	98	153
- for receivables	98	153
d) other, including:	99	10
- reimbursement of costs of legal representation	8	2
- revenues from cars rental	4	-
- received compensation, fines and penalties	61	-
- other	26	8
<b>Total other operating income</b>	<b>201</b>	<b>241</b>

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

	<b>Period ended 30 June 2016</b>	<b>Period ended 30 June 2015</b>
a) impairment allowance	16	867
- for receivables	16	867
b) other, including:	-	73
- litigation costs	-	51
- other	-	22
<b>Total other operating expenses</b>	<b>16</b>	<b>940</b>

**Note No. 19 – Financial income**

	<b>Period ended 30 June 2016</b>	<b>Period ended 30 June 2015</b>
a) income from dividends and profit sharing	65	1 003
- from subsidiaries	65	1 003
b) interest on granted loans	346	390
- from subsidiaries	158	203
- from jointly-controlled entities and associated entities	188	187

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c) other interest	46	10
- from other entities	46	10
d) surplus of foreign exchange gains	-	503
e) other, including:	-	95
- income under settlement of discount of financial assets	-	95
<b>Total financial income</b>	<b>457</b>	<b>2 001</b>

**Note No. 20 – Finance costs**

	Period ended 30 June 2016	Period ended 30 June 2015
a) interest on bank loans	152	166
a) interest on loans	-	14
- for related entities	-	14
b) other interest	-	13
- for other entities	-	13
c) surplus of foreign exchange losses	821	-
d) other, due to :	414	468
- commissions on bank guarantees	172	209
- commissions on loans	52	66
- costs under discounted flows	-	193
- write down of shares in associated company	190	-
<b>Total finance costs</b>	<b>1 387</b>	<b>661</b>

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

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

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

	In 2016	In 2015
<b>Change in current receivables</b>	<b>11 367</b>	<b>-3 560</b>
Trade and other receivables as at 1 January	68 856	59 810
Other assets as at 1 January	7 671	4 433
Receivables for sale of non-current assets	-45	-47
Receivables under income tax	-497	-396
<b>Opening balance sheet after adjustments</b>	<b>75 985</b>	<b>63 800</b>
Trade and other receivables as at 30 June	58 026	60 259
Other assets as at 30 June	7 086	7 155
Receivables for sale of non-current assets	-21	-54
Receivables under income tax	-473	-
<b>Closing balance sheet after adjustments</b>	<b>64 618</b>	<b>67 360</b>
<b>Change in current liabilities (except for borrowings, loans and special funds)</b>	<b>-5 027</b>	<b>3 708</b>
Trade payables as at 1 January	47 154	25 416
Other liabilities as at 1 January	3 670	4 100
Provision for retirement benefit obligations	-83	-40
Provision to unused annual leaves	-1 255	-1 173
Provision to audit of statements	-72	-60

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Provision to other costs	-385	-431
Investment commitments	-46	-431
Liabilities under discount of non-current liabilities	249	249
Liabilities to shareholders	-3	-2
<b>Closing balance sheet after adjustments</b>	<b>49 230</b>	<b>28 059</b>
Trade payables as at 30 June	43 083	31 218
Other liabilities as at 30 June	8 770	3 256
Provision for retirement benefit obligations	-83	-27
Provision to unused annual leaves	-1 245	-1 150
Provision to audit of statements	-35	-35
Provision to other costs	-323	-187
Investment commitments	-18	-193
Liabilities under discount of non-current liabilities	249	249
Liabilities to shareholders	-6 195	-1 364
<b>Closing balance sheet after adjustments</b>	<b>44 203</b>	<b>31 767</b>

<b>Change in other adjustments as at 30 June</b>	<b>610</b>	<b>-32</b>
Change in deferred income – advances received	-5 798	-3 366
Change in deferred income in respect of the amounts due to ordering parties under long-term contracts	3 036	1 461
Change in - the security deposit constituting the collateral of a bank guarantee of reimbursement of advance payment*)	2 265	1 739
Offsetting of loans granted to the company Elektromontaż Krakow SA with trade obligations	852	-
Other	255	134

\*) In connection with the implementation of the investment project in Belarus, the Company in order to secure the return of received advance payment has granted a bank guarantee of advance refund to the amount of EURO 7,230 thousand. As the security of the guarantee, the Company, under a contract concerning a security deposit in cash, has placed a deposit in the bank to the amount of EURO 2,191 thousand. The deposit shall be reduced by the amounts settled during the implementation of the project, as at 30 June 2016 amounts to EURO 61 thousand. As at 30 June 2016 the part of the security deposit - which was not accounted for and discounted was presented in the statement of financial position in the position of other current financial assets in the amount of PLN 261 thousand (Note No. 8).

**Note No. 22– Operating segments**

Assets of the Representation Office in Belarus as at 30 June 2016 and as at 31 December 2015 do not exceed 10% of balance sheet amount.

Revenues from activities achieved abroad (exports) in the period from 1 January 2016 to 30 June 2016 amounted to PLN 9 432 thousand (i.e. 15.5% of revenues from sale), in the analogous period of the previous year revenues amounted to PLN 35 734 thousand (i.e. 56.8% of revenues from sale).

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

- Belarusian client – revenues in the amount of PLN 8 749 thousand, what represents 14.4% of total sales revenues, which were shown in the segment of „General contracting”.
- Irydion Sp. z o. o. jointly-controlled company – revenues in the amount of PLN 12 688 thousand, what represents 20.8% of total sales revenues, which were shown in the segment of „General contracting” and „Design services and other engineering services”.
- Production plant for UTC Aerospace Systems for civil and military aircraft – revenues in the amount of PLN 17 534 thousand, what represents 28.8% of total sales revenues, which were

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shown in the segment „General contracting” and „Design services and other engineering services”.

Detailed data on the activities of PROCHEM S.A. in particular segments are presented in the following tables. Analysis of the revenues and results of the Company in the different segments which are covered by reporting is presented below in the following tables..

<b>For the period From 1 January 2016 to 30 June 2016</b>	<b>General contracting</b>	<b>Design services and other engineering services</b>	<b>Rental of construction equipment</b>	<b>Other</b>	<b>Items not assigned</b>	<b>Total</b>
Revenues to external customers	48 031	10 842	1 556	466	-	60 895
<b>Total revenues of the segment</b>	<b>48 031</b>	<b>10 842</b>	<b>1 556</b>	<b>466</b>	<b>-</b>	<b>60 895</b>
<b>Result of the segment</b>	<b>-19 754</b>	<b>-3 422</b>	<b>528</b>	<b>-210</b>	<b>-</b>	<b>-22 858</b>
Financial income	-	-	-	-	457	457
Finance costs	-	-	-	-	-1 387	1 387
Net financial income	-	-	-	-	-930	-930
Profit(loss) on other operating activities	-	-	-	-	185	185
Before tax profit	-	-	-	-	-23 603	-23 603
Income tax	-	-	-	-	-2 341	-2 341
<b>Net profit(loss) for the current period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-21 262</b>	<b>-21 262</b>
<b>Assets as at 30 June 2015</b>						
Assets of the segment ( related to activities)	47 032	4 754	799	417	-	53 002
Assets not assigned/unallocated (among others shares, stocks and other financial assets)	-	-	-	-	75 915	75 915
<b>Total assets</b>	<b>47 032</b>	<b>4 754</b>	<b>799</b>	<b>417</b>	<b>75 915</b>	<b>128 917</b>
Depreciation of property, plant and equipment	10	55	50	288	-	403
Amortization of intangible assets	-	-	-	-	83	83
Write-down of segment assets (receivables from supplies and services)	-114	-369	-5 010	-370	-	-5 863
<b>For the period From 1 January 2015 to 30 June 2015</b>						
	<b>General contracting</b>	<b>Design services and other engineering services</b>	<b>Rental of construction equipment</b>	<b>Other</b>	<b>Items not assigned</b>	<b>Total</b>
Revenues to external customers	49 094	12 329	766	704	-	62 893
<b>Total revenues of the segment</b>	<b>49 094</b>	<b>12 329</b>	<b>766</b>	<b>704</b>	<b>-</b>	<b>62 893</b>
<b>Result of the segment</b>	<b>4 328</b>	<b>-1 551</b>	<b>16</b>	<b>-85</b>	<b>-</b>	<b>2 708</b>
Financial income	-	-	-	-	2 001	2 001
Finance costs	-	-	-	-	661	661
Net financial income	-	-	-	-	1 340	1 340
Loss on other operating activities	-	-	-	-	-699	-699
Before tax profit	-	-	-	-	3 349	3 349
Income tax	-	-	-	-	1 002	1 002
<b>Net profit for the current period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 347</b>	<b>2 347</b>
<b>Assets as at 30 June 2015</b>						
Assets of the segment ( related to activities)	59 987	4 936	527	1 657	-	67 107
Assets not assigned/unallocated (among others shares, stocks and other financial assets)	-	-	-	-	76 745	76 745
<b>Total assets</b>	<b>59 987</b>	<b>4 936</b>	<b>527</b>	<b>1 657</b>	<b>76 745</b>	<b>143 852</b>
Depreciation of property, plant and equipment	24	208	44	163	-	439

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Amortization of intangible assets	-	-	-	-	47	47
Write-down of segment assets (receivables from supplies and services)	-93	-369	-4 958	-407	-	-5 827

**Information about the geographical areas**

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

	<b>1 January - 30 June 2016</b>	<b>1 January - 30 June 2015</b>
Poland	51 463	27 159
Belarus	9 432	35 734
<b>Total sales revenues</b>	<b>60 895</b>	<b>62 893</b>

Geographical breakdown of property, plant and equipment and intangible assets

	<b>30 June 2015</b>	<b>31 December 2015</b>
Poland	1 968	1 795
Belarus	149	161
<b>Total property plant and equipment and intangible assets</b>	<b>2 117</b>	<b>1 956</b>

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

	<b>As at 30 June 2016</b>	<b>As at 31 December 2015</b>
<b>Collateral granted</b>		
Bank guarantee of good performance and statutory warranty	23 444	11 592
Tender guarantee	35	60
Payment guarantee	852	852
Guarantee of return of advance payment	898	4 115
<b>Total collateral granted</b>	<b>25 229</b>	<b>16 619</b>
<b>Contingent liabilities</b>		
Surety of promissory notes issued by subsidiary PRO-INHUT Sp. z o. o. seated in Dąbrowa Górnicza for the benefit of investor in order to secure the claims of a good execution	247	247
Letters of Credit	-	3 564
<b>Total collateral granted and contingent liabilities</b>	<b>25 476</b>	<b>20 430</b>

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

Contingent receivables from PERN described in Note No. 29.

**Note No. 24 - Distribution of profit**

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

- for the dividend the amount of PLN 6 193 050.00;

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- to the reserve capital the amount of PLN 19 996.33.

**Note No. 25 - dividends**

From the profit for 2015, the Issuer has allocated for payment of dividend amount of PLN 6 193 050.00. Dividend payment date was set for July 15, 2016.

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

**Financial assets**

As at 30 June 2016 (in PLN thousands)	Categories of financial instruments		
	Note No.	Loans, receivables and other	Total
<b>Classes of financial instruments</b>			
Receivables from supplies and services	7	52 696	52 696
Cash		3 579	3 579
Other financial assets – discounted the security deposit constituting the collateral of a bank guarantee of reimbursement of advance payment	8	261	261
Loans granted	5, 8	36 863	36 863
<b>Total</b>		<b>93 399</b>	<b>93 399</b>

As at 31 December 2015 (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	64 043	64 043
Cash		16 769	16 769
Other financial assets – discounted the security deposit constituting the collateral of a bank guarantee of reimbursement of advance payment	8	2 526	2 526
Loans granted	5, 8	37 369	37 369
<b>Total</b>		<b>120 707</b>	<b>120 707</b>

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

**Financial liabilities**

As at 30 June 2016 (in PLN thousands)	Categories of financial instruments		
	Note No.	Financial liabilities measured at amortized cost	Total
<b>Classes of financial instruments</b>			
Loans	10	11 311	11 311
Borrowings	11	950	950
Trade payables	12	43 083	41 829
Other liabilities under dividend	13	6 195	6 195
<b>Total</b>		<b>61 539</b>	<b>61 539</b>

As at 31 December 2015	Categories of financial instruments		
<b>Prochem S.A.</b>			
<b>Report for the first half of 2016</b>			



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(in PLN thousands)	Note No.	Financial liabilities measured at amortized cost	Total
<b>Classes of financial instruments</b>			
Loans	10	9 024	9 024
Borrowings	11	950	950
Trade payables	12	47 154	47 154
<b>Total</b>		<b>57 128</b>	<b>57 128</b>

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

***Liquidity risk connected with the concentration of sales revenues***

In the first half of 2016 PROCHEM S.A. realized sales revenues in the amount of PLN 60 895 thousand, including PLN 8 749 thousand (14.4%) concerned the revenues realized on a contract with the Customer from Belarus. Accordingly, the Group disclosed in the statement of financial position the following financial instruments related to the above Client.

Classes of financial instruments	As at 30 June 2016	% share in total assets	As at 31 December 2015	% share in total assets
<b>Financial assets</b>				
Receivables from supplies and services	3 283	2.5%	9 435	6.0%
Other financial assets (discounted the security deposit constituting collateral for a bank guarantee of repayment of advance payment)	261	0.2%	2 526	1.6%
<b>Total financial assets</b>	<b>3 544</b>	<b>2.7%</b>	<b>11 961</b>	<b>7.6%</b>
<b>Financial liabilities</b>				
Payables	11 646	9.0%	20 365	12.9%
<b>Total financial liabilities</b>	<b>11 646</b>	<b>9.0%</b>	<b>20 365</b>	<b>12.9%</b>

***Note No. 27 - Related party transactions***

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

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

In the first half of 2016, the key management personnel and persons related to key management personnel apart from the salary, have not concluded any kind of transactions with the Issuer.

***Remuneration of the key management personnel***

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

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

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

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Transactions with related entities, as below, 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 receivables, trade payables and financial liabilities. Guarantees and sureties granted to related entities are presented in note 23.

**The reporting period**  
(in PLN thousands)

**from 1 January to 30 June 2016**

	Sale of services	Purchase of services	Financial revenues – interest on loans	Financial revenues - dividends received
subsidiaries	96	5 652)*	158	65
Jointly-controlled entities and associated entities	13 163)**	-	188	-

)\* - including purchased electrical services and the supply of electrical equipment from a subsidiary company Elektromontaż Kraków S.A. in the amount of PLN 5 488 thousand.

)\*\* - sale of services totally relate to revenues from the jointly-controlled company Irydion Sp. z o. o. in Warsaw, on whose behalf is implemented investment project under the name of "Astrum Business Park" in Warsaw.

**On 30 June 2016**

	Trade receivables	Receivables under loans granted	Trade payables
subsidiaries	1 167	18 523	3 785
Jointly-controlled entities and associated entities	7 444	18 142	187

**The comparative period**  
(in PLN thousands)

**From 1 January to 30 June 2015**

	Sale of services	Purchase of services	Financial revenues – interest on loans	Financial revenues – dividends received	Finance costs – interest on loans
subsidiaries	538	2 830	203	1 003	14
Jointly-controlled entities and associated entities	9 543	-	187	-	-

**on 30 June 2015**

	Trade receivables	Receivables under loans granted	Trade payables
subsidiaries	4 103	20 029	1 497
Jointly-controlled entities and associated entities	1 681	17 767	7

***Note No. 28 – Events after reporting date***

The Issuer (Borrower) on July 8, 2016, signed a loan agreement with the company Elmont Investments Sp. o. o. (Lender) for the amount of PLN 6 000 thousand. The interest rate on the borrowing was set at WIBOR 6M plus margin. The repayment date was set until 30 June 2017.

***Note No. 29 – Information on significant proceedings pending before the court***

PROCHEM S.A. continues to be a party to the proceedings before the court concerning the settlement of the contract which was interrupted on 10 November 2005, for the construction management of an investment project under the name "Pipeline in a section from the ST- 1 Adamowo - to raw material base Plebanka" concluded with PERN S.A. PROCHEM S.A. filed a lawsuit to the court for payment of PLN 41, 301 thousand under the final settlement of the contract, of which PLN 17,364 thousand is recognized in the statement of financial position as a receivable from seized guarantee deposit, and the remaining amount is the contingent receivable. On 18 January 2008 District Court in Warsaw issued a judgment in this case considering claim of PROCHEM S.A. as to be right in principle, while stating that this obligation is not yet due.

On 26 August 2008 the Court of Appeal in Warsaw issued a final judgment on the appeal lodged by PROCHEM S.A. from the a/m judgment of the District Court, recognizing in it that the claim filed by PROCHEM S.A. regarding accounting for the contract is not premature, and at the same time has ordered that the District Court will make the accounting for the contract mentioned above pursuant to the provisions of the contract. This finding is in compliance with position in a case of PROCHEM S.A.

On 12 August 2010 the hearing was held before the District Court in Warsaw, where the Court decided to appoint an expert- Warsaw University of Technology – Department of Civil Engineering, who according to the recommendations of Court of Appeal will make an ultimate accounting for in relation to the disputed contract. In April 2011, the case file was forwarded to the expert witness, who in an opinion published in May 2012 confirmed the amount of the claim of PROCHEM S.A. By order of May 31, 2012, the District Court granted the Warsaw University of Technology a remuneration for opinion in the case, in relation to which the defendant PERN lodged a complaint. According to PERN SA the prepared opinion could not be the basis of the findings of facts of the case for the Court, because it is contrary to the thesis of the Court in which was determined the basis and scope of the opinion.

The Court of Appeal in Warsaw, I Civil Division has cancelled the decision of the District Court which was contested by PERN SA and the request for remuneration of an expert for the drafting of an opinion has submitted to the District Court for reconsideration.

On 5 February 2013 before the District Court in Warsaw, a hearing was held with the participation of experts, after which the court decided to oblige the parties to submit the pleadings in which the final the final conclusions of evidence to complement the expert opinions will be clarified, and postponed the hearing until 16 May 2013.

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

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

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

the contract. In November 2013 the experts appointed by the court have started the work associated with the preparation of the supplementary opinion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

##### ***Statement of changes in the shareholding of the issuer or rights to them (options) by the managing persons and by the supervisory authorities of the issuer, according to issuer's knowledge Statement of changes in the shareholding of the issuer***

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

- Jarosław Stępniewski – 80,943 units
- Marek Kiersznicki – 70,393 units
- Krzysztof Marczak – 43,700 units

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- Andrzej Karczykowski – 115,186 units
- Marek Garliński – 86,900 units
- Michał Suflida - 48,500 units along with person related.

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

- 1) have been dismissed from the Supervisory Board:
  - Steven Tappan, who holds 510,000 shares of the Company,
  - Wiesław Kiepiel.
- 2) have been appointed to the Supervisory Board:
  - Michał Suflida, who holds 48,500 of shares of the Company along with person related
  - Karol Żbikowski.

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

In the first half of 2016 the Issuer did not advance any loans, sureties and guarantees to related persons.

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

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

In connection with the occurrence of unexpected technical and formal problems in the final stage of construction, as well as on the stage of start-up of the installation for the production of highly purified paraffin, oils and lubricants along with extension of Energy complex, what was implemented under an agreement with Mineral Wax Factory S.A. based in Belarus, in Świsłocz, what is associated with the necessity to shift the time of completion of the execution in the first half of 2016, the Issuer has made significant adjustment of the gross margin in the long-term contract, which was implemented in Belarus. Gross margin as at 31 December 2015 amounted to 16.5%, and as at 30 June 2016 was corrected to 7.2%. As a result of these events, there was an increase in the estimated costs of implementation by approximately PLN 17.3 million, and further increase by an additional PLN 2 million due to possible penalties for delay in execution of the contract. Lowering of the estimated margin in the above mentioned contract as well as resulting from the downturn in the market of construction and of assembly services, the reducing of the number of orders executed by the Issuer have a significant impact on the results of activity in the first half of 2016 which closed with a net loss of PLN 21,3 million.

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

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

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

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

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

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

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

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

**Signature of the person responsible for bookkeeping**

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