

REPORT FOR THE FIRST HALF OF 2014

Contents:

- Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period of six months ended 30 June 2014

and

- Selected financial data
- Statement of Management Board
- Report of Management Board on activities of PROCHEM S.A. Capital Group in the first half of 2014

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PROCHEM S.A.
Powązkowska 44C Street
01-797 Warsaw

Selected financial data

Revenues from sales and profits expressed in PLN and statement of cash flows are translated into EUR at the exchange rate set as the arithmetic mean of average exchange rates announced by the Chairman of national Bank of Poland on the last day of each month and are as follows:

- for the first half of 2014 - 4.1784 PLN/EUR
- for the first half of 2013 - 4.2140 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 the balance sheet date amounted to:

- 4.1609 PLN/EUR as at 30 June 2014
- 4.1472 PLN/EUR as at 31 December 2013

Selected financial data of PROCHEM S.A. Capital Group

Description	Reporting period ended 30 June		Reporting period ended 30 June	
	2014	2013	2014	2013
	in PLN thousands		in EURO thousands	
Consolidated profit and loss account				
Revenues from sales	66 706	62 109	15 964	14 739
Gross profit on sales	10 915	7 021	2 612	1 666
Results from operating activities	3 577	2 156	856	512
Profit (loss) before tax	3 146	1 839	753	436
Profit for the period, assigned to:	2 400	1 426	574	338
Shareholders of parent entity	2 374	1 342	568	318
Minority interest	26	84	6	20
Profit/diluted profit per share (in PLN/EUR) – assigned to shareholders of parent entity	0.61	0.34	0.15	0.08
Consolidated statement of cash flows				
Net cash provided by (used in) operating activities	-7 687	20 817	-1 840	4 940
Net cash provided by (used in) investing activities	-3 456	1 226	-827	291
Net cash provided by (used in) financing activities	7 709	-69	1 845	-16
Total cash flow, net	-3 434	21 974	-822	5 215
Description	As at		As at	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
	in PLN thousands		in EURO thousands	
Consolidated statement of financial position				
Total assets	196 432	189 572	47 209	45 711
Total non-current assets	101 638	104 356	24 427	25 163
Total current assets	94 794	85 216	22 782	20 548
Owners' equity	111 463	107 422	26 788	25 902
Minority interest	9 873	12 337	2 373	2 975
Total equity	121 336	119 759	29 161	28 877
Total non-current liabilities	17 198	24 277	4 133	5 854
Total current liabilities	57 898	45 536	13 915	10 980
Book value per share (in PLN/EUR) – attributable to owners of parent entity	28.62	27.58	6.88	6.65

Weighted average number of ordinary shares (units)	3 895 000	3 895 000	3 895 000	3 895 000
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Statement of the Management Board

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

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

- interim condensed consolidated financial statements of PROCHEM S.A. Capital Group for the first half of 2014 and comparable data were prepared according to International Accounting Standard 34 „Interim Financial Reporting”, which was adopted by European Union and reflect in true, fair and clear way its financial position and its financial performance;
- report of the Management Board on the business activities of PROCHEM S.A. Capital Group for the first half of 2014 presents a true picture of the development and performance and the financial situation of the Group, including a description of the main risks and threats.

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

The Management Board of PROCHEM S.A. declares that KPMG Audit Sp. z o.o. sp. k., the entity authorized to audit financial statements has been appointed in accordance with legal regulations and that the entity and the auditors conducting the audit of interim condensed consolidated financial statements of PROCHEM SA meet the conditions to prepare an impartial and independent report pursuant to the appropriate provisions of the law.

Vice President of Management
Board

Krzysztof Marczak

Vice President of Management
Board

Marek Kiersznicki

President of the Management Board

Jarosław Stępniewski

Warsaw, 29 August 2014

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

As at and for the period ended 30 June 2014

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PROCHEM S.A.
Powązkowska 44C Street
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Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Consolidated statement of financial position as at 30 June 2014

(all amounts in PLN thousands if not stated otherwise)

	Note No.	As at 30 June 2014	As at 31 December 2013
A s s e t s			
Non-current assets			
Property, plant and equipment	1	25 136	25 344
Intangible assets		255	300
Investment properties	2	33 603	33 603
Shares		843	843
Shares in equity-accounted investees	3	23 874	23 970
Deferred tax assets	4	1 779	1 913
Other financial assets	5	16 148	18 383
Total non-current assets		101 638	104 356
Current assets			
Inventories	6	9 094	8 962
Trade and other receivables	7	61 387	49 095
Other financial assets	8	5 720	1 877
Other assets	9	13 778	17 033
Cash and cash equivalents	20	4 815	8 249
Total current assets		94 794	85 216
Total assets		196 432	189 572
E q u i t y a n d l i a b i l i t i e s			
Equity			
Share capital	10	3 895	3 895
Revaluation reserve		11 407	10 954
Retained earnings		96 161	92 573
Owners' equity		111 463	107 422
Non-controlling interest		9 873	12 337
Total equity		121 336	119 759
Non-current liabilities			
Provision for deferred income tax	4	2 690	2 718
Provisions for retirement and similar benefits		1 841	1 844
Deferred income	13	12 097	19 338
Other non-current liabilities		570	377
Total non-current liabilities		17 198	24 277
Current liabilities			
Current bank loans	11	12 621	4 411
Current loans		60	60
Trade payables	12	23 889	26 799
Provisions for current income tax		404	588
Other liabilities		6 067	6 594
Deferred income	13	14 857	7 084
Total current liabilities		57 898	45 536
Total liabilities		75 096	69 813
Total equity and liabilities		196 432	189 572
Weighted average number of ordinary shares (units)		3 895 000	3 895 000
Book value per one share (in PLN) – assigned to shareholders of parent entity		28.62	27.58

Consolidated profit and loss account for the period from 1 January 2014 to 30 June 2014

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 June 2014	Period ended 30 June 2013
Revenue from sales, including:		66 706	62 109
Revenue from sales of services	14	63 652	58 599
Revenues from sale of goods and materials		3 054	3 510
Cost of sales, including :		-55 791	-55 088
Cost of services sold	15	-53 185	-52 123
Cost of merchandise and raw materials		-2 606	-2 965
Gross profit on sales		10 915	7 021
General and administrative expense		-7 420	-7 607
Other operating income	16	226	3 022
Other operating expenses	17	-144	-280
Results from operating activities		3 577	2 156
Financial income	18	299	730
Loss on sale of shares in subsidiaries		-	-290
Finance costs	19	-638	-864
Profit sharing in entities valued under equity method		-92	107
Profit before tax		3 146	1 839
Income tax expense:		746	413
- current tax		627	267
- deferred tax		119	146
Profit for the period		2 400	1 426

Profit for the period assigned to :

Shareholders of Parent Entity	2 374	1 342
Non-controlling interest	26	84
Profit/diluted profit per one share (in PLN per one share) assigned to shareholders of parent entity	0.61	0.34

Consolidated statement of comprehensive income

Profit for the period	2 400	1 426
Other comprehensive income net:	-12	-97
Other comprehensive income that will be reclassified to profit or loss:	-12	-
Exchange differences from the translation of the entity that operates abroad	-12	-
Other comprehensive income that will not be reclassified to profit or loss:	-	-97
Actuarial losses on valuation of provisions for employee benefits	-	-108
Income tax on other comprehensive income	-	11
Total comprehensive income	2 388	1 329

Total comprehensive income attributable to :

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Shareholders of Parent Entity	2 362	1 256
Non-controlling interest	26	73
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Total comprehensive income per ordinary share (in PLN per share) attributable to owners of Parent Entity	0.61	0.32

**Consolidated statement of changes in equity
For the period from 1 January 2014 to 30 June 2014**

(all amounts in PLN thousands if not stated otherwise)

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent entity	Equity assigned to non-controlling interest	Total equity
The reporting period from 1 January 2014 to 30 June 2014						
As at the beginning of the period	3 895	10 954	92 573	107 422	12 337	119 759
Net profit of the given period	-	-	2 374	2 374	26	2 400
Net other comprehensive income	-	-12	-	-12	-	-12
Total comprehensive income	-	-12	2 374	2 362	26	2 388
Transactions with shareholders						
Payment of dividend	-	-	-	-	-48	-48
Change in the structure of participation of non-controlling interest (repurchase of shares from non-controlling interest - Elektromontaż , PROCHEM Zachód)	-	408	975	1 383	-2 098	-715
Repurchase of own shares for redemption (Elektromontaż)- change in the structure of participation	-	57	239	296	-344	-48
As at the end of the period	3 895	11 407	96 161	111 463	9 873	121 336

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent entity	Equity assigned to non-controlling interest	Total equity
The reporting period from 1 January 2013 to 30 June 2013						
As at the beginning of the period	3 895	11 063	95 452	110 410	13 678	124 088
Net profit of the given period	-	-	1 342	1 342	84	1 426
Net other comprehensive income	-	-86	-	-86	-11	-97
Total comprehensive income	-	-86	1 342	1 256	73	1 329
Transactions with shareholders						
Payment of dividend	-	-	-3 038	-3 038	-242	-3 280
Repurchase of own shares by Elektromontaż S.A. for redemption	-	21	68	89	-112	-23

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Other changes – among others sale of shares in subsidiaries	-	-	-119	-119	41	-78
As at the end of the period	3 895	10 998	93 705	108 598	13 438	122 036

Consolidated statement of cash flows for the period from 1 January 2014 to 30 June 2014

(all amounts in PLN thousands if not stated otherwise)

	Note No.	Period ended 30 June 2014	Period ended 30 June 2013
Cash flows – operating activities			
Profit/(loss) before tax		3 146	1 839
Total adjustments		-10 022	19 309
Share in profit of entities valued using equity method		92	-107
Amortization and depreciation		1 181	1 157
Interest and profit sharing (dividends)		85	195
(Profit) on disposal of property, plant and equipment		-17	-105
(Profit)/loss on investing activities		-	408
Change in provisions		-574	-844
Change in inventories		-132	-3 800
Change in receivables and other assets	20	-9 066	606
Change in current receivables except for borrowings and loans	20	-2 837	-5 281
Other adjustments (including change in deferred income)	20	1 246	27 080
Cash provided by (used in) operating activities		-6 876	21 148
Income tax paid		-811	-331
Net cash provided by (used in) operating activities		-7 687	20 817
Cash flows – investing activities			
Inflows		32	2 267
Disposal of intangible assets and property, plant and equipment		32	79
Inflows from financial assets, including:		-	2 188
a) in related entities:		-	332
- disposal of financial assets		-	272
- loans received		-	60
b) in other entities :		-	1 856
- disposal of financial assets		-	1 856
Outflows		-3 488	-1 041
Acquisition of intangible assets and property, plant and equipment		-766	-862
For financial assets, including:		-2 722	-129
a) in related entities		-2 722	-100
- loans granted		-2 000	-100
- acquisition of financial assets		-722	-
b) in other entities:		-	-29
- repayment of loans received		-	-29
Other investment expenses		-	-50
Net cash provided by (used in) investing activities		-3 456	1 226
Cash flows – financing activities			
Inflows		8 527	6 557

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Bank loans	8 524	6 521
Other financial inflows	3	36
Outflows	-818	-6 626

Consolidated statement of cash flows - continuation	Period ended 30 June 2014	Period ended 30 June 2013
Other, than payments to shareholders, expenses under profit distribution	-95	-235
Repayment of loans	-314	-6 098
Payment of liabilities under finance lease agreements	-166	-44
Interest	-234	-249
Other financial inflows	-9	-
Net cash provided by (used in) financing activities	7 709	-69
Total cash flows, net	-3 434	21 974
Net increase/(decrease) in cash and cash equivalents	-3 434	21 974
Cash and cash equivalents at the beginning of the period	8 249	6 796
Cash and cash equivalents at the end of the period	4 815	28 770

Notes on adopted accounting principles (policy) and other explanatory notes to interim consolidated financial statements

1. Establishment of Parent Entity and principal activity

Company PROCHEM S.A.(hereinafter called „PROCHEM“, „Company“, „Issuer“ or „Parent Company“) seated in Warsaw, 44C Powązkowska Street. The company is registered in the National Court Register (KRS) by the District Court for the Capital City Warsaw, XII Commercial Department of the National Court Register under KRS number 0000019753. Principal activity according to Polish Business Classification (PKD 2007) determines symbol 7112Z – engineering activities and related technical consulting. According to Warsaw Stock Exchange classification PROCHEM belongs to construction sector. PROCHEM S.A. is a Parent Company of the Capital Group and prepares a separate consolidated financial statement. PROCHEM S.A. was established through transformation of a state-owned enterprise under the name Przedsiębiorstwo Projektowania i Realizacji Inwestycji Przemysłu Chemicznego „PROCHEM“. The notarial deed and Company's Articles of Association were signed on 1 October 1991. Duration of the Company is unlimited.

In 2013 the Company commenced implementation of investment project „Turnkey construction of system for the production of highly purified paraffin, oils, lubricant and cooling greases and pattern material with the expansion of power complex in Belarus.“ Therefore, for the period of implementation of the project was established Representation Office. Time limit for the activities of Representation Office is limited, i.e. until 30 July 2016.

2. Managing and supervising bodies of the Parent Entity

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

Jarosław Stępniewski - President of the Management Board

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

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

In the first half of 2014 there have been no changes in the composition of the Management Board.

The Supervisory Board of the 9th term of office which was appointed by Annual General Meeting on June 7, 2014 by Resolution No. 7, comprises of:

- Marek Garliński - Chairman
- Steven Tappan – Vice Chairman
- Andrzej Karczykowski
- Krzysztof Obłój
- Wiesław Kiepiel

The above composition of the Supervisory Board is in force as at the date of the financial statements.

3. Employment

In the first half of 2014 average employment in PROCHEM S.A. Capital Group was 507 FTEs and in the first half of 2013 532 FTEs.

As at 30 June 2014 employment in PROCHEM Capital Group was 522 persons and as at 30 June 2013 was 560 persons.

4. Description of Capital Group with indication of consolidated entities

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

Subsidiaries covered by full consolidation:

- PROCHEM Inwestycje Sp. z o.o. seated in Warsaw – subsidiary directly (100.0%);
- PRO-INHUT Sp. z o.o. seated in Dąbrowa Górnicza – subsidiary indirectly (93.2%);
- Pro-Organika Sp. z o.o. seated in Warsaw – subsidiary directly (91.4%);
- PROCHEM Serwis Sp. z o.o. seated in Warsaw – subsidiary indirectly (89.1%);
- PREDOM Sp. z o.o. seated in Wrocław – subsidiary indirectly (81.1% of the capital and profit, 69.4% of votes);
- PROCHEM Zachód Sp. z o.o. seated in Słubice – subsidiary directly (80.0%);
- ELPRO Sp. z o.o. seated in Kraków – subsidiary indirectly (88,4%, including 76.8% in the 50% share of Elektromontaż Kraków); Elmont Inwestycje Sp. z o.o. seated in Kraków – subsidiary indirectly (88.4%, including 76.8% in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. – subsidiary indirectly (76.8%), including 65.1% of capital and votes belongs to company PROCHEM Inwestycje a 100% subsidiary. Elektromontaż Kraków S.A. prepares consolidated financial statements, which contains data of a 100% subsidiary: ELMONT-POMIARY Sp. z o.o. seated in Kraków and two associated companies ELPRO Sp. z o.o. and Elmont-Inwestycje Sp. z o.o.;
- IRYD Sp. z o.o. seated in Warsaw – 100% subsidiary indirectly;
- ATUTOR Integracja Cyfrowa Sp. z o.o. seated in Warsaw – indirect subsidiary (87.3% share belongs to company PROCHEM Inwestycje Sp. z o.o. a 100% subsidiary);
- PROCHEM RPI Sp. z o.o. seated in Warsaw – a 100% subsidiary (including 3.33% of capital and votes belongs to PROCHEM Inwestycje).

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Jointly controlled entities and associated entities valued using equity method:

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

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

Company Predom Projektowanie Sp. z o.o. was excluded from consolidation. The Company has not commenced activities. The value of shares was recognized in impairment losses.

On 4 January 2014 was completed the liquidation procedure of the subsidiary PRO-PLM Sp. z o.o. seated in Warsaw. Company PRO-PLM was a 100% subsidiary.

On 7 January 2014 company PROCHEM Inwestycje Sp. z o.o. seated in Warsaw (100% subsidiary) on the basis of the contract of sale of shares acquired 10,000 shares with the nominal value of PLN 5 each, in company Elektromontaż Kraków S.A. seated in Krakowie (subsidiary). The total sale price was set as PLN 500 thousand.

On 27 May 2014 PROCHEM Inwestycje Sp. z o.o. seated in Warsaw (a 100% subsidiary) on the basis of the contract of sale of shares acquired 5,000 shares with the nominal value of PLN 5 each in company Elektromontaż Kraków S.A. seated in Kraków (subsidiary). The total sale price was set as PLN 115 thousand.

In the first half of 2014 subsidiary Elektromontaż Kraków S.A. repurchased 2 024 own shares with the aim of redemption for total amount of PLN 48 thousand. As result of repurchase of own shares for redemption by Elektromontaż Kraków has occurred a change in the structure of participation. Share of the Parent Company increased by 0.8% percentage point.

As at 30 June 2014 share of the Parent Company in capital and votes of Elektromontaż Krakow increased by 6.4% percentage points to 76.8%.

On 28 March 2014 on the basis of the contract of sale Spółka PROCHEM S.A. acquired 20% of shares in company PROCHEM Zachód Sp. z o.o. seated in Warsaw (subsidiary), i.e. 32 shares with nominal value of PLN 1 thousand with total value of PLN 320 thousand. The total sale price was set as PLN 100 thousand. After the transaction the Issuer has 80% of share capital and 80% in total number of votes of the company PROCHEM Zachód.

5. Adopted accounting policies

Principles of presentation

Base of preparation

The interim condensed consolidated financial statements of PROCHEM S.A. Capital Group for the first half of 2014 was prepared according to IAS 34 "Interim Reporting" and Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

recognition as equivalent required by the law of a non-Member State (Official Journal no. 33, item 259 with further amendments). The interim condensed consolidated financial statements do not contain the information and disclosures required for complete financial statements and should be read together with the financial statements for the financial year ended 31 December 2013.

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

The duration of the activities of separate entities belonging to PROCHEM S.A. Capital Group is not limited.

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

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

The seasonality

Operational activities of the Parent Company and companies belonging to the Group neither have seasonal character nor is subject to cyclic trends, except for the segment of the general contracting and rental of construction equipment, which are characterized by seasonality, which in large extent is caused by the weather conditions. Weather conditions affect the volume of the revenue generated in these segments. Lower revenues are achieved during the winter season, when the weather conditions do not allow for execution of some construction work.

Principles of preparation of consolidated financial statements

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

- land, buildings and construction measured at revalued amount,
- investment real property (land), measured at fair value.

Significant accounting policies and changes in IFRS

The interim condensed separate financial statements was prepared using the same accounting principles and the same calculation methods which were applied in the consolidated financial statements of PROCHEM S.A. Capital Group for the year ended 31 December 2013.

The Group will apply changes in announced IFRS, not yet effective as at the date of presentation of the semi-annual condensed consolidated financial statements, in accordance with their effective date. The possible impact of these changes on the future consolidated financial statements is being analyzed.

Change in estimates

In the first half of 2014 there were no significant changes in estimates.

Functional currency and presentation currency of the financial statements

Consolidated financial statements of the Group is presented in Polish Zloty („zloty” or “PLN”), which is the functional currency and the presentation currency, and which is the reporting currency of the Group and the functional currency of the Parent Company.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

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

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

5. Explanatory notes to interim condensed consolidated financial statements as at and for the period ended 30 June 2014

Note 1 – Property, plant and equipment

	As at 30 June 2014	As at 31 December 2013
Property, plant and equipment, including:	25 097	25 274
- land	4 822	4 874
- buildings, premises and water and civil en objects	17 183	17 634
- machinery and equipment	1 521	1 430
- vehicles	861	668
- other PPE	710	668
PPE under progress	39	70
Total property, plant and equipment	25 136	25 344
	As at 30 June 2014	As at 31 December 2013
Property, plant and equipment – ownership structure		
a) own	11 582	11 630
b) used under rental, lease or other agreement, including :	13 554	13 714
- lease	525	377
- expenditures on property, plant and equipment which do not belong to the company	12 426	12 734
- the value of the right of perpetual usufruct	603	603
Total balance sheet property plant and equipment	25 136	25 344

Pursuant to an agreement dated July 23, 2004, the Group leases the property comprising three buildings with a total area of 6 227.5 m² on a plot of 3 311 m² located in Warsaw at 18 Emilia Plater Street and at 76/78 Hoża Street. The duration of the agreement is 30 years.

Land, buildings and constructions are carried at revalued amount, being its fair value at the date of the revaluation, set by experts, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value as at 31 December 2014 recognized in the books remained at the level of valuation at the date of 31 December 2013, which was set based on valuation made by independent experts, not associated with the Company. The experts have the right qualifications to carry out valuations of land, buildings and structures, as well as actual experience in such valuations carried out in locations where there are assets of the Company. Valuation was carried out by reference to the market transaction prices for similar assets. There has been no change in the valuation technique in the first half of 2014.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Change in property, plant and equipment

	Change in PPE for the period from 1 January 2014 to 30 June 2014	Change in PPE for the period from 1 January 2013 to 30 June 2013
Gross value - as at opening balance sheet	42 613	42 983
Increase (due to)	890	1 494
- acquisition	890	1 494
Decrease (due to)	-299	-1 864
- sale	-283	-1 369
- liquidation	-16	-422
- other changes (including change in the structure of the participation in the subsidiary for a jointly-controlled entity)	-	-73
Gross value as at closing balance sheet	43 204	42 613
Depreciation and impairment		
Accumulated depreciation - as at opening balance sheet	17 269	16 708
Depreciation for the period due to:	799	561
- increase (accrued depreciation)	1 076	2 162
- decreases due to sales	-266	-1 106
- decreases due to liquidation	-11	-422
- other changes (including change in the structure of the participation in the subsidiary for a jointly-controlled entity)	-	-73
Accumulated depreciation – as at closing balance sheet	18 068	17 269
Net PPE – as at closing balance sheet	25 136	25 344

Note 2 – Investment properties

	As at 30 June 2014	As at 31 December 2013
Construction in progress	9 478	9 478
Buildings and constructions	6 592	6 592
Land	17 533	17 533
Total investment properties	33 603	33 603

Investment properties by types	Change in investment properties for the period from 1 January 2014 to 31 December 2014	Change in investment properties for the period from 1 January 2013 to 31 December 2013
Investment properties - land		
As at the opening balance sheet	17 533	48 837
- decrease, including a change in the structure of participation of a subsidiary to a jointly controlled entity , the exclusions under a change in the status from a subsidiary to the jointly controlled company	-	-31 304
As at closing balance sheet	17 533	17 533
Investment properties under construction		
As at opening balance sheet	9 478	16 587
- change due to:		
a) reclassification from investment properties buildings and constructions	-	-1 838

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

b) the exclusions under change from the subsidiary to the jointly controlled company	-	-5 271
Total decrease	-	-7 109
As at closing balance sheet	9 478	9 478
Investment properties - buildings and constructions		
As at opening balance sheet	6 592	4 754
- change due to:		
a) reclassification from investment properties buildings and constructions	-	1 838
As at closing balance sheet	6 592	6 592
Total investment properties by types (net) - as at the balance sheet date	33 603	33 603

The fair value of investment properties as at 30 June 2014 remained at the level of valuation at the date of 31 December 2013, which was set based on valuation made by independent experts, not associated with the Company. The experts have the appropriate qualifications to carry out valuations of investment properties, as well as actual experience in such valuations carried out in locations where there are assets of the Company. Valuation was carried out by reference to the market transaction prices for similar assets. There was no change in a valuation technique during the first half of 2014.

Details concerning investment properties as well as information about the hierarchy of fair values as at 30 June 2014.

	Level 1	Level 2	Level 3	Fair value as at 30 June 2014
	In PLN thousands	In PLN thousands	In PLN thousands	In PLN thousands
Investment properties	-	-	33 603	33 603

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

Note 3 – Shares valued under equity method

Shares in entities valued using equity method	As at 30 June 2014	As at 31 December 2013
- Shares – net value	23 874	23 970
- Write-downs of value of shares	2 073	2 073
Gross value of shares	25 947	26 043

Change in shares valued using equity method	As at 30 June 2014	As at 31 December 2013
a) as at the beginning of period	23 970	1 116
- shares cost	23 970	1 116
b) increase (due to)	-92	23 422
- participation in the result of the current year	-92	357
- change from the subsidiary to the jointly controlled company	-	23 065
c) decrease (due to)	4	568
- other	4	568
As at the end of the period, net	23 874	23 970
d) write-down	2 073	2 073

As at the end of the period, gross	25 947	26 043
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Note 4 – Deferred income tax

Change in provisions and deferred tax assets for the first half of 2014 are presented below:

	As at 30 June 2014	As at 31 December 2013
Deferred tax assets		
As at the beginning of the period	5 708	4 496
Increase	1 297	3 460
Decrease	-1 533	-2 248
As at the end of the period	5 472	5 708
Provision for deferred income tax		
As at the beginning of the period	6 513	7 950
Increase	857	3 644
Decrease	-987	-5 081
As at the end of the period	6 383	6 513
Presentation in the statement of financial position		
Deferred tax assets	5 472	5 708
Offsetting in the separate financial statements	-3 693	- 3 795
Deferred tax assets disclosed in statement of financial position	1 779	1 913
Presentation in the statement of financial position		
Provision to deferred income tax	6 383	6 513
Offsetting in the separate financial statements	-3 693	- 3 795
Provision to deferred income tax disclosed in the statement of financial position	2 690	2 718

Note 5 – Other non-current financial assets

	As at 30 June 2014	As at 31 December 2013
Other financial assets		
a) from jointly controlled entities	11 446	11 299
- loans	11 446	11 299
b) other non-current financial assets – discounted security deposit for securing bank guarantee of return of advance payment	4 702	7 084
Total other financial assets	16 148	18 383

Loans granted – as at 30 June 2014

- Loan granted to company Irydion Sp. z o.o. seated in Warsaw in the amount of PLN 11 446 thousand including: amount of the loan PLN 11 000 thousand., accrued interest PLN 446 thousand. Interest rate is set annually according to WIBOR 6M, repayment date 31 December 2015.

Increase:

- Accrued interest in the amount of PLN 147 thousand.

Loans granted – as at 31 December 2013

- Loan granted to company Irydion Sp. z o.o. seated in Warsaw in the amount of PLN 11 299 thousand including: amount of the loan PLN 11 000 thousand., accrued interest PLN 299 thousand. Interest rate is set annually according to WIBOR 6M, repayment date 31 December 2015.

Note 6 – Inventories

Inventories	As at 30 June 2014	As at 31 December 2013
Materials	7 910	7 936
Semi-finished products and work-in-process	380	145
Goods	804	881
Total inventories	9 094	8 962
Write-down of inventories	285	285

Note 7 – Trade and other receivables

Trade and other receivables	As at 30 June 2014	As at 31 December 2013
Trade receivables	66 876	53 700
Impairment of trade receivables	-7 141	-7 221
Net trade receivables	59 735	46 479
including:		
- due within 12 months	55 044	41 564
- due in more than 12 months	4 691	4 915
Receivables from taxes, subsidies, social security and health insurance and other benefits	509	1 067
Other receivables	3 426	3 832
Impairment of other receivables	-2 283	-2 283
Net other receivables	1 143	1 549
Total net other receivables	61 387	49 095

Trade and other receivables from related entities	As at 30 June 2014	As at 31 December 2013
Trade receivables, including:	105	722
- from jointly controlled entities	105	722
Total current trade and other receivables from related entities, net	105	722
Write-down of receivables from related entities	-	-
Total current trade and other receivables from related entities, gross	105	722

Change in write-downs of trade and other receivables	As at 30 June 2014	As at 31 December 2013
As at the beginning of the period	9 504	6 280
a) increase (due to)	-	3 501
- write-down for receivables	-	3 501

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

b) decrease (due to)	80	277
- payment received	31	15
- the use of write-downs created in previous periods	49	79
- other exclusion of the company from the consolidation (change from the subsidiary to jointly controlled entity)	-	153
- the resolving of provision	-	30
	9	9
Write-downs of current trade and other receivables at the end of the period	42	504
	4	

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

As at 30 June 2014 the outstanding balance of receivables from supplies and services includes receivables overdue by the carrying amount of PLN 17 364 thousand as a security deposit under the statutory warranty, for which the Issuer did not create write-downs, since there was no significant change in the quality of the debt compared to the previous accounting periods, therefore is considered as to be recovered. The Issuer has collateral in the form of the seized guarantee deposits under statutory warranty from the subcontractors in the amount of PLN 2 928 thousand. For more information see Note 29 - *Information on the significant proceedings pending before the court.*

In other receivables is presented an advance on the purchase of two apartments for a total net amount of PLN 396 thousand, resulting from the preliminary sale agreement as a notarial deed Repertory No 4628/2012. The agreement was concluded with "Eurobudownictwo" limited liability company with its registered office in Wrocław.

Note 8 – Other financial assets

Other financial assets	As at 30 June 2014	As at 31 December 2013
a) from jointly controlled entities :	2 011	-
- current loans granted	2 011	-
b) from other entities :	198	198
- current loans granted	198	198
c) other financial assets - discounted security deposit for securing bank guarantee of return of advance payment	3 511	1 679
Total other financial assets	5 720	1 877
Gross other financial assets	5 720	1 877

Loans granted - as at 30 June 2014

- Loan granted to the Civil Committee of Building of the Cardiological 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.
- Loan granted to jointly controlled entity Irydion Sp. z o.o. in the amount of PLN 2 011 thousand , including: amount of the loan PL:N 2 000 thousand, accrued interest PLN 11 thousand. Interest on the loan is 3% annually, time of repayment until 30 September 2014.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Increase

- Loan granted jointly-controlled company Irydion sp. z o. o. in the amount of PLN 2 000 thousand, interest is established at the fixed rate of 3% annually, time of repayment until 30 September 2014.
- Accrued interest on loan granted Irydion Sp. z o.o. – PLN 11 thousand.

Loans granted - as at 31 December 2013

- Loan granted to the Civil Committee of Building of the Cardiological 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.

Note 9 – Other assets

Other assets by types :	As at 30 June 2014	As at 31 December 2013
a) prepayments	866	876
- cost of property and personal insurance	406	288
- software maintenance costs	180	478
- subscriptions	9	10
- deferred costs	143	84
- initial rent from lease agreements	-	8
- other	128	8
b) other accrued costs and prepayments	12 912	16 157
- amounts due from the ordering parties under long-term contracts	12 912	16 157
Total other assets	13 778	17 033

In item – *other accrued costs and prepayments* – is recognized valuation of contracts for construction services that are in progress as at the balance sheet date.

Note 10 – Share capital

SHARE CAPITAL (THE STRUCTURE)						
Series / emisja	Type of share	Type of shares' preference	Number of shares	Series / emission at nominal value	Method of capital coverage	Registration date
Founding	inscribed	3 votes per 1 share	830	830	cash	23 July 1991
Founding	inscribed		10 004	10 004	cash	23 July 1991
Founding	bearer		1 806 666	1 806 666	cash	23 July 1991
B	inscribed		4 750	4 750	cash	29 July 1993
B	bearer		677 750	677 750	cash	29 July 1993
C	bearer		530 000	530 000	cash	20 April 1994
D	bearer		865 000	865 000	cash	5 September 1994
Total number of shares			3 895 000			
Total share capital				3 895 000		

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Nominal value of 1 share = PLN 1.00			
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The share capital of the Company amounts to PLN 3 895 thousand and is divided into 3 895 000 shares with the nominal value of PLN 1 each. Total number of votes from all shares is 3 896 660.

In the first half of 2014 there were no changes in the share capital of the Issuer.

According to information in the Company's possession as at the day of the statements the following shareholders have at least 5% of the votes at the General Meeting of Shareholders:

description	Number of owned shares (units)	% of votes in total number of votes	% of share capital
1. POROZUMIENIE PHC, including:	1 179 483	30.31	30.28
Steven Tappan	510 000	13.09	13.09
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”	387 521	9.94	9.95
3. Legg Mason Towarzystwo Funduszy Inwestycyjnych S.A., including:	560 549	14.39	14.39
- Legg Mason Parasol Fundusz Inwestycyjny Otwarty „Legg Mason Parasol FIO”	284 054	7.29	7.29
4. Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A., including:	207 792	5.33	5.33
- Noble Funds Fundusz Inwestycyjny Otwarty	198 446	5.09	5.09

In the period since the annual report for 2013, on 7 June 2014 the Annual Meeting of Shareholders was informed about a change in owned shares:

- POROZUMIENIE PHC the increase by 1 163 shares, including:
 - Steven Tappan by 203 shares.
- Otwarty Fundusz Emerytalny PZU „Złota Jesień” the increase by 521 shares.

In addition, on 21 August 2014 Issuer was informed that as a result of the acquisition of shares PROCHEM SA, the participation of the one of the funds managed by Nobile Funds TFI SA, ie. Nobile Funds Fundusz Inwestycyjny Otwarty exceeded 5% the total number of votes in the company PROCHEM SA before the transaction, the Fund held 192 446 shares representing 4.94% of the share capital and 192 446 votes from these shares, representing 4.94% of the total number of votes. After the transaction, the Fund holds 198 446 shares of the company PROCHEM SA, representing 5.09% of the share capital and 198 446 votes from these shares, representing 5.09% of the total number of votes.

Note 11 – Current bank loans

	As at 30 June 2014	As at 31 December 2013
- loans	12 621	4 411

Bank loans

Name of the bank	Registered office	Amount of a loan according to agreement (in PLN thousands)	Amount of a loan to be repaid (in PLN thousands)	Terms of interest	Time of repayment	Security
By PROCHEM SA						

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

BRE Bank Polska SA	Warsaw	6000 Credit in overdraft on bank account	5 473	WIBOR for O/N deposits in PLN + margin	30 June 2015	Promissory note in blank
BRE Bank Polska SA	Warsaw	6000 Revolving credit	0	WIBOR for 1 month deposits in PLN + margin	30 June 2015	Promissory note in blank
ING Bank Śląski S.A.	Katowice	3.000 Credit in overdraft on bank account	2 981	WIBOR for 1 month deposits in PLN + margin	16 November 2014	Statement on submission to execution
By PROORGANIKA Sp. z o.o.						
Bank BZWBK	Warszawa	200 Credit in overdraft on bank account	167	WIBOR for O/N deposits in PLN + margin	23 April 2015	lack
BRE Bank Polska SA	Warszawa	100 Operating credit	88	WIBOR for 1 month deposits in PLN + margin	15 October 2014	with no security
BRE Bank Polska SA	Warsaw	130 Operating credit	130	WIBOR for 1 month deposits in PLN + margin	31 October 2014	with no security
By Elektromontaż Kraków SA						
ING Bank Śląski	Kraków	2 500	2 436	WIBOR for 1 month deposits in PLN + margin	21 July 2014	Mortgage
Deutsche Bank	Kraków	500	459	WIBOR for 1 month deposits in PLN + margin	28 August 2014	Mortgage
WBK BZ	Wrocław	1 000	887	WIBOR for 1 month deposits in PLN + margin	23 July 2014	Bill of exchange
By Atutor Integracja Cyfrowa Sp. z o.o.						
Kredyt Bank SA	Warsaw	6	-	12.91%	Credit in overdraft on current account	with no security
Bank Millennium S.A.	Warsaw	100	-	WIBOR for 1 month deposits in PLN + margin	Credit in overdraft on current account	with no security

Note 12 – Trade payables

	As at 30 June 2014	As at 31 December 2013
a) to jointly-controlled entity	4	16
- for supplies and services with maturity:	4	16
- up to 12 months	4	16
b) to other entities -	23 885	26 783
- for supplies and services with maturity:	23 885	26 783
- up to 12 months	21 562	24 056
- more than 12 months	2 323	2 727

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Total trade payables	23 889	26 799
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Note 13 - Deferred income

	As at 30 June 2014	As at 31 December 2013
Deferred income, including:	26 954	26 422
- advance payments received	24 526	25 593
- amounts due from the ordering parties under long-term contracts	1 303	152
- other	1 125	677
Deferred income as at the end of the period, including:	26 954	26 422
Non-current liabilities	12 097	19 338
Current liabilities	14 857	7 084

In the first half of 2013 the Group received an advance in the amount of 15% (7 230 thousands of EUR) of the value of the contract signed with Belorussian company for the implementation of investment project „Turnkey construction of system for the production of highly purified paraffin, oils, lubricants and cooling greases and pattern material with the expansion of power complex.“. The amount of the advance payment was recognized in deferred income and will be settled against invoices issued for completed services and supplies. As at 30 June 2014, the amount of unsettled advances amounted to EUR 6 198 thousand.

Note 14 - Revenues from sale of services

Revenues from sale of services (type of service and type of activity)	Period ended 30 June 2014	Period ended 30 June 2013
- revenues from sale of services, including:	63 652	58 599
- from related entities, including:	9 113	2 300
• Jointly controlled entities	9 113	2 300
Revenues from sale (territorial structure)	Period ended 30 June 2014	Period ended 30 June 2013
Domestic sale	44 109	58 599
- including: from jointly controlled entities	9 113	2 300
Exports	19 543	-

Revenues under contracts for construction services (general contracting) and other services were presented in note 21.

Gross amount due from the ordering parties for work under the contracts was presented in Note 9.

In the first half of 2014, there was a concentration of revenues from sale of construction services for the jointly controlled company Irydion Sp. z o.o. and Belarusian client. Revenues achieved on sale of services for Irydion Sp. z o.o. in the first half of 2014 amounted to PLN 9,1 million, which represents 14.3% of revenues from services, and for the Belarusian client (exports) PLN 19.5 million which represents 30.7%.

Note 15 – Costs of services

	Period ended 30 June 2014	Period ended 30 June 2013
a) amortization and depreciation	1 181	1 157
b) consumption of energy and materials	6 731	11 396
c) outsourcing	29 421	25 756
d) taxes and levies	813	459

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

e) remuneration	17 628	16 605
f) social security and other benefits	3 313	3 108
g) other costs by type, including:	2 633	2 177
- property and personal insurance	570	534
- business trips	497	453
- State Fund for Rehabilitation of Disabled Persons PFRON	147	124
- other	1 419	1 066
Total costs by type	61 720	60 658
Change in inventories, goods and accruals and prepayments	-1 115	-928
General and administrative expense (negative value)	-7 420	- 7 607
Cost of services	53 185	52 123

Note 16- Other operating income

	Period ended 30 June 2014	Period ended 30 June 2013
a) gain on disposal of non-financial non-current assets	70	105
b) reversal of impairment allowance (due to)	59	43
- receivables	59	43
c) other, including:	97	2 874
- reimbursement of litigation costs	33	-
- received compensation, fines and penalties	-	5
- revenues from car rental	45	45
- write-off past due liabilities	-	2 665
- other	19	159
Total operating income	226	3 022

Note 17 – Other operating expenses

	Period ended 30 June 2014	Period ended 30 June 2013
a) write-downs :	4	32
- of receivables	4	32
b) other, including:	140	130
- donations	-	5
- cost of legal proceedings	61	35
- penalties, fines and compensation paid	1	7
- cost under lease of office space	-	72
- other	78	11
change in the status of a subsidiary for valued using the equity method (Irydion) - loss of control / joint venture	-	118
Total other operating expenses	144	280

Note 18 – Financial income

	Period ended 30 June 2014	Period ended 30 June 2013
a) interest on loan granted	158	148
- from jointly controlled entities	158	148
b) other interest	36	74
- from other entities	36	74
c) surplus of foreign exchange gains	-	507

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

d) other, including:	105	1
- gain on disposal of assets	70	-
- other	35	1
Total financial income	299	730

Note 19 – Finance costs

	Period ended 30 June 2014	Period ended 30 June 2013
a) interest on bank loans	215	267
b) other interest	9	172
- for other entities	9	172
c) surplus of foreign exchange losses	91	25
d) other, due to :	323	400
- commission on bank guarantees	239	227
- commissions on loans	18	19
- commissions on letter of credit	-	130
- other	66	24
Total finance costs	638	864

Note 20 – Additional disclosures to the statement of cash flows

Monetary means included in statement of cash flows covers cash appearing in the balance sheet - item Cash and cash equivalents. The structure of the cash is presented in the table below (in PLN thousands):

	Period ended 30 June 2014	Period ended 30 June 2013	Change
Cash in hand	117	83	34
Cash on banks accounts	4 698	8 166	-3 468
Total cash in hand and cash on bank accounts	4 815	8 249	3 434

Operating activities include basic activity and turnover from other operating activity.

Investing activities include the turnover in the scope of investments in Plant, property and equipment, intangible assets, equity investments and securities held for trading.

Dividends received are recognized in cash flows from investing activities. Loans granted and repaid together with accrued interest are presented in cash flows - investing activities.

Paid interest and commission under borrowings, loans and leases are recognized in cash flows - financing activities. Financial activity include also received and repaid bank loans and borrowings.

The differences between the amounts directly from the 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):

Changes in current receivables	-9 066
Receivables as at 1 January 2014	49 095
Other assets as at 1 January 2014	17 033
Receivables from disposal of fixed assets	-77
Receivables from sale of assets	-396

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Opening balance sheet after adjustments	65 655
Receivables as at 30 June 2014	61 387
Other assets as at 30 June 2014	13 778
Receivables from disposal of fixed assets	-48
Receivables from sale of assets	-396
Closing balance sheet after adjustments	74 721

Change in current liabilities (except for current loans and special purpose funds) **-2 837**

Trade payables as at 1 January 2014	26 799
Other liabilities as at 1 January 2014	6 594
Provision for current retirement benefits	-390
Provision for annual leaves	-1 273
Provision for audit	-125
Provision for other current costs	-372
Other differences due to discount of liabilities	286
Investment liabilities	-121
Liabilities under operating lease	-126
Liabilities to shareholders	-2

Opening balance sheet after adjustments **31 270**

Trade payables as at 30 June 2014	23 889
Other liabilities as at 30 June 2014	6 067
Provision for current retirement benefits	-390
Provision for annual leaves	-730
Provision for audit	-34
Provision for other current costs	-435
Other differences due to discount of liabilities	286
Investment liabilities	-53
Liabilities under operating lease	-165
Liabilities to shareholders	-2

Closing balance sheet after adjustments **28 433**

1 246

Change in other adjustments as at 30 June 2014

Change in deferred income - advances received	- 1 046
Change in deferred income in respect amounts due to the ordering party under long-term contracts	1 151
Change - security deposit as security for bank guarantees of return of advance payment *)	549
Change in other deferred income	431
Other adjustments	161

*) In connection with the implementation of the investment project in Belarus, the Company in order to secure the return of the received advance payment, has granted a bank guarantee of refund of advance payment in the amount of EUR 7 230 thousand. As the security of guarantee, the Company under the contract on the cash security deposit, has placed a security deposit in the bank in the amount of EUR 2 191 thousand. The deposit shall be reduced by the amounts settled during implementation of the project. Date of completion of the contract of security deposit will be 12 April 2016. As at 30 June 2014 the unsettled and discounted part of the security deposit was presented in the statement of financial position in item of other non-current financial assets and in current financial assets respectively in the amount of PLN 4 702 thousand and PLN 3 511 thousand (Notes 5 and 8).

Note 21- Information on operating segments

Operating segment is a component part of the entity:

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

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

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

Segment result is determined on the level of operating income.

The activities of the Capital Group, for managing purposes were divided into eleven main sectors of operation such as: implementation (general contracting), design services and other engineering services (supervisions along with the project manager service), the lease of the construction equipment, assembly of electrical installations, rental of office space and real estates, property management, maintenance, commercial activity, IT services and other activity. Segment assets include all assets used by a segment, consisting primarily of receivables, inventories and PPE less provisions and impairment losses. Some assets in the joint use are assigned to the segments based on reasonable weights.

Assets of Representation Office in Belarus as at the balance sheet date do not exceed 10% of total balance sheet.

Income from operations achieved abroad (export) for the period from 1 January 2014 to 30 June 2014 amounted to PLN 19 543 thousand (i.e. 30.7% of revenues from sales) in the corresponding period of the previous year income of this kind did not occur.

Information on major customers, whose share in the sales revenue for the first half of 2014 years has exceeded 10% of total sales revenue:

- Belarusian client – 30.7% share of the revenues from the sale, which has been shown in the segment "General Contracting" and "Design and other engineering services";
- Irydion Sp. z o.o. jointly controlled company – 14.3% share of the revenues from the sale, which has been presented in the segment "General Contracting" and "Design and other engineering services".

Unallocated assets to segments are primarily shares in jointly controlled entities and associates and loans granted. With respect to the above-mentioned assets there is no evidence of the possible loss of value as at 30 June 2014. In addition, as at the balance sheet date the Group has carried out the analysis of contracts on construction works in the light of the budgeted results. For all contracts in which the budgeted costs exceeded the budgeted income, the Group created provisions to cover losses as at the balance sheet date. Detailed information on the activities of the companies belonging to the Group in the various segments are shown in the following tables.

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

For the period from 1 January 2014 to 30 June 2014.	General contracting	Design and engineering services,	Rental of construction equipment	Electrical installations	Rental of office space and real estate	Property management	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues from external customers	27 762	17 385	2 341	9 761	2 567	2 699	475	3 054	116	546	-	66 706
Total revenues of the segment	27 762	17 385	2 341	9 761	2 567	2 699	475	3 054	116	546	-	66 706
Result of the segment	2 776	-894	847	298	546	82	8	187	-119	-236	-	3 495
Financial income											299	299
Finance costs											-638	-638
Net financial income/finance costs											-339	-339
Profit sharing in associated entities											-92	-92
Profit on other operating activities											82	82
Profit before tax											3 146	3 146
Income tax											746	746
Profit for the current period											2 400	2 400
Profit assigned to non-controlling interest											26	26
Profit for the period assigned to shareholders of parent entity											2 374	2 374
Assets as at 30 June 2014												
Segment assets (related to activity)	42 968	10 246	1 558	8 415	18 192	3 228	60	1 822	-	1 236	-	87 725
Assets unallocated (among others shares and other financial assets)											108 707	108 707
Total assets	42 968	10 246	1 558	8 415	18 192	3 228	60	1 822	-	1 236	108 707	196 432
Other information related to the segment for the period from 1 January 2014 to 30 June 2014												
Depreciation of property, plant and equipment	38	58	68	152	326	59	41	21	-	-	313	1 076
Amortization of intangible assets	-	48	-	4	-	-	2	1	-	-	50	105

Interim condensed consolidated financial statements of PROCHEM S.A. Capital Group as at and for the period ended 30 June 2014

Note operating segments continuation

For the period from 1 January 2013 to 30 June 2013	General contracting	Design and engineering services,	Rental of construction equipment	Electrical installations	Rental of office space and real estate	Property management	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenues from external customers	15 862	15 812	753	19 778	2 605	2 600	440	3 510	145	604	-	62 109
Total revenues of the segment	15 862	15 812	753	19 778	2 605	2 600	440	3 510	145	604	-	62 109
Result of the segment	987	-1 748	-62	254	346	-31	-7	298	-	-623	-	-586
Financial income											440	440
Finance costs											864	864
Net financial income/finance costs											-424	-424
Profit sharing in associated entities											107	107
Profit on other operating activities											2 156	2 156
Profit before tax											1 839	1 839
Income tax											413	413
Profit for the current period											1 426	1 426
Profit assigned to non-controlling interest											84	84
Profit for the period assigned to shareholders of parent entity											1 342	1 342
Assets as at 31 December 2013												
Segment assets (related to activity)	21 049	14 991	3 844	8 860	19 023	2 968	320	1 744	106	230	-	73 135
Assets unallocated (among others shares and other financial assets)											116 437	116 437
Total assets	21 049	14 991	3 844	8 860	19 023	2 968	320	1 744	106	230	116 437	189 572
Other information related to the segment for the period from 1 January 2013 to 30 June 2013												

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Depreciation of property, plant and equipment	94	108	178	333	667	133	84	-	-	-	570	2 167
Amortization of intangible assets	-	53	-	10	9	2	3	-	-	-	95	172

Note 22 - Profit per one share

Net profit per 1 share in trading as at the balance sheet date 30 June 2014 amounted to PLN 0.61, and for the analogous period of 2013 PLN 0.34.

Note 23 – Distribution of profit

Net result of the Group is not subject to the distribution.

Issuer's net profit for the year 2013 in the amount of PLN 6,643,123.89 by the Resolution No. 5 of the Annual General Meeting of June 7, 2014 is distributed in such way, that the profit in total was allocated to capital reserve.

Note 24 - Dividends

Subsidiary Predom Sp. of o.o seated in Wrocław, adopted a resolution on allocation of profit for 2013 for dividend in the amount of PLN 95 thousand.

Subsidiary PROCHEM Zachód Sp. z o.o. seated in Warsaw, adopted a resolution on allocation of profit for 2013 for dividend in the amount of PLN 60 thousand.

Note 25- Financial instruments and financial risk management

Financial assets

As at 30 June 2014	Categories of financial instruments	
(in PLN thousands)	Loans, receivables and other	Total
Classes of financial instruments		
Receivables from supplies and services	59 735	59 735
Cash	4 815	4 815
Other financial assets - discounted security deposit for securing bank guarantee of return of advance payment	8 213	8 213
Loans granted	13 655	13 655
Total	86 418	86 418

As at 31 December 2013	Categories of financial instruments	
(in PLN thousands)	Loans, receivables and other	Total
Classes of financial instruments		
Receivables from supplies and services	46 479	46 479
Cash	8 249	8 249
Other financial assets - discounted security deposit for securing bank guarantee of return of advance payment	8 763	8 763
Loans granted	11 497	11 497

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Total	74 988	74 988
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Financial liabilities

As at 30 June 2014

(in PLN thousands)	Categories of financial instruments		Total
	Financial liabilities measured at amortized cost	Liabilities excluded from IAS 39	
Classes of financial instruments			
Loans	12 621	-	12 621
Borrowings received	60	-	60
Finance lease	-	541	541
Payables	23 889	-	23 889
Total	36 570	541	37 111

As at 31 December 2013

(in PLN thousands)	Categories of financial instruments		Total
	Financial liabilities measured at amortized cost	Liabilities excluded from IAS 39	
Classes of financial instruments			
Loans	4 411	-	4 411
Borrowings received	60	-	60
Finance lease	-	374	374
Payables	26 799	-	26 799
Total	31 270	374	31 644

Impairment allowances of financial assets by categories and classes of financial assets

(in PLN thousands)

	Period ended	
	30 June 2014	31 December 2013
Class of financial instrument		
Receivables from supplies and services	-7 141	-7 221
Total	-7 141	-7 221

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

Note 26 - The risk of an unfavorable outcome of litigation with PERN SA

In view of the substantial extension of legal proceeding in a dispute with PERN SA which began in 2006, and is currently pending before the District Court in Warsaw on the accounting for the contract which was interrupted on 10 of November 2005 for the implementation of investment project under the name of "Pipeline in a section from the ST-1 Adamowo - to Plebanka raw material base ", the risk exists of the need of fulfilling in 2014 by PROCHEM of the commitments concerning seized guarantee deposits from subcontractors, before the regaining of them from PERN SA. As at 30 June 2014 the

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amount of such liabilities is PLN 2 928 thousand and a detailed description of the dispute is presented in note 29.

Note 27 - Related party transactions

In the first half of 2014 the Members of the Supervisory Board and the Management Board did not conclude transactions with the companies belonging to PROCHEM S.A. Capital Group. Transactions with related parties as below were concluded on market conditions and relate to sale and purchase of services among others construction services, assembly services and lease of space as well as loans granted mutually.

Settlements with related parties include trade settlements, and under loans.

Guarantees and sureties granted to related parties are presented in note 28.

Transactions of the Capital Group with entities valued using the equity method

The reporting period

In the period from 1 January 2014 to 30 June 2014 there were transactions with entities valued using the equity method under:

- Revenues from sale of services in the amount of PLN 9 113 thousand,
- Financial revenues(interest on loans) in the amount of PLN 158 thousand.

Revenues from sale of services as a whole relate to revenues from the company jointly controlled IRYDION sp. z o.o. in Warsaw, for which is executed the investment project under the name of "Astrum Business Park" in Warsaw.

Share in net profit(loss) for the first half of 2014 in entities valued using the equity method amounted to PLN (92) thousand.

As at 30 June 2014 transactions with entities valued using the equity method are as follows:

- settlements on account of supplies and services - PLN 105 thousand,
- non-current loans granted – PLN 11 446 thousand,
- current loans granted – PLN 2 011 thousand.

The comparative data

Transactions of the Capital Group with entities valued using the equity method

In the period from 1 January 2013 to 30 June 2013 there were transactions with entities valued using the equity method under:

- Revenues from sale of services in the amount of PLN 2 300 thousand,
- Financial revenues(interest on loans) in the amount of PLN 148 thousand.

Share in net profit(loss) for the first half of 2013 in entities valued using the equity method amounted to PLN 107 thousand.

As at 30 June 2013 transactions with entities valued using the equity method are as follows:

- settlements on account of supplies and services - PLN 2 994 thousand,

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- non-current loans granted – PLN 11 148 thousand,
- current loans granted – PLN 101 thousand.

Note 28 – Contingent liabilities and contingent assets and other collateral

Guarantees granted

	As at 30 June 2014	As at 31 December 2013
Bank guarantee of good performance and statutory warranty	12 513	17 167
Payment guarantee	1 134	1 134
Tender guarantee	1 185	1 235
Guarantee of return of advance payment	29 626	29 478
Total contingent liabilities	44 458	49 014
Contingent liabilities		
- Letters of Credit	2 268	-
- Bill of exchange guarantee of good performance	35	35
Total contingent liabilities	46 761	49 049

	As at 30 June 2014	As at 31 December 2013
Guarantees received		
Bank guarantee of good performance	1 200	1 206
Bill of exchange guarantee for securing terms of contract	77	577
Total contingent assets	1 277	1 783

Guarantees received relate only to the Issuer.

Contingent receivables from PERN are presented in note 29.

Nota 29 - Information on significant proceedings pending before the court

PROCHEM SA 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 SA 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

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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 clarifying the final conclusions of evidence to complement the expert opinions and postponed the hearing until 16 May 2013.

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

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

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

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

On 13 June 2014 the Group received a notice of the appointment of the meeting by the Court on October 24, 2014.

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

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

Note 30 – Events after the reporting date

Did not occur.

Note 31 – Other explanatory information to the Interim Condensed Consolidated Financial Statements

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

In the period of six months of 2014 there were no events which have a significant impact on the achieved financial results.

Position of the Board in relation to possibility of realization of previously published forecast of results for the given year, in the light of the results presented in the quarterly report with respect to the forecasted results

Company PROCHEM S.A. did not publish any forecasts of financial results neither for the company nor PROCHEM S.A. Capital Group for 2013.

Information on surety for loan or borrowing or guarantees granted by the issuer or its subsidiary - jointly to one entity or its subsidiary, if the total value of existing surety or guarantees is equivalent to at least 10% of the issuer's equity

In the first half of 2014 was not granted to another entity any guarantees or surety of credit or loan of this value.

On 14 February 2014 the Company underwrote two promissory notes issued by subsidiary PRO-INHUT Sp. z o.o. based in Dąbrowa Górnicza on behalf of investor in order to secure the claims. The surety to the amount of PLN 831 thousand

Loans granted by the Group in the first half of 2014 are presented in Note 5 and 8 of these financial statements.

Statement of changes in ownership of the issuer's shares or rights (options) held by Management Board and Supervisory authorities, in accordance with the Issuer's knowledge, in the period from the previous quarterly report

As at the date of the separate financial statements the following members of the Management Board and the Supervisory Board of the company held shares of PROCHEM SA:

- Jarosław Stępniewski – 80,943 units.;
- Marek Kiersznicki – 70,393 units;
- Krzysztof Marczak – 42,700 units;
- Andrzej Karczykowski – 115,186 units;
- Marek Garliński – 86,400 units;
- Steven Tappan – 510,000 units.

Since the submission of the annual report for 2013 years there has been a change in the number of shares of the issuer held by the members of the Management Board and the Supervisory Board:

1. Increase:

- Steven Tappan - 203 shares,
- Marek Kiersznicki – 250 shares,

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

The results of subsequent quarters will depend mainly on the possibility of obtaining by the companies from the Capital Group of new contracts for the sale of their services. Large impact on the results of the Issuer's Capital Group will have a continuation of two projects launched in the last year : the contract in Belarus and the construction of the Centre Astrum Biznes Park in Warsaw.

Remuneration of the Members of the Management Board and the Supervisory Board

Remuneration paid in the first half of 2014 in the Issuer's enterprise:

1. remuneration paid to the Members of the Management Board in total amount of PLN 689.5 thousand, including remuneration established on profit PLN 206.1 thousand;
2. remuneration paid to the Members of the Supervisory Board in total amount of PLN 396.7 thousand, including remuneration established on profit PLN 265.5 thousand.

Remuneration paid to the Members of the Management Board in the first half of 2014 for performing the function in the Management Boards and the Supervisory Boards of companies belonging to the Capital Group amounted to PLN 241.2 thousand.

Note 32 – Approval of financial statements

The interim condensed consolidated financial statements of PROCHEM S.A. Capital Group for the period from 1 January 2014 to 30 June 2014 were approved by the Management Board of PROCHEM S.A. on 29 August 2014.

Signatures of the Members of Management Board

29 August 2014 date	Jarosław Stępniewski first name and surname	Chairman of the Board position signature
29 August 2014 date	Marek Kiersznicki first name and surname	Vice Chairman position signature
29 August 2014 date	Krzysztof Marczak first name and surname	Vice Chairman position signature

Signature of the person responsible for bookkeeping

29 August 2014 date	Barbara Auguścińska-Sawicka first name and surname	Chief Accountant position signature
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