CONSOLIDATED FINANCIAL STATEMENTS OF PROCHEM S.A. CAPITAL GROUP

As at and for the period ended 31 December 2018

PROCHEM S.A.
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Consolidated statement of financial position

(all amounts in PLN thousands if not stated otherwise)

	Note No.	31 December 2018	31 December 2017
A s s e t s			
Non-current assets			
Property, plant and equipment	1	22 847	22 481
Intangible assets	2	182	242
Investment properties	3	11 990	11 312
Shares	4	830	830
Shares in entities valued using the equity method	5	28 111	26 139
Deferred tax assets	6	2 340	2 953
Receivables from seized security deposits		63	222
Other financial assets	7	20 422	18 713
Total non-current assets		**86 785**	**82 892**
Current assets			
Inventories	8	3 378	2 222
Trade and other receivables	9	41 472	32 014
Amounts due from recipients under agreements	19	13 691	8 415
Other assets	10	1 202	2 466
Cash and cash equivalents		3 250	28 815
Total current assets		**62 993**	**73 932**
Total assets		**149 778**	**156 824**
Equity and liabilities			
Equity			
Share capital	11	2 935	3 895
Revaluation reserve	12	11 789	11 521
Retained earnings	13	69 216	89 826
Parent entity's equity		**83 940**	**105 242**
Non-controlling interest		**6 470**	**6 524**
Total equity		**90 410**	**111 766**
Non-current liabilities			
Non-current bank loans	14	52	141
Provision for deferred income tax	6	2 400	2 457
Provision for retirement and similar benefits	15	1 763	1 712
Non-current liabilities under seized security deposits		3 569	4 592
Other non-current liabilities	16	620	382
Total non-current liabilities		**8 404**	**9 284**
Current liabilities			
Current bank loans	17	7 077	2 233
Trade payables	18	31 626	22 426
Amounts owed to recipients under agreements	19	2 863	1 913
Liabilities under current income tax		39	6
Other liabilities	20	8 958	8 872
Deferred income	21	401	324
Total current liabilities		**50 964**	**35 774**
Total liabilities		**59 368**	**45 058**
Total equity and liabilities		**149 778**	**156 824**

Book value – equity assigned to the owners of the Parent Entity	**83 940**	**105 242**
Weighted average number of ordinary shares	**2 935 000**	**3 895 000**
Book value per one share (in PLN) – assigned to owners of the Parent Entity	**28.60**	**27.02**

Consolidated profit and loss account

(all amounts in PLN thousands if not stated otherwise)

	Note No.	In 2018	In 2017
Revenues from sale, including :		153 194	112 006
Revenues from sale of services	22	150 287	111 133
Revenues from sale of goods and services	23	2 907	873
Cost of sales, including :		-142 706	-108 285
Cost of services sold	24	-140 015	-107 547
Cost of merchandise and raw materials		-2 691	-738
Gross profit on sales		**10 488**	**3 721**
General and administrative expenses	24	-13 315	-13 328
Other operating income	25	5 066	664
Other operating expenses	26	-1 424	-742
Other operating expenses – result of a one-off event	27	0	26 773
Results from operating activities		**815**	**17 088**
Financial income	28	685	555
Finance expenses	29	-924	-1 024
Profit sharing in associated entities		1 623	3 461
Before tax profit		**2 199**	**20 080**
Income tax expense :	30	360	3 104
- current tax		69	350
- deferred tax		291	2 754
Profit for the period		**1 839**	**16 976**

Profit for the period assigned to:		
Shareholders of the Parent Entity	1 923	16 828
Non-controlling interest	-84	148
Weighted average number of ordinary shares (units)	2 935 000	3 895 000
Profit (loss) per one share (in PLN per share) assigned to owners of the Parent Entity	0.66	4.32

Consolidated statement of comprehensive income

	In 2018	In 2017
Profit for the period	**1 839**	**16 976**
Other comprehensive income net	**371**	**69**
Other comprehensive income that will be reclassified to profit or loss under certain conditions:	-	-
Other comprehensive income that will not be reclassified to profit or loss:	**371**	**69**
Revaluation of non-current assets	**703**	**-**
Actuarial gains (losses) on valuation of provisions for employee benefits	-220	90
Income tax on other comprehensive income	-112	-21
Total comprehensive income	**2 201**	**17 045**

Total comprehensive income assigned to:		
Shareholders of the Parent Entity	2 289	16 897
Non-controlling interest	-79	148
Weighted average number of ordinary shares	2 935 000	3 895 000
Total comprehensive income per ordinary share (in PLN per one share) assigned to owners of the Parent Entity	0.78	4.34

Consolidated statement of changes in equity

(all amounts in PLN thousands if not stated otherwise)

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent entity	Equity assigned to non-controlling interest	Total equity
In 2018						
As at the beginning of the period (audited)	**3 895**	**11 521**	**89 826**	**105 242**	**6 524**	**111 766**
Application of IFRS 15			**349**	**349**		**349**
As at the beginning of the period (restated)	**3 895**	**11 521**	**90 175**	**105 591**	**6 524**	**112 115**
Net profit (loss) of the given period			1 923	**1 923**	**-84**	**1 839**
Other comprehensive income (net)		***294***		***294***	***68***	**362**
Total comprehensive income	**0**	**294**	**1 923**	**2 217**	**-16**	**2 201**
Own shares purchased for redemption	-960		-23 040	**-24 000**		**-24 000**
Dividend payment	-	-	-	**-**	**-100**	**-100**
Other changes		-26	158	**132**	**62**	**194**
As at the end of the period	**2 935**	**11 789**	**69 216**	**83 940**	**6 470**	**90 410**

	Share capital	Revaluation reserve	Retained earnings	Equity assigned to shareholders of parent entity	Equity assigned to non-controlling interest	Total equity
In 2017						
As at the beginning of the period (audited)	**3 895**	**12 146**	**72 542**	**88 583**	**6 448**	**95 031**
Error adjustment for the previous period		**-**	**-388**	**-388**	**-**	**-388**
As at the beginning of the period (restated)	**3 895**	**12 146**	**72 154**	**88 195**	**6 448**	**94 643**
Net profit (loss) of the given period	-	-	16 828	16 828	148	**16 976**
Other comprehensive income (net)	**-**	***69***	**-**	***69***	**-**	***69***
Total comprehensive income	**-**	**69**	**16 828**	**16 000**	**148**	**17 045**
Payment of dividend	-	-	-	**-**	-55	**-55**
Other increases	-	127	-	**127**	-	**127**
Other changes	-	-821	844	**23**	-17	**6**
As at the end of the period	**3 895**	**11 521**	**89 826**	**105 242**	**6 524**	**111 766**

Consolidated statement of cash flows

(all amounts in PLN thousands if not stated otherwise)

	In 2018	In 2017
Cash flows – operating activities		
Before tax profit	2 199	20 080
Total adjustments	-7 1478	14 405
Share in net profits of associates	-1 623	-3 461
Amortization and depreciation	2 085	2 014
Interest and profit sharing (dividends)	156	197
(Profit)/loss on disposal of property, plant and equipment	-115	84
Loss on investment	-936	353
Change in provisions	1 332	-256
Change in inventories	-1 156	2 643
Change in receivables and other assets	-13 956	24 599
Change in current liabilities, except for loans and borrowings	7 728	-11 560
Other adjustments (including changes in deferred income)	-662	-208
Cash provided by (used in) operating activities	-4 948	34 485
Income tax paid	-354	789
Net cash provided by (used in) operating activities	**-4 594**	**33 696**
Cash flow – investing activities		
Inflows	**26**	**2 016**
Disposal of intangible assets, and property, plant and equipment	26	12
Investment in real estate	-	1 439
Inflows from financial assets	-	565
- in related entities	-	565
disposal of financial assets (shares)	-	367
repayment of loan with interest		198
Outflows	**-1 156**	**-1 646**
Acquisition of intangible assets and property, plant and equipment	-1 156	-1 646
Net cash provided by (used in) investing activities	**-1 130**	**370**
Cash flow – financing activities		
Inflows	**4 809**	**334**
Bank loan	4 766	334
Other financial proceeds	43	-
Outflows	**-24 650**	**-9 368**
Other than payments to shareholders, expenses under profit distribution	-24 100	-60
Repayment of bank loans	-	-8 668
Commission and interest paid	-346	-576
Payment of liabilities under finance lease	-204	-64
Net cash provided by (used in) financing activities	**-19 841**	**-9 034**
Total cash flows, net	-25 565	25 032
Increase/(decrease) net in cash and cash equivalents	-25 565	25 032
Cash and cash equivalents at the beginning of the period	**28 815**	**3 783**
Cash and cash equivalents at the end of the period	**3 250**	**28 815**

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

1. Establishment of the Company and principal activity

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

In 2013 the Company commenced implementation of investment project „Turnkey construction of system for the production of highly purified paraffin, oils, lubricant and cooling greases and model compounds with the expansion of power complex in Belarus”. Therefore, for the period of implementation of the project the Representation Office was established. The request to close the Representation Office was submitted on 25 May 2018.

2. The Management Board and Supervisory authorities of the Issuer

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

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

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

Composition of the Supervisory Board of Prochem S.A.

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

- Marek Garliński Chairman of the Supervisory Board
- Karol Żbikowski Vice Chairman of the Supervisory Board
- Andrzej Karczykowski
- Krzysztof Obłój
- Marcin Pędziński

3. Employment

Average employment in 2018 was 375 FTEs. Level of employment in persons as at 31 December 2018 was 385, and as at 31 December 2017 was 403.

4. Description of the Capital Group with indication of the consolidated entities

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

Subsidiaries covered by full consolidation:

- Prochem Inwestycje Sp. z o. o. seated in Warsaw – subsidiary directly (100.0%);
- PRO-INHUT Sp. z o. o. seated in Dąbrowa Górnicza – subsidiary indirectly (93.2%);
- PREDOM Sp. z o. o. seated in Wrocław – subsidiary indirectly (81.7% of share in capital and profit, 72.3% of votes);
- Prochem Zachód Sp. z o. o. seated in Warsaw – subsidiary directly (80.0%);
- ELPRO Sp. z o. o. seated in Krakow – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o. o. seated in Krakow – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. seated in Krakow – subsidiary indirectly (85.4%), including 73.0% share in capital and voting right belongs to Prochem Inwestycje subsidiary in 100%. Company Elektromontaż Kraków S.A. prepares consolidated financial statements, which contains data of the subsidiary in 100%: ELMONT-POMIARY Sp. z o. o. seated in Krakow and two associated companies ELPRO Sp. z o. o. and Elmont-Inwestycje Sp. z o. o.;
- IRYD Sp. z o.o. seated in Warsaw – subsidiary indirectly in 100%;
- ATUTOR Integracja Cyfrowa Sp. z o. o. seated in Warsaw – subsidiary indirectly (87.3% of share holds company Prochem Inwestycje Sp. z o. o. a subsidiary in 100%);
- Prochem RPI Sp. z o.o. seated in Warsaw – subsidiary in 100% (including 3.3% of share in capital and voting right belongs to company Prochem Inwestycje).

Jointly-controlled entities and associates valued using the equity method:

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

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

Company Predom Projektowanie Sp. z o. o. with capital of PLN 53 thousand was excluded from consolidation. The company has not commenced activities.

5. Adopted accounting principles

Principles of presentation

Consolidated financial statements of the Prochem S.A. Capital Group for the period from 1 January to 31 December 2018 and analogous period of the comparable year was prepared according to International Accounting Standards (IAS) and International Financing Reporting Standards (IFRS), which were adopted by European Union (EU) and were effective as at 31 December 2018. The scope of financial statements is compliant with Minister of Finance Regulation of 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent required by the law of a non-Member State (Official Journal, item 757).

The presented consolidated financial statements of the Capital Group present reliably and clearly the financial and asset situation of the Group as at December 31, 2018 and comparative data as at December 31, 2017, as well as the results of this activity for the year ended December 31, 2018 and comparative data for the year ended December 31 2017.

The consolidated financial statements of the Prochem S.A. Capital Group as at 31 December 2018 was prepared assuming that the Prochem Capital Group will continue to operate as a going concern in foreseeable future.

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

- Land, buildings and construction measured at revalued amount,
- Investment properties and investment properties in-progress measured at fair value.

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

Changes in accounting estimates and accounting policies

The preparation of financial statements under IFRS adopted by EU requires using certain accounting estimates and adoption of assumptions concerning future events. Items of the financial statements set on the basis of the estimates are subject to verification if circumstances being base of estimates are changing or as a result of obtaining new information, or of the progressive development of events or of acquiring greater experience. In preparing the consolidated financial statements hereby, were applied the same accounting principles and the same calculation methods which were applied in the consolidated financial statements of the Prochem S.A. Capital Group for the year ended 31 December 2017, with the exception of IFRS 9 and IFRS 15, they will not affect the Company's accounting policy and the financial statements.

Accounting estimates made

Information about the adopted assumptions and uncertainties relating to estimates made, are included in the following notes:

- Note 1 – Property, plant and equipment: the key assumptions used in the prognosis of discounted cash flows;
- Note 3 – Investment properties; the key assumptions used in the prognosis of discounted cash flows;
- Note 16 – Liabilities under retirement benefits: key actuarial assumptions;
- Note 38 – Information on significant proceedings pending before the court.

In the applied accounting principles the biggest importance had, apart from accounting estimates, the professional judgment of the management, which had influenced the amounts disclosed in the financial statements. Assumptions of these estimates are based on the best knowledge of the Management Board of the Issuer regarding current and future activities and events in particular areas of activity. They relate to the valuation of retirement benefits, the assessment of the degree of realization and profitability of long-term contracts (of gross margin).

New standards, interpretations and changes in published IFRS

A number of new standards, amendments to standards and interpretations not yet effective for annual periods ended 31 December 2018 and have not been applied in the financial statements.

Standards and Interpretations which were adopted by the EU, but not yet effective for annual periods ended 31 December 2018 and Standards and Interpretations, which are waiting for approval:
The International Accounting Standards Board has approved new standards to be applied from January 1, 2018:

- IFRS 9 „Financial Instruments”,
- IFRS 15 „Revenue from Contracts with Customers” and amendments to IFRS 15 which clarify some requirements of the Standard,
- Amendments to IFRS 2 on classification and the recognition of share-based payment transactions,
- Amendments to IFRS 4 concerning the application of IFRS 9 together with IFRS 4,
- Amendments to IAS 40 on clarifications on the transfer to or from investment properties,
- Annual Improvements to IFRS Standards 2014-2016 cycle on clarifying more precisely IAS 28 and IFRS,
- Interpretation of IFRIC 22 on foreign currency transactions and advance consideration.

The above amendments to the standards have been approved for application by the European Union by the date of publication of hereby financial statements and, with the exception of IFRS 9 and IFRS 15, will not affect the Company's accounting policy and financial statements.

Description of the impact of applying IFRS 9 and IFRS 15

The Capital Group of Prochem S.A. retrospectively applied the IFRS 15 and IFRS 9 standard with effect from 1 January 2018. In accordance with the possibility allowed by the standard, the Group resigned from restatement of comparable data. Data as at December 31, 2017 were prepared based on IAS 39, IAS 18 and IAS 11.
The previously applied selected accounting principles for sales revenue (IAS 18, IAS 11) and financial instruments (IAS 39) were disclosed in the financial statements for 2017.

IFRS 15
The Group applies the principles of IFRS 15 taking into account the assumptions adopted in this model. This model assumes that revenue are recognized when (or in the extent in which) the entity transfers the control over the goods or services to the customer, and to such amount, to which entity expects to be entitled. Depending on the meeting of determined criteria, the revenues:
- are distributed over time in a way that reflects the implementation of the contract by the entity, or to which entity expects to be entitled.
- are recognized once, in such a time when the control over the goods or services is transferred to the customer.

The analysis made by the Group did not show the impact of the application of IFRS 15 on the financial statements prepared in previous years.

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

Statement of financial position

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

IFRS 9
At the moment of initial recognition, financial assets should be classified into one of three categories:
• financial assets measured at amortized cost;
• financial assets measured at fair value through profit or loss; or
• financial assets measured at fair value through other comprehensive income.

The Group qualifies financial assets to the appropriate category depending on the business model of financial assets management and the characteristics of contractual cash flows for a given financial asset.

Component of financial assets is classified into the category of measured on initial recognition at amortized cost if the following two conditions are met:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rinse on specified dates to cash flows which are solely payments of principal and interest on the principal outstanding.

Component of financial assets is classified into the category of measured at fair value through other comprehensive income if:

- the Group's objective is to hold assets in order both to receive cash flows from the contracts as well as their selling,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Other financial assets are measured at fair value through profit or loss for the current period.

The impact of the implementation of IFRS 9 on the change in the classification of financial assets as at 1 January 2018 is presented below.

Classes of financial instruments	**Classification under IAS 39**	**Classification under IFRS 9**
Financial assets available for sale	Available for sale	Measured at fair value through profit or loss
Security deposits under contracts for construction	Loans and receivables	Measured at amortized costs
Trade and other receivables	Loans and receivables	Measured at amortized costs
Loans granted	Loans and receivables	Measured at amortized costs
Derivative financial instruments not covered by hedge accounting	Financial assets measured at fair value through profit or loss	Measured at fair value through profit or loss

IFRS 9 did not introduce changes to the classification of financial liabilities.

In the scope of hedge accounting, the Group has decided to continue the existing measurement and classification methods.

IFRS 9 introduces a new approach to estimating the impairment of financial assets. Currently, the impairment model is based on the calculation of expected losses as opposed to the model resulting from IAS 39, which was based on the concept of losses incurred.
To estimate the expected credit losses in relation to trade receivables, the Group applied the simplified method allowed by IFRS 9. For the purpose of estimating the expected credit loss, the Group uses the provisions ratio, which takes into account historical data.

Taking into account the above calculation methodology for expected credit losses, the value of receivables may also be updated individually in case if in the individual assessment of the Management Board the risk of non-recoverability is significant, in particular in relation to:
- receivables from contractors put in liquidation or bankruptcy
- debts questioned by debtors, and such when the debtor is in arrears, and according to the assessment of the debtor's property and financial situation, the repayment of the contractual receivable is fraught with significant risk.
As a result of individual analysis, in case when despite significant overdue of receivables, the Group has a credible declaration of the contractor's payment, the creation of a write-off may be suspended.
The implementation of IFRS 9 did not significantly affect the amounts of write-downs as at 31 December 2018 as well as at 1 January 2018. Due to the fact that the calculated amount of impairment allowance as at 1 January 2018 in accordance with the adopted model of expected credit losses did not significantly differ from the amounts already recognized in the financial statements as at December 31, 2017, the Group took advantage of possibilities provided by in IFRS 9 and in result did not make restatement of the data of earlier periods, and because of that an adjustment was not made of the initial balance of the Group's retained earnings under the implementation of this IFRS.

The Group has not decided to early apply the Standards and amendments to standards that have been published and endorsed for use in the EU, but have not yet entered into force, and will introduce them on the date of adoption.

Standards and interpretations approved by the EU, which have not entered into force for the annual periods ended December 31, 2018

IFRS 16 Leases effective from January 1, 2019.

IFRS 16 replaces MSR 17 *Leases* and interpretations related to this standard. With regard to lessees, the new Standard eliminates the current distinction between financial and operating leases. The recognition of an operating lease in the statement of financial position will result in the recognition of a new asset - the right to use the leased asset - and a new liability - a liability to make a lease payment. Right to use the assets leased will be subject to amortisation, but interest will be charged on the liability. This will result in arising of higher costs in the initial leasing phase, even if its parties have agreed on fixed annual fees.
Recognition of lease agreements of the lessor will in most cases remain unchanged due to the maintained division into operating and financial leases agreements.

Impact of IFRS 16 on financial statements

At the time of preparing hereby financial statements, the Group completed work related to the implementation of the new IFRS 16 standard. The implementation of IFRS 16 was carried out as follows:
- analysis of all being executed contracts for purchase of services was made, regardless of the current classification, aimed at selecting those contracts on the basis of which the Company uses assets belonging to suppliers;
– each identified contract has been assessed in terms of meeting the criteria for being classified as a lease in accordance with IFRS 16,
- the subject of the made analysis was all financial lease contracts, operating lease contracts, and also rental and lease agreements.
The Group decided to implement the standard on January 1, 2019. In accordance with the transitional provisions contained in IFRS 16.C5 (b), the new principles will be adopted retrospectively with referring the cumulative effect of the initial application of the new standard to equity as at January 1, 2019. Therefore, comparative data for the financial year 2018 will not be transformed (modified retrospective approach).
The Group will recognize liabilities under lease related to contracts that were previously classified as "operating leases" in accordance with the principles of IAS 17 Lease. These liabilities will be measured at the current value of lease payments remaining to be paid at the date of application of

IFRS 16. For the purposes of implementing IFRS 16 and disclosures regarding the impact of the implementation of IFRS 16, discounting was applied using the marginal interest rate of the lessee as at January 1, 2019.

In order to calculate discount rates for IFRS 16, the Group will apply the marginal interest rate reflecting the cost of financing that would be incurred to purchase the leased asset. In order to estimate the discount rate, the Group took into account the following parameters of the contract: type, duration, currency and potential margin that it would have to pay to financial institutions in order to obtain financing.

The implementation of IFRS 16 required some estimates and calculations to be made that have an impact on the valuation of liabilities under lease”

- establishing of contracts covered by IFRS 16,
- determination of the remaining applicable lease period with respect to contracts concluded before January 1, 2019,
- establishing of marginal interest rates used to discount future cash flows,
- indication of useful periods and determination of amortization rates for use rights to assets recognized as at January 1, 2019.

When applying IFRS 16 for the first time, the Group will apply the following practical simplifications allowed by the standard:

- the using of one discount rate for a portfolio of lease agreements with similar features,
- the application of an assessment whether leases give rise to burdens in accordance with IAS 37 at the moment of implementing the standard, as an alternative to conducting impairment tests of the lease assets,
- agreements under operating lease with the remaining lease period of less than 12 months as at 1 January 2019 will be treated as short-term lease,
- the using of the time perspective (using the knowledge gained after the fact) in determining the lease period, if the agreement includes options for extending or terminating of the lease agreement.

As at December 31, 2018, the Group had an irrevocable off-balance sheet liability due to operating lease with regard to office lease agreements and car rental. As at December 31, 2018, the nominal value of assets used under lease agreements was PLN 34 163 thousand (detailed information is presented in note 36 of which the amount of PLN 33 823 thousand relates to lease agreements in accordance with IFRS 16 upon excluding short-term lease. For the aforementioned contracts, the Group made a valuation at the present value of assets used under these agreements and recognized as at January 1, 2019 the right to use an asset in the amount of PLN 28 436 thousand, and liability under lease with the same value. Off-balance sheet liability under leasing in the amount of PLN 34 163 thousand will be derecognised. In the case of contracts in which the Group acts as a lessor, the application of IFRS 16 will not result in the necessity to recognize the adjustments as at 1 January 2019.

Projected financial results of the implementation of IFRS 16 (applicable only to lease agreements concluded or amended before January 1, 2019) on:

Statement of financial position as at 1 January 2019

- the right to use an asset – property, plant and equipment PLN 28 436 thousand,
- liabilities under lease PLN 28 436 thousand.

Statement of profit and loss: for the period from 1 January -31 December 2019.

- decrease in service costs by PLN 1 826 thousand;
- increase in depreciation and amortization by PLN 1 301 thousand;
- increase in interest expenses by PLN 525 thousand.

Statement of cash flows

- increase in cash flows from operating activities by PLN 525 thousand
- decrease in cash flows from financial activities by PLN 525 thousand

The annual cost under short-term leases will amount to PLN 509 thousand.

Other published but not yet endorsed standards and interpretations do not apply to the Group's activities or will not affect it:

• Amendments to IFRS 10 and IAS 28 regarding the sale or transfer of assets between an investor and its associates or joint ventures,
• IFRIC 23 interpretation regarding uncertainty regarding the recognition of income tax,
• MSSF 17 Insurance Contracts,
• Amendments to IFRS 9 regarding debt financial assets with an option of early prepayment, which may result in the arising of the so-called negative compensation,
• Amendments to IAS MSR 28 regarding long-term interests that form part of the net investment in the associate or joint venture,
• Annual Improvements to IFRS Standards 2015-2017 cycle,
• Amendments to IAS 19 concerning changes, reductions or settlements of defined benefit plans,
• Amendments of references to conceptual assumptions in IFRS,
• Amendments to IFRS 3 to the definitione of a business,
• Amendments to IAS 1 and IAS 8 regarding the definition of materiality.

The above-mentioned standards, with the exception of IFRIC 23 interpretations and amendments to IFRS 9, are awaiting endorsement by the European Union. The Group intends to apply all amendments in accordance with the date of their entry into force.

Remaining accounting principles applied by the Capital Group are presented below.

The principles of consolidation

1. When preparing the consolidated financial statements of the Prochem Capital Group, the following procedures were applied:
    - the data of subsidiaries were recognized in financial statements using the full method, consisting in combining the financial statements of the parent company and its subsidiaries by adding together like items of assets, liabilities, equity, revenues and expenses,
    - shares in associated entities and jointly-controlled entities are measured in the consolidated financial statements using the equity method, and at initial recognition are recognized at cost. The purchase price include transaction costs.

Assessment whether the Parent Company controls the company requires determining whether it has the right to manage the significant activity of the company. The determination of the company's significant activity, and who of the investors controls it, requires judgment. In assessing the situation and determining the nature of ties, the following factors are taken into account: voting rights, relatively owned share, distribution of voting rights held by other investors, scope of these investors' participation in appointing of key managerial staff, or members of a Supervisory Board.

2. The subsidiaries are entities controlled by the Parent Entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date of the obtaining the control until the date when it expires.
3. Accounting principles applied by subsidiaries have been unified with the principles adopted by the Group.
4. Goodwill of subsidiaries represents the surplus of the purchase price of components of assets acquired by the parent company over the fair value of the net assets of the subsidiary, in proportion to the acquired share in the entity’s equity. Negative goodwill of subsidiaries is the surplus of the fair value of the net assets of the subsidiary above the purchase price of components of assets borne by the parent company, in proportion to the acquired share in the equity of this entity. As at the date of acquisition of subsidiary and associated company (obtaining of control), assets, equity and liabilities and contingent liabilities of a subsidiary are measured at fair value.
5. At the moment of loss of control (e.g. in the event of sale) the Group ceases to recognize assets and liabilities of the subsidiary, non-controlling interest and remaining components of the capitals related to the subsidiary. Possibly surplus or deficit arising from the loss of control is recognized

in profit or loss of the current period. If the Group retains any interests in the former subsidiary, they are subsequently measured at fair value as at the date of the loss of the control.

6. Shares of non-controlling interests are disclosed at assigned value, even if it results in arising of a negative balance of non-controlling interests.
7. The Group of Prochem SA treats the transactions with the non-controlling interests as transactions with external entities.
8. Gains or losses arising from the sale of shares to non-controlling interests are recognized in equity.
9. As associated entities are considered such entities in which Prochem has between 20% and 50% of the total number of votes in the decisive bodies or otherwise may exercise substantial influence over their financial and operating policies. As the jointly-controlled entities are considered such the entities in which Prochem S.A. holds 50% of the total voting rights in the decisive bodies.
10. Investments in associates and jointly controlled are accounted for using the equity method and are initially recognized at cost. Share in profit or loss of the associate or jointly-controlled is recognized in profit and loss account. If the share in losses of an associate or jointly controlled equals or exceeds its interest of Prochem S.A. Capital Group in this entity, the Group does not recognize further losses, unless it is obliged. Unrealized gains between the Group and the associate are eliminated to the level of the Group's interest in such entity.
11. The purchase price of shares in associated companies and in jointly-controlled entities is subject to adjustments by any changes in the fair value of the net assets, which are attributable to the value of the share held, from the moment of purchase until the date of the financial statements, as well as effects of a stated impairment.
12. At preparing the consolidated financial statements shall be done the following adjustments and exemptions:
    - In the scope of exemptions:
        1. shares with the equity held by the parent company, at the moment of obtaining control of subsidiaries,
        2. mutual receivables and liabilities and other settlements of a similar nature of consolidated entities,
        3. income and expenses from mutual buying and selling operations in the capital group j,
        4. dividends accrued or paid by the subsidiaries to the parent company, and to other consolidated entities.
    - In the scope of adjustments:
        1. gains or losses arising as a result of economic transactions between consolidated entities.

The items of the financial statements are divided into short-term and long-term (current and non-current) according to IAS 1.

Property, plant and equipment and intangible assets

Property, plant and equipment include fixed assets and expenditures on construction in progress which the Group intends to use in their business operations in a period longer than one year, and which will result in future economic benefits to the entity.
Expenditures on property, plant and equipment include incurred investment expenditures as well as incurred expenses on future supply of machinery, equipment and services relating to production of PPE (transferred advance payments).
PPE are initially stated at cost. Measurement after initial recognition:

- Land, buildings and construction are carried at revalued amount, being its fair value at the date of revaluation, set by experts, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Fair value will be set by experts not less frequently than every two years.
- Other PPE are carried at their cost increased by possible improvement costs, less any accumulated depreciation and any accumulated impairment losses.

Increase in value resulting from the revaluation of land, buildings and constructions is recognized in other comprehensive income and accumulated in total amount in equity- *Revaluation reserve*, as revaluation surplus unless it represents the reversal of a revaluation decrease previously recognized in the statement of profit and loss. A decrease in value arising as a result of a revaluation of land, buildings and constructions is recognized as cost of the period to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset and recognized in other comprehensive income. A decrease resulting from revaluation included in other comprehensive income decreases the amount of total surplus arising from the revaluation recognized in the equity.

Value of PPE designated to liquidation, withdrawn from use as a result of the change of technology or other reasons, is being revalued by write down. Write-down is recognized in other operating costs.
Expenditures on PPE incurred at a later date are recognized at their carrying amount when it is probable that future economic benefits associated with them will flow to the entity, and this cost could be reliably measured. All other repair and maintenance costs of PPE are recognized in the cost of the period, in which they were incurred.

Profit and loss on sale of PPE are set by comparing the revenues from sale with the carrying amount of the given component of non-current assets and recognized in the statement of profit and loss. PPE are subject to depreciation since they are available for use. Depreciation allowances on PPE are provided by systematic, scheduled allocation of the initial value over the established useful life of the component. A straight line depreciation method is applied.

In the consolidated financial statements for the current period and comparative periods, for depreciation of PPE the following useful lives are used by the Group:

- Buildings and constructions 10-40 years
- Machinery and equipment 5-12 years
- Vehicles 5 years
- Tools, devices, movables and equipping 5-10 years

The applied useful lives, depreciation methods are verified at the end of each reporting year and, when it is justified, are being adjusted.

Own land is not subject to depreciation.

PPE in-progress arising for the operating activity, as well as for purposes not yet identified, are presented in the financial statements at their cost less recognized impairment losses. The cost of all items comprises all fees and borrowing costs capitalized in accordance with the applied accounting principles.

PPE are subject to the impairment tests, if premises attesting to impairment exist, while in case of PPE in- progress, during its execution the possible impairment is determined at least for each balance sheet day. The effects of the impairment are recognized in other operating costs.

An intangible asset is measured at cost less any depreciation allowances and any impairment losses.

Intangible assets, except for the company’s goodwill are amortized. Amortization allowances of intangible assets is made by systematic, planned allocation of the initial value in the established useful life of the component. A straight line of depreciation method is applied.

In the consolidated financial statements for the current period and comparative periods the Group applied useful life period of 3-10 years for amortization of intangible assets.

The applied useful lives, amortization methods are verified at the end of each reporting year and when necessary adjusted in subsequent periods.

Intangible assets are subject to the impairment tests if premises attesting to impairment exist. Its value is subject to the impairment tests at the end of financial year. The effects of the impairment are recognized in other operating costs.

Investment property

Investment property is a property (land or a building or part of a building, or both), which the Company treats as a source of rental income or maintains due to the increase in value, or in order to benefit from both of them, and the investment property :

- is not used in operating activities,
- is not offered for sale in the ordinary course of investment activity.

Investment properties are also real estates under construction or their adaptation, which are to be used in the future as investment properties. Gains or losses arising from the sale/liquidation of the investment property shall be determined as the difference between proceeds from sale and the carrying amount of these assets and are recognized in the statement of profit and loss.
Investment properties are initially measured at its cost, including transaction costs. After initial recognition, investment properties are measured at fair value as defined in the fair value model and in IFRS 13 *Fair Value Measurement*. The method of valuation is obligatory to all investment properties unless some investment properties cannot be measured by this method - then the cost approach method is applied until the moment of sale of the investment property.

Profit or loss from changes in the fair value of the property is recognized in the result for the period in which the change occurred.

Change in classification, i.e. transfers to, or from, the investment property are only made when there is a change in use, e.g..:

- commencement of owner-occupation – transfer from investment property to property, plant and equipment,
- end of owner-occupation – transfer from property, plant and equipment to investment property,
- commencement of development with a view to sale – transfer from investment property to inventories,
- commencement of an operating lease to third party – transfer from inventories to investment property.

Cost of an investment property, that is transferred to property, plant and equipment or to inventories represents its fair value at the date of change in use.

The difference between the fair value and the carrying amount, which arose at the time of transfer to investment properties measured at fair value:

- PPE – is accounted for as a revaluation in accordance with IAS 16,
- inventories – is recognized as profit or as loss for the period,
- completion of construction or development of investment property on own account – as the profit or loss for the period.

The fair value in accordance with IFRS 13 is such a price, which would be received from the sale of an asset, or which could be paid for the transfer of a liability in transaction made on usual conditions between market participants at the measurement date. Measurement of fair value refers to a specific asset. Therefore, at measurement at fair value should be taken into account the features of the asset, if market participants would consider such features when determining the price of the asset at the measurement date. Such features include, for example:

- condition and location,
- any restrictions on the sale or use of the asset.

The impact of individual features is to differ in depending on how these features will be taken into account by the market participants.

Fair value measurement is based on the assumption that the transaction on disposal of assets is held:
- on the principal market for the asset,
- in case of the absence of a principal market, the most advantageous market for the asset. The most advantageous market means market that maximises the amount that would be received to sell the asset by the seller of the asset, after taking into account transaction costs and transport costs.

The standard requires the classification of fair value measurements depending on the inputs obtained for the purposes of valuation in accordance with the following hierarchy:

- Level 1: quoted exchange prices for identical assets or for liabilities in the active markets that are available at the measurement date.
- Level 2: initial data not constituting prices of Level 1, but are observable either directly or indirectly.
- Level 3: unobservable data.

IFRS 13 requires disclosures in financial statements. The scope of required disclosures depends on the category of fair value measurement (i.e. whether it is included in the financial statements or in the notes only) and on the level of the fair value hierarchy within which the fair value measurements are categorised.

Disclosures resulting from IFRS 13 concerning fair value model relate to:

- Reconciliation of fair value at the beginning of the period and its value at the end of the period.
- A level from the three levels of fair value hierarchy. For investment properties, it will be a level 2 or 3 for which it is required:
  - disclosure of the amount of transfer between levels (the reasons for those transfers and the policy applied by the Group for determining whether such a change in levels has occurred),
  - description of applied valuation techniques and inputs,
  - in case of the change in the valuation techniques used in the fair value measurement, disclosure of such a change and the reasons for making such a change.
- If the highest and best use of a non-financial asset differs from its current use, should be disclosed the reason for different use of this component of asset.
- Information enabling reconciliation of classes of assets and liabilities, which were disclosed at the separate levels of the fair value hierarchy with items presented in the statement of financial position.

Measurement of fair value of the entity's investment property is carried out by an independent expert, who has qualifications relevant to carrying out valuations of investment property, as well as current experience in such valuations in locations where assets of the Group are located.
In justified cases, investment properties whose value changes by at least 10%, are valued each year.

Leases

The Group as the lessee

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset to the Prochem S.A. Capital Group. Components of the assets under this lease are measured in the financial statements at the lower of amounts set in commencement of the use: at fair value or at present value of minimum lease payments. Each lease payment is divided into the part constituting the liability and the financial part. The liability is presented in the balance-sheet in the position „Other liabilities" with the division into the short-term part (payable up to one year) and long term (payable in the period longer than one year). Finance costs are recognized in the Statement of profit and loss. Principles of the amortization and depreciation of assets being a subject of the financial lease and the principles of determining impairment allowances by assets under finance lease are consistent with principles applied for the Group's assets. PPE held under lease agreements are depreciated over the economic life of assets. Straight-line method of depreciation is used.

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

The Group as the lessor
Lease agreements, such as rent agreements according to which the Company retains substantially all the risks and all rewards resulting from having a leased object, are classified as operating lease. Leasing costs are recognized in current costs while income from the leased object are recognized in profit of the period.

Borrowing costs

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

1. borrowing costs are incurred,
2. expenditures are incurred for the asset,
3. the activities necessary to prepare the asset for its intended use or sale are undertaken.

Capitalization of borrowing costs shall be suspended in the case of interruption for extended periods of active investing activity by the entity. Borrowing costs are capitalized until the designation of the asset for use or sale.

Current assets

Inventory – in the item of inventory - materials, goods, semi-finished products and work-in-process are shown.
Inventories are measured initially at cost. As at the balance sheet day the measurement is done with the principles of prudence, that is categories are valued at the lower of purchase price, the production cost or the net realizable value.
Stock of goods and materials slowly-rotating is covered among others by the write-down established according to individual evaluation of the realizable price as at the balance sheet day.
Stock inventory is carried out using the FIFO method – "first-in", "first-out".
Write-downs concerning inventory and their reversals are recognized in the other operating expenses and operating revenues.

Loans granted - arise when the entity is transferring financial means directly to the debtor, not intending to enter the receivable into trade. They are classified as current assets, provided the date if their maturity does not exceed 12 months from the balance sheet day. Loans with the maturity date exceeding 12 months starting from the balance sheet day are classified as non-current assets. Loans are initially recognized at their fair value. The measurement of loans after initial recognition is at amortized cost, using the effective interest rate method, less impairment losses.

Receivables are recognized initially at fair value, and subsequently measured at amortized cost using the effective interest rate method less impairment allowances. Impairment allowance of receivables is identified when there is objective evidence that the entity will not receive all amounts due according to the original terms of receivables and it is recognized in other operating expenses. The amount of write-down is a difference between the carrying value of amount due and present value of estimated future cash flows, discounted using the initial effective interest rate.
Discounting involves determining the present value of future payments to maturity. For this purpose, we set an interest rate for calculation purposes (discount interest rate) calculated on the basis of the interest rate established as the average return on bonds with a specified return period and a time remaining to time of repayment of receivable.

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

Non-current assets held- for- sale
Non-current assets held-for-sale are assets meeting at the same time the following criteria:
- by the Management is committed to a plan to sell,
- an active program to locate a buyer is initiated,
- an asset is available for immediate sale,
- the sale is highly probable within 12 months from classification as held for sale,
- the selling price is rational in relation to the current fair value,
- it is unlikely that the sales plan will be significantly changed.

Change of classification is reflected in the reporting period in which the criteria are met.

Immediately prior to reclassification to the group held for the sale or the disposal, these assets are re-measured according to accounting principles. Non-current assets held for the sale (excluding financial assets and investment properties) are recognized in the financial statements in lower of two values: the carrying amount or the fair value less costs to sell.

In case of increase of value, at a later date, of fair value less costs to sell, the income is recognized, however, at the value not higher than previously recognized impairment allowance. Upon allocating the given component of assets as held for sale, the calculation of depreciation allowances is stopped.

Measurement of assets and financial liabilities
At initial recognition the Group shall measure component of assets or liabilities at fair value, increased in case of the component of assets or financial liabilities not classified as measured at fair value through profit or loss by transaction costs, which could be directly attributable to the purchase or to the issue of the component of financial asset such as: fees and commissions paid to advisers or agents, levies imposed by regulatory agencies and the stock exchange and taxes. Transaction costs do not include premium or discount from debt instruments, or financing costs, neither administrative costs nor costs of holding of the instruments.
For measurement at the end of the reporting period or any other date after initial recognition the Group classifies financial assets into one of four categories:
1. measured at fair value through profit or loss,
2. held-to-maturity investments,
3. loans and receivables,
4. available- for- sale financial assets.

Component of assets measured at fair value through profit or loss means such a component of financial assets which was designated at initial recognition as measured at fair value through profit or loss or was classified as held for trading since:
- was purchased or contracted mainly for sale or repurchase in short term,
- is a part of portfolio of determined financial instruments jointly managed and for which there is evidence of a recent actual pattern of short-term profits, or
- is a derivative instrument (except for derivatives that are effective hedging instruments).

Investments held-to-maturity are non-derivative financial assets with fixed or determinable time of payment or fixed maturity, which the Group is intending and able to hold to its maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on the active market. Available-for-sale financial assets are non-derivative financial assets, which were classified as available for the sale or which do not constitute loans or other receivables, or investments held-to-maturity as well as they are not the financial assets measured at fair value through financial result.

Measurement of financial assets at fair value

The Group measures financial assets measured at fair value through the profit or loss, including derivatives being assets and available-for-sale financial assets, without reduction by the transaction costs which can be incurred in relation to the sale or using other way of the disposal of assets.

Fair value of financial assets is measured as follows:

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

Investments in equity instruments (shares) that do not have quoted market price on active market and which fair value cannot be measured credibly, are valued at cost by the Company, i.e. at purchase price less possible impairment losses.

Financial assets designated as hedged items are valued in accordance with principles of hedge accounting.

Profit or loss arising from the measurement of the component of financial assets, classified as measured at fair value through profit or loss, is recognized in financial result (profit or loss).

Profit or loss arising from measurement of the financial asset classified as available - for - sale is recognized in other comprehensive income, except for impairment losses and exchange differences which are recognized in financial result. For debt financial instruments, interest calculated using the effective interest rate method is recognized in financial result.

Measurement of financial assets at amortized cost

The Group values loans and other receivables, including trade receivables and held-to-maturity investments according to amortized cost and using the effective interest rate method.

Measurement of financial liabilities at fair value

The Group measures financial liabilities classified as measured at fair value through profit or loss (in particular including derivatives which are not being hedging instruments), as at the last day of the reporting period or any time after the initial recognition at fair value. Irrespective of the nature and purpose of the acquisition, the Group, at the initial recognition, classifies selected financial liabilities as measured at fair value through financial result if it leads to obtaining more useful information. The fair value of the obligation is based on the current selling price for instruments quoted on the active market.

In the absence of an active market, the fair value of financial liabilities is determined by:

- the use of recent market transactions conducted directly between the well knowledgeable, willing parties, or
- reference to the current fair value of another instrument that is almost the same, or
- discounted cash flows analysis.

Measurement of other financial liabilities at amortized cost

The Group measures other financial liabilities according to amortized cost using the effective interest rate method.

Financial guarantee contracts, i.e. contracts that obligate the Group (issuer) to make specified payments to reimburse the holder for a loss it incurs because of not making payment by a specified debtor when due in accordance with the original or modified terms of a debt instrument, and not classified as liabilities measured at fair value through profit or loss are measured at the higher of:

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

Impairment of financial assets

At the end of the reporting period, the Group assesses if there is objective evidence of impairment of a financial asset or group of financial assets.

If exist objective premises of an impairment of loans and other receivables as well as of investments held to maturity, which are measured at amortized cost, then the Group shall recognize an impairment loss based on the estimated future cash flows discounted by using an original, effective interest rate of the financial instrument.

If in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss shall be reversed and recognized as revenue in financial result.
If objective premises exist for an impairment of an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, then the amount of impairment allowance is set as the difference between book value of the financial asset and the current value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Impairment allowance which is set in such way, is not subject to reversal.

If objective premises exist for impairment of financial asset available-for-sale, then the cumulative losses arising from valuation recognized in the statement of comprehensive income, in accordance with the principles of valuation of financial assets, are derecognized from equity and recognized in financial result (profit or loss). If in a subsequent period fair value of an available-for-sale debt instrument rises and the increase can be objectively related to an event occurring after the recognition of impairment loss in financial result, the amount of reversed impairment allowances shall be recognized in financial result (profit or loss).

Impairment losses of the investment in an equity instrument, which is classified as available-for-sale is not subject to reversal in the financial result (profit or loss).

Dividend payments to shareholders of the Company is recognized as liability in the financial statements of the Company, at the time when a relevant resolution was passed at the General Meeting of Shareholders of the Company.

Provisions **-** are established in the justified, credibly assessed value. Provisions are created when obligation resulting from past events (legal or customary) rests on the Group, and also when it is probable, that fulfilling of this duty will result in the necessity of the outflow of financial means, and is possible to estimate of amount of the liability credibly.

Employee benefits **-** the Group pays the contributions to the obligatory retirement benefit plan, depending on the amount of gross wages, which is paid in accordance with the applicable laws. The Group has no other retirement benefit plans.
In accordance with the Remuneration Regulations applicable in the Group, employees are entitled to one-time retirement and pension benefits in the event of termination of employment in connection with retirement or pension. The above-mentioned severance payments are benefits after the period of employment paid in the moment when the employee does not perform work, therefore the expenses related to them are spread over the entire period of employment of the employee by making current allowances for provisions for benefit. In some of the Group's companies, there are jubilee payments paid out at five-year intervals after reaching the required length of employment by employees. These bonuses are other long-term benefits and the expenses related to them are also spread over time from the moment of employment until the required number of years of work is reached. The current amounts of provisions and write-downs are determined by an external actuarial office individually for each employee in accordance with the "projected entitlement for person" methodology. The accrued provisions constitute the current expected value of future long-term liabilities of the Company under severance payments less the current expected values of future write-downs, which will be made, until the moment when the employee acquires title to benefit from them.
Actuarial assumptions used for calculations are determined based on the Company's historical data, market data and forecasts. They include demographic and financial indicators, including rotation rates, mortality tables, tables of total disability, indicators of postponing the moment of taking advantage of pension rights after their acquisition, rates of increase in benefits bases, interest rate for discounting.

The Company recognizes the following components of the change in provisions for severance pay in the reporting period:

- costs of current employment (current allowance) recognized in profit and loss,
- use of provisions for payment of benefits,
- interest cost reflecting the change in the amount of provisions in connection with the passage of time, recognized in profit and loss,
- actuarial gains/losses arising in connection with the materialization in the reporting period of phenomena reflected by actuarial assumptions adopted at the beginning of the period and as a result of updating of assumptions, done at the end of the period, being recognized in Other comprehensive income if relate to post-employment benefits (severance payments), and recognized in profit and loss if they relate to other non-current benefits (jubilee benefits),
- past employment costs occasionally appearing as a positive or negative offsetting of write-offs made in previous periods and the current period, resulting from a change in the conditions of benefits (such as change in retirement age) or introduction/restriction of a benefit plan, recognized in profit or loss for the period.

Equity

Equity is recognized in the accounting books by its type, and in accordance with principles pursuant to legal regulations and to the stipulations of the Company's statutes. Equity includes:

- Share capital – share capital was shown in the nominal value of issued and registered shares.
- Revaluation reserve includes:
  - the revaluation difference between the fair value and the purchase price, less deferred tax – among others – of buildings and structures, and land measured at fair value,
  - capital arisen from the foreign exchange differences – from translation of the foreign operations of Representation Office,
  - actuarial gains and losses resulting from the changes in actuarial assumptions (including those due to change in discount rate).
- Retained earnings, which include:
  - Spare capital, which is created from the surpluses of sale of shares above its nominal value, and from annual write-downs of net profits and write-downs of revaluation of non-current assets in the previous years,
  - Reserve capital which arose from the profit allocated to equity,
  - Undistributed profit/loss brought forward and profit(loss) of the current year,
  - Advance payments paid on account of dividends.

Revenues from sale – include revenues under execution of contracts of construction services (general contracting) assembly of electrical installations, design and engineering services, rental of office space, and supplies. From 1 January 2018, the Company applies the principles of IFRS 15 taking into account the assumptions adopted in this model. This model assumes that revenues are recognized when (or to the extent to which) the entity transfers control over the goods or services to the client and in the amount to which the entity expects to be entitled. Depending on the meeting of determined criteria, the revenues:

- are distributed over time in a way that reflects the implementation of the contract by the entity, or to which entity expects to be entitled.
- are recognized once, in such a time when the control over the goods or services is transferred to the customer.

Revenues from the contracts for construction services (general contracting) and the design and engineering services are determined in proportion to the level of the progress of the service. The level of progress of the service is measured by the share of costs incurred from the date of the contract to the date of recognition of income in the total cost of the execution of service.

Correctness of calculations of the level of the progress of service as well as expected the total expenses and revenues from the performing of the service is verified at the end of each quarter.

Revenues from sale of goods and materials are recognized in the profit and loss account when the control over goods has been transferred to the client.

Income tax – tax burdens include the current taxation by corporate income tax, and the change in provisions or deferred tax assets.

Current tax liabilities are established on the basis of current tax regulations and the established taxable income. Current tax liabilities for the current period and previous periods are included as the liability in the amount, in which it wasn't paid.
Provision under deferred income tax is recognized using the liability method, under transitional differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that are actually applicable as at the balance sheet date. Transitional differences relate to different measurement of assets and liabilities for tax purposes and balance sheet purposes.
Income tax assets are recognized when is probable that in future the taxable income will be achieved that will enable the use of transitional differences. Deferred tax assets are recognized separately from tax losses, which could be deductible in the next years.

Transactions in foreign currencies

Transactions in foreign currencies are initially recognized at the exchange rate of the NBP effective as at the transaction date. Balance sheet items of assets and liabilities expressed in foreign currencies are measured at the average NBP exchange rate in force at the balance sheet date. Gains and losses arising from the settlement of such transactions and carrying value of assets and liabilities expressed in foreign currencies are recognized in the statement of profit and loss.

Functional currency and presentation currency of financial statements

The consolidated financial statements is presented in thousands of Polish Zlotys (‘zloty’ or ‘PLN’) which is the functional currency of the Parent Entity and presentation currency.

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

- assets and liabilities shall be translated at the closing rate as at the date of statement of financial position,
- revenues and expenses shall be translated at the medium exchange rate on the transaction date, and
- arisen exchange differences shall be recognized in statement of profit and loss.

6. Explanatory notes to consolidated financial statements as at and for the period ended 31 December 2018

Note No. 1 – Property, Plant and Equipment

	31 December 2018	31 December 2017
Property, plant and equipment, including:	22 829	22 000
- land	4 749	4 208
- buildings, premises and civil engineering objects	15 423	15 152
- machinery and equipment	591	544
- vehicles	1 267	1 125
- other PPE	799	971
Construction under progress	18	481
Total property, plant and equipment	**22 847**	**22 481**

PPE – ownership structure	31 December 2018	31 December 2017
a) owned	8 225	10 258
b) used under rental, lease or other agreement, including:	14 622	12 223
- lease	775	692
- rental and lease	10 477	10 979
- value of the right of perpetual usufruct	3 370	552
Total property, plant and equipment	**22 847**	**22 481**

The Group, pursuant to an agreement dated 23 July 2004 leases property consisting of 3 buildings with a total area of 6 227.5 m^2, on a plot of 3 311 m^2 located in Warsaw at Emilia Plater Street No. 18 and Hoża No. 76/78. The duration of the contract, from the date of its conclusion, is 30 years.

In 2018, the Group changed the classification of property, plant and equipment, i.e. transferred the property, plant and equipment to investment property, due to the change in their use.

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 2018 was set based on valuation made by the independent valuators not associated with the Group. The valuators have the right qualifications to carry out valuations of land, buildings and structures, as well as the current experience in such valuations, which are carried out in locations where there are assets of the Group.

Methods of valuation and key unobservable data are presented in table as below.

Method of valuation	**Key unobservable input data**	**Relationship between key unobservable input data and fair value**
The comparative approach using the method of the adjusted, average price: The model is based on determining of the average transaction price for 1 m^2 of the area on the basis of the representative sample of the transactions concluded. The average price was corrected for weights of the market features: the attractiveness of the location and the neighborhood, area and shape of the plot, destiny, legal status of a land, access to the plot.	• The average transaction price per 1 m^2. • Attractiveness of the location and neighborhood. • Area and shape of the plot • Designation • Legal status • Access to the plot	The estimated fair value of real estate would be increased (or would be reduced), if: • The average transaction price per m^2 was higher (was lower)

Discounted cash flows: The model of measurement is based on the present value of future net cash flows that will be generated from the real estate taking into account: the level of leased space. The expected net cash flows are discounted with discount rates taking into account the risk. Other factors considered in the adopted average rent per square meter are: attractiveness of the location, technical condition of building, the standard and the functionality of the building, the possibilities of the access, and parking spaces.	• Level of space lease : reflecting the status of the currently leased space. • Adjusted for the risk of discount rate: 6,646%-6,896%, 6,98%.	The estimated fair value of real estate would be increased (or would be reduced) if: • Level of leased space was higher (was lower); • Discount rates adjusted for the risk were higher (were lower).

There has been no change in the valuation technique during the year.

Details concerning land, buildings and constructions, as well as information about the hierarchy of fair values as at 31 December 2018.

The Group	Fair value as at 31 December 2018 (in PLN thousands)	Fair value as at 31 December 2017 (in PLN thousands)
	Level 3	Level 3
Land, including the right of perpetual usufruct	4 749	4 267
Buildings and constructions	15 423	7 045
Total	**20 172**	**11 312**

Property, plant and equipment covered by the mortgage, hedging the repayment of loans, was described in Note 18.

Change in PPE – in 2018

	Land, including the right of perpetual usufruct of land	**Buildings, premises, and civil engineering objects**	**Machinery and equipment**	**Vehicles**	**Other PPE**	**Construction under progress**	**Total PPE**
Gross value							
As at 1 January 2018	**5 253**	**22 527**	**4 546**	**2 409**	**4 319**	**483**	**39 537**
Increase (due to)	639	238	353	604	112	-	2 355
- acquisition of non-current assets	-	238	353	604	112	-	1 307
- revaluation of non-current assets	639	409	-	-	-	-	1 048
Decrease (due to)	-	-461	-503	-395	-310	-465	-1 212
- disposal of non-current assets	-	-	-193	-355	-16	-	-564
- liquidation of non-current assets	-	-	-310	-40	-292	-	-642
- revaluation of non-current assets	-	-4	-	-	-	-	-4
- changes	-	465	-	-	-2	-465	-2
As at 31 December 2018	**5 892**	**23 635**	**4 396**	**2 618**	**4 121**	**18**	**40 680**

Depreciation and impairment							
As at 1 January 2018 - accumulated depreciation	**1 045**	**7 375**	**4 002**	**1 284**	**3 191**	**2**	**16 899**
Depreciation for the period (under)	98	837	-197	67	131	-2	934
- increase (depreciation accrued)	98	837	306	404	287	-	1 932
- decrease under disposal of non-current assets	-	-	-194	-298	-16	-	-508
- decrease under liquidation of non-current assets	-	-	-309	-39	-140	-2	-490
As at 31 December 2018 - accumulated depreciation	**1 143**	**8 212**	**3 805**	**1 351**	**3 322**	**-**	**17 833**
Impairment of non-current assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net value of non-current assets as at 31 December 2018	**4 749**	**15 423**	**591**	**1 267**	**799**	**18**	**22 847**

Comparative data

Change in PPE – in 2017

	Land, including the right of perpetual usufruct of land	Buildings, premises, and civil engineering objects	Machinery and equipment	Vehicles	Other PPE	Construction under progress	Total PPE
Gross value							
As at January 2017	**5 253**	**22 302**	**4 550**	**2 193**	**4 258**	**20**	**38 576**
Increase (due to)	-	225	214	538	172	467	1 616
- acquisition	-	225	214	538	172	467	1 616
Decrease (due to)	-	-	-218	-322	-111	-4	-655
- disposal of PPE	-	-	-	-221	-	-	-221
- liquidation of PPE	-	-	-218	-101	-111	-4	-434
As at 31 December 2017	**5 253**	**22 527**	**4 546**	**2 409**	**4 319**	**483**	**39 537**
Depreciation and impairment							
As at 1 January 2017 - accumulated depreciation	**940**	**6 573**	**3 901**	**1 254**	**3 036**	**2**	**15 706**
- increase – depreciation for the period	105	802	318	347	262	-	1 834
- decrease due to disposal of PPE	-	-	-	-217	-	-	-217
- decrease due to liquidation of PPE	-	-	-217	-100	-107	-	-424
As at 31 December 2017 - accumulated depreciation	**1 045**	**7 375**	**4 002**	**1 284**	**3 191**	**2**	**16 899**
Impairment of PPE	**-**	**-**	**-**	**-**	**-157**	**-**	**-157**
Net value of PPE on 31 December 2017	**4 208**	**15 152**	**544**	**1 125**	**971**	**481**	**22 481**

Note No. 2 – Intangible Assets

	31 December 2018	31 December 2017
Acquired concessions, patents, licenses and similar assets including computer software	182	242
Total intangible assets	**182**	**242**
Intangible assets – ownership structure		
Owned	182	242
Total intangible assets	**182**	**242**

Change in intangible assets – in 2018

	Acquired concessions, patents, licenses and similar assets including computer software	Intangible assets, total
Gross value		
As at 1 January 2018	**3 497**	**3 497**
Increase (due to)	94	94
- purchase of non-current assets	94	94
Decrease (under)	-221	-221
- liquidation	-221	-221
As at 31 December 2018	**3 370**	**3 370**
Amortization and impairment		
As at 1 January 2018 – accumulated amortization	**3 255**	**3 255**
Amortization for the period (under)	-67	-67
- increase (amortization accrued)	154	154
- decrease under liquidation	-221	-221
As at 31 December 2018 - accumulated amortization	**3 188**	**3 188**
Net intangible assets as at 31 December 2018	**182**	**182**

Comparative data

	Acquired concessions, patents, licenses and similar assets including computer software	Intangible assets, total
Gross value		
As at 1 January 2017	**3 485**	**3 485**
Increase (due to)	30	30
- purchase	30	30
Decrease (under)	-18	-18
- liquidation	-18	-18
As at 31 December 2017	**3 497**	**3 497**

Amortization and impairment

As at 1 January 2017 - accumulated amortization	**3 094**	**3 094**
Amortization for the period (due to)	161	161
- increase (accrued amortization)	180	180
- other changes	-19	-19
As at 31 December 2017 - accumulated amortization	**3 255**	**3 288**
Net intangible assets as at 31 December 2017	**242**	**242**

Note No. 3 –Investment Property

	31 December 2018	31 December 2017
Construction under progress	-	1 128
Buildings and constructions	7 193	5 917
Value of the land	4 797	4 267
Total investment property	**11 990**	**11 312**

Investment property by titles	Change in investment property for the period from 1 January 2018 to 31 December 2018	Change in investment property for the period from 1 January 2017 to 31 December 2017
Investment property - land		
As at opening balance sheet	4 267	5 352
- net increase from revaluation at fair value	-166	-1 085
Investment property - land	696	-
As at closing balance sheet	4 797	4 267
Construction under progress		
As at opening balance sheet	1 128	1 128
- change due to:		
- under reclassification from PPE	-752	-
- under valuation at fair value	-376	-
Total changes	-1 128	-
As at closing balance sheet	-	1 128
Investment property - buildings and constructions		
As at opening balance sheet	5 917	6 270
- change due to:		
a) decrease under disposal	-80	-353
b) increase under valuation at fair value	601	-
c) increase under reclassification from PPE	755	-
Total change	1 276	-353
As at closing balance sheet	7 193	5 917
Write-down of investment property	-	-
Total investment property	**11 990**	**11 312**

Fair value as at 31 December 2018 was determined based on a valuation prepared by independent appraisers, not related to the Group. Appraisers have the appropriate qualifications to conduct valuations of investment properties, as well as current experience in such valuations made at locations where the Group's assets are located.
As at December 31, 2018, this value was confirmed by independent appraisers. Valuation methods and key unobservable data are presented in the table below:

Method of valuation	**Key unobservable input data for comparable real estates**	**Relationship between key unobservable input data and fair value**
The comparative approach using the method of the adjusted, average price: The model is based on determining of the average transaction price for 1 m^2 of the area on the basis of the representative sample of the transactions concluded. The average price was corrected for weights of the market features: the attractiveness of the location and the neighborhood, area and shape of the plot, destiny, legal status of a land, access to the plot.	• The average transaction price per 1 m^2 for comparable real estates. • Attractiveness of the location and neighborhood. • Area and shape of the plot • Designation • Legal status • Access to the plot .	The estimated fair value of real estate would be increased (or would be reduced), if: • The average transaction price per m^2 for comparable real estates was higher (was lower)
Discounted cash flows: The model of measurement is based on the present value of future net cash flows that will be generated from the real estate taking into account: the level of leased space, periods without rent. The expected net cash flows are discounted with discount rates taking into account the risk. Other factors considered in the adopted average rent per square meter are: attractiveness of the location, technical	• Level of space lease : reflecting the status of the currently leased space. • Adjusted for the risk of discount rate: 6.646%-6.896%, 7% -7.5%.	The estimated fair value of real estate would be increased (or would be reduced) if: • Level of leased space was higher (was lower); • Discount rates adjusted for the risk were higher (were lower);

condition of building, the standard and the functionality of the building, the possibilities of the access, and parking spaces.		

There has been no change in the valuation technique during the year.

Details concerning investment property, as well as information about the hierarchy of fair values as at 31 December 2018.

Group	Fair value (in PLN thousands)	
	31 December 2017	31 December 2017
	Level 3	Level 3
Land, including the right of perpetual usufruct	4 798	4 267
Buildings and constructions	7 192	7 045
Total	**11 990**	**11 312**

There were no displacements between levels 1, 2 and 3 during a year.

Note No. 4 - Shares

Shares	31 December 2018	31 December 2017
In other entities	830	830
Shares, net value	830	830
Write-down of shares	6	6
Shares, gross value	**836**	**836**

Change in shares	31 December 2018	31 December 2017
a) as at the beginning of the period	830	830
b) as at the end of the period	830	830

Shares in other entities as at 31 December 2018

Description	Number of shares	Share in capital (%)	Carrying value of shares held (in PLN thousands)
Kostrzyńsko Słubicka Specjalna Strefa Ekonomiczna	8 250	3.04	825
CeMat'70 S.A.	39	0.04	5

Note No. 5 – Shares in Entities Valued Using the Equity Method

Shares in jointly-controlled entities and associated entities	31 December 2018	31 December 2017
-Shares – net value	28 111	26 139
- write-downs of shares	1 011	1 011
Shares, gross value	**29 122**	**27 150**

Change in shares in jointly-controlled entities and associated entities	31 December 2018	31 December 2017
a) as at the beginning of the period	26 488	22 678
- shares at cost	26 139	22 678
- application of IFRS 15 as at 1 January 2018	349	-
b) increase (due to)	1 623	3 461
- share in the current year result	1 623	3 461
c) at the end of the period, net value	28 111	26 139
d) write-down	1 011	1 011
e) at the end of the period, gross value	29 122	27 150

Change in write-downs of shares in jointly-controlled entities and associated entities	31 December 2018	31 December 2017
As at the beginning of the period	1 011	400
- decrease – use of provision	-	611
As at the end of the period	**1 011**	**1 011**

Irydion Sp. z o. o. is the only joint contractual arrangement (jointly controlled entity) in which the Group participates. It is a company with an aim to build an office building under the name of "Astrum Business Park" in Warsaw. The Company is not been quoted. Group has classified its interest in Irydion as a joint venture. The Group exercises joint control along with the shareholder LFI 1 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych seated in Wrocław, 50% shares for each partner. Each of the partners has two representatives in the Supervisory Board.

Shares in subsidiaries covered by full consolidation – as at 31 December 2018

Item No.	a	b	c	d	e	f	g	h	i	j	K
	Name of the company and its legal form	Registered office	Scope of company's activities	Type of relationship (subsidiary, jointly-controlled, associated, details of direct and indirect relationship)	Consolidation method applied/valuation using the equity method, or an indication that the entity is not subject to consolidation/ valuation using the equity method	Date of obtaining control / jointly control / a significant influence	Value of shares at cost	Total revaluation adjustments	Carrying value of shares	Percentage of share capital held (directly and indirectly)	Participation in the total number of votes at the general meeting (directly and indirectly)
1	PROCHEM INWESTYCJE Sp. z o. o.	Warsaw	Consultancy on business and management	subsidiary	full	22 June1992	2 999	-	2 999	100.0%	100.0%
2	PREDOM Sp. z o.o.	Wrocław	Construction designing, urban planning, process engineering	Indirect subsidiary (Prochem Inwestycje sp. z o. o. holds 75% of capital)	full	19 July2002	764	-	764	81.7%	72.3%
3	PRO-INHUT Sp. z o. o.	Dąbrowa Górnicza	Construction designing, urban planning, process engineering	Indirect subsidiary (Prochem Inwestycje sp. z o. o. holds 93.2% of shares)	full	4October 2001	63	-	63	93.2%	93.2%
4	PROCHEM ZACHÓD Sp. z o.o.	Warsaw	Marketing activities, construction work, design services, commercial activity and forwarding	subsidiary	full	18 March 1998	1 061	-	1 061	80.0%	80.0%
5	ELEKTROMONTAŻ KRAKÓW S.A.***)**	Kraków	Assembly of electrical installations and equipment	Indirect subsidiary (Prochem Inwestycje Sp. z o. o. holds 65.5% of shares)	full	10 December 2001	15 099	-	15 099	85.4%	85.4%
6	ELMONT INWESTYCJE sp. z o.o.	Kraków	Developer's activity	Indirect subsidiary (Elektromontaż Kraków S.A. holds 50% of shares)	full	5 April 2007	9 050	-	9 050	92.7%	92.7%
7	ELPRO sp. z o.o.	Kraków	Development and sale of real estates and rental of property on own account, management of non-residential real estates	Indirect subsidiary (Prochem Inwestycje Sp. z o. o. holds 50%, Elektromontaż Kraków S.A. holds 50% shares)	full	17 April 2002	3 234	-	3 234	92.7%	92.7%
8	IRYD sp. z o.o.	Warsaw	Development and sale of real estates on own account	indirect subsidiary (Prochem Inwestycje Sp. z o.o. holds 100% of shares)	full	13July 2000	150	150	-	100.0%	100.0%

9	ATUTOR INTEGRACJA CYFROWA Sp. z o.o.	Warsaw	Production and sale of computer software, computer system integration, IT services	Indirect subsidiary (Prochem Inwestycje holds 87.3%)	full	28 September 2000	308	-	308	87.3%	87.3%
10	PROCHEM RPI S.A.	Warsaw	Developer's activity	subsidiary (Prochem Inwestycje Sp. z o.o. holds 3.33% shares)	full	8 April 1998	513	359	154	100.0%	100.0%
11	Elmont Pomiary Sp. z o.o.	Kraków	Developer's activity	Indirect subsidiary (Elektromontaż Kraków S.A. holds 100% shares)	full	20April 2004	190	-	190	77.6.0%	77.6%
12	PREDOM PROJEKTOWANIE sp. z o.o.**)	Wrocław	Design services	Indirect subsidiary (PKI Predom Sp. z o.o.)	Not subject to consolidation	1 May 2002	53	53	-	81.0%	69.3%

**** share in capital and voting right is presented upon completion of redemption procedurę of shares bought-back by Elektromontaż Kraków S.A. for redemption***
***** the company has not commenced activities***

Shares in subsidiaries – continuation

	a	b							c			d			e	F
Item No	Name of the Company	Entity's equity, including:							Liabilities and provisions to entity's liabilities, including:			Entity's trade and other receivables, including:			Total entity's assets	Total revenues from sales
			Share capital	Own shares (negative value)	Revaluation reserve	Retained earnings, including:										
							Profit (loss) brought forward	Net profit (loss)		Non-current	current		Non-current	current		
1	PROCHEM INWESTYCJE Sp. z o. o.	7 350	3 000	-	-	4 350	-	367	20 828	19 678	1 150	86	-	86	28 178	4 036
2	P.K.I.PREDOM Sp. z o.o.	9 526	600	-	6 173	2 753	-	-563	3 124	1 860	1 264	1 282	-	1 282	12 650	5 358
3	PRO-INHUT Sp. z o .o.	1 010	53	-	-	957	-	-159	3 502	187	3 315	1 889	-	1 889	4 502	5 287
4	PROCHEM ZACHÓD Sp. z o.o.	1 909	1 600	-	-	309	-	17	3	-	3	-	-	-	1 912	-
5	ELEKTROMONTAŻ KRAKÓW S.A.*)	24 783	1 208	-	7 479	16 096	-	523	12 963	1 480	11 483	18 434	-	18 434	37 746	41 387
6	ELMONT INWESTYCJE sp. z o.o.	7 896	8 000	-	-	-104	-218	114	14	-	14	-	-	-	7 910	-
7	ELPRO sp. z o.o.	4 308	3 290	-	188	830	-	129	203	185	18	2	-	2	4 511	215
8	IRYD Sp. z o.o.	-201	150	-	-	-351	-345	-6	207	-	207	-	-	-	6	-
9	ATUTOR Sp. z o.o.	359	355	-	-	4	-140	144	915	-	915	1 068	-	1 068	1 274	1 638
10	PROCHEM RPI Sp. z o.o.	129	600	-	-	-473	-466	-5	-	-	-	0	-	0	129	-
11	Elmont Pomiary Sp. z o.o.		Company consolidated by Elektromontaż Kraków S.A. – financial data of the company are included in financial statements of Elektromontaż Kraków S.A.														
12	PREDOM PROJEKTOWANIE Sp. z o.o.		Not subject to consolidation														

**** share in capital and voting right is presented upon completion of redemption procedure of shares bought-back by Elektromontaż Kraków S.A. for redemption***

Shares in entities valued using the equity method as at 31 December 2018

Item No.	a	b	c	d	e	f	g	h	i	j	k
	Name of the company and its legal form	Registered office	Scope of the Company's activities	Type of relationship (subsidiary, jointly-controlled, associated company, details of direct and indirect relationship)	Consolidation method applied	Date of acquisition of control / joint control / obtaining of a significant influence	Value of shares at cost	Total revaluation adjustments	Carrying value of shares	Percentage of share capital held	Share in the total number of votes at the general meeting
1	ITEL Sp. z o.o.	Gdynia	Other electrical installations	Associated company	The equity method	13September 2005	708	708	-	42.0%	42.0%
2	IRYDION Sp. z o.o.	Warsaw	Rental of real estate on its own account	Jointly-controlled	The equity method (change of the company's status from subsidiary to jointly controlled company as from 3 April 2013)	24March2000	4 503	-	4 503	50.0%	50.0%

Shares in entities valued using the equity method – continuation

Item No.	a	b		c			d			e	f
	Name of the company	Company's equity, including:		Liabilities and provisions to liabilities, including:			Entity's receivables, including:			Entity's assets	Sales revenue
			Net profit (loss)		Non-current liabilities	Current liabilities		Non-current receivables	Current receivables	Total	
1	ITEL Sp. z o.o.	Lack of data	Lack of data	Lack of data	Lack of data.	Lack of data	Lack of data	Lack of data	Lack of data	Lack of data	Lack of data
2	IRYDION Sp. z o.o.	56 222	3 245	126 206	121 062	5 144	1 517		1 517	182 428	12 610

Note No. 6 – Settlement of Deferred Income Tax

- ***deferred tax assets***

Change in deferred tax assets	31 December 2018	31 December 2017
1. Deferred tax assets as at the beginning of the period, recognized in financial result (profit or loss)	**6 073**	**8 890**
a) recognized in financial result	**6 029**	**8 825**
- provisions to costs	426	409
- write-down of receivables	606	629
- unpaid remuneration under contracts: of mandate, and of specific task	24	14
- deferred income	707	560
- interest on loan	281	299
- provision for retirement benefit	343	351
- provision for holiday benefit	262	248
- tax loss	2 540	5 110
- write-down of inventories	106	106
- costs of discounted cash flows	28	36
- deferred tax on write-down of financial assets	5	5
- surplus of costs incurred over the margin	226	583
- other, including exchange differences	474	474
b) recognized in equity	**44**	**65**
-provision to retirement benefit	44	65
2. Increase	**4 244**	**2 045**
a) recognized in financial result	**4 244**	**2 045**
- provisions to costs	165	443
- write-down of receivables	-	2
- unpaid remuneration under contracts: of mandate, and of specific task	31	24
- deferred income	696	707
- interest on loan	59	60
- provision for retirement benefit	46	31
- provision for holiday benefits	59	144
- unpaid employee benefits	15	2
- tax loss	3 134	25
- cost of discounted cash flows	39	-
- surplus of costs incurred over the margin	-	607
b) recognized in equity in connection with negative temporary differences (due to)	-	-
3. Decrease	**3 141**	**4 862**
a) recognized in financial result	**3 141**	**4 841**
- provisions to costs	451	426
- write-down of receivables	17	25
- unpaid remuneration under contracts: of mandate, and of specific task	24	14
- deferred income	707	560
- interest on loan	20	78
- provision for retirement benefit	23	39
- provision for holiday benefits	41	130
- unpaid employee benefits	7	2
- tax loss	1 125	2 595
- cost of discounted cash flows	29	8

- surplus of costs incurred over the margin	226	964
- other, including exchange differences	471	-
b) recognized in equity in connection with negative temporary differences (due to)	**-**	**21**
- provision for retirement benefit	-	21
4. Total deferred tax assets at the end of the period, including:	**7 176**	**6 073**
a) recognized in financial result	**7 132**	**6 029**
- provisions to costs	140	426
- write-down of receivables	589	606
- unpaid remuneration under contracts: of mandate, and of specific task	31	24
- deferred income	696	707
- interest on loan	320	281
- provision for retirement benefit	366	343
- provision for holiday benefits	280	262
- unpaid employee benefits	9	1
- tax loss	4 549	2 540
- write-down of inventories	106	106
- costs of discounted cash flows	38	28
- deferred tax on write-down of financial assets	5	5
- surplus of costs incurred over the margin	-	226
- other, including exchange differences	3	474
b) recognized in equity in connection with negative temporary differences (due to)	**44**	**44**
- provision for retirement benefit	44	44

- provision for deferred income tax

Change in provision for deferred income tax	31 December 2018	31 December 2017
1. Provision for deferred income tax as at the beginning of the period, including:	**5 577**	**5 747**
a) recognized in financial result	**4 086**	**3 789**
- interest accrued on loan	607	575
- revaluation of non-current financial assets	136	136
- accrued income from uncompleted service	1 551	1 696
- revaluation of non-financial investments	841	496
- surplus of the balance sheet depreciation over tax depreciation	757	662
- other	194	224
b) recognized in equity	**1 491**	**1 958**
- revaluation of PPE at fair value	1 491	1 958
2. Increase	**4 001**	**2 218**
a) recognized in financial result of the period under positive temporary differences (due to)	**3 884**	**2 218**
- interest accrued on loan	153	179
- accrued income from uncompleted service	3 230	1 597
- revaluation of non-financial investments	405	345
- surplus of the balance sheet depreciation over tax depreciation	93	95
- other	3	2
b) recognized in equity	**117**	**-**
- revaluation of PPE at fair value	117	-

3. Decrease	**2 342**	**2 388**
a) recognized in financial result of the period in connection with positive temporary differences (due to)	**2 340**	**1 921**
- paid interest on loan	34	147
- accrued income from uncompleted service	1 917	1 742
- use of revaluation if non-financial investments	237	-
- other	152	32
b) recognized in equity	**2**	**467**
- revaluation of PPE at fair value	2	467
4. Total provision to deferred income tax at the end of the period	**7 236**	**5 577**
a) recognized in financial result	**5 630**	**4 086**
- interest accrued on loan	726	607
- revaluation of non-current financial assets	136	136
- accrued income from uncompleted service	2 864	1 551
- revaluation of non-financial investments	1 009	841
- surplus of the balance sheet depreciation over tax depreciation	850	757
- other	45	194
b) recognized in equity	**1 606**	**1 491**
- revaluation of PPE at fair value	1 606	1 491

	31 December 2018	31 December 2017
Deferred tax assets	7 176	6 073
Provision to deferred income tax	-7 236	-5 577
Assets/(Provision) under deferred income tax	**-60**	**496**

Presentation in the statement of financial position:

	31 December 2018	31 December 2017
Deferred tax assets	2 340	2 953
Provision to deferred income tax	-2 400	-2 457
Assets/(Provision) under deferred income tax	**-60**	**496**

Note No. 7 –Other Non-Current Financial Assets

Other financial assets	31 December 2018	31 December 2017
a) from jointly-controlled entities:	19 090	18 713
- loans granted	19 090	18 713
b) security deposit securing the bank guarantee line	1 332	-
Total non-current financial assets	**20 422**	**18 713**

Loans granted – as at 31 December 2018

- Loans granted to jointly-controlled company Irydion Sp. z o. o. seated in Warsaw:
  - in the amount of PLN 12 314 thousand, including: amount of the loan PLN 11 000 thousand, accrued interest PLN 1 314 thousand. The interest rate is set annually according to WIBOR 6M rate, the repayment date of the loan with interest was set on 22 September 2031;
  - in the amount pf PLN 6 776 thousand, including: amount of the loan PLN 6 000 thousand, accrued interest PLN 776 thousand. The interest rate is set annually at 3% per year, the repayment date of the loan with interest was set on 22 September 2031;

Increase:

- Accrued interest on loan granted to jointly-controlled company Irydion Sp. z o. o. In the amount of PLN 377 thousand,

Loans granted – as at 31 December 2017

- Loans granted to jointly-controlled company Irydion Sp. z o. o. seated in Warsaw:
  - in the amount of PLN 12 117 thousand, including: amount of the loan PLN 11 000 thousand, accrued interest PLN 1 117 thousand. The interest rate is set annually according to WIBOR 6M rate, the repayment date of the loan with interest was set on 22 September 2031;
  - in the amount pf PLN 6 596 thousand, including: amount of the loan PLN 6 000 thousand, accrued interest PLN 596 thousand. The interest rate is set annually at 3% per year, the repayment date of the loan with interest was set on 22 September 2031;

Note No. 8– Inventories

Inventories	31 December 2018	31 December 2017
Materials	1 597	2 092
Semi-finished products and work-in-process	1 105	130
Goods	676	-
Total inventories	**3 378**	**2 222**
Write-down of inventories	575	575

Note No. 9 – Trade and Other Receivables

Trade and other receivables	31 December 2018	31 December 2017
Trade receivables	44 752	33 960
Write-down of trade receivables	4 617	5 508
Trade receivables net, including	**40 135**	**28 452**
- with a repayment period up to 12 months	39 927	27 674
- with a repayment period over 12 months	208	778
Receivables from taxes, subsidies, customs duties, social and health insurance and other benefits	**32**	**864**
Other receivables	1 311	3 094
Write-down of other receivables	6	396
Other receivables net	**1 305**	**2 698**
Total receivables	**41 472**	**32 014**

Trade and other receivables from related entities	31 December 2018	31 December 2017
Trade receivables, including:	1 562	6 957
- from jointly-controlled entities and associated entities	1 562	6 957
other, including:	-	946
- from jointly-controlled entities and associated entities	-	946
Total trade receivables and other receivables from related entities, net	**1 562**	**7 903**
Write-down of receivables from related entities	-	-
Total trade receivables and other receivables from related entities, gross value	**1 562**	**7 903**

Change in write-downs of trade and other receivables	31 December 2018	31 December 2017
As at the beginning of the period	**5 904**	**5 851**
a) increase (due to)	298	380
- write-down of receivables	298	380
b) decrease (due to)	1 579	327
- payment received	111	60
- the use of write-downs created in previous periods	1 467	1
- resolving of write-downs	1	266
Write-downs of current trade receivables and other receivables at the end of the period	**4 623**	**5 904**

In the majority of contracts signed by the Group, time of payment for services was established in the range from 14 to 60 days. As at 31 December 2018 and as at 31 December 2017, trade receivables include the security deposits under statutory warranty for construction and assembly works respectively in the amount of PLN 5 270 thousand and 604 thousand.

Trade receivables with time of repayment remaining from the balance sheet date :	31 December 2018	31 December 2017
a) up to 1 month	20 596	13 316
b) above 1 month up to 3 months	9 966	6 013
c) above 3months up to 6 months	483	489
d) above 6 months up to 1 year	4 508	647
e) above 1 year	3 245	3 585
f) receivables overdue	5 954	9 910
Total receivables from supplies and services (gross)	**44 752**	**33 960**
g) write-down of receivables from supplies and services	4 617	5 508
Total receivables from supplies and services (net)	**40 135**	**28 452**

An age analysis of past due trade receivables (gross)	31 December 2018	31 December 2017
a) up to 1 month	841	4 793
b) above 1 month up to 3 months	243	516
c) above 3months up to 6 months	339	219
d) above 6 months up to 1 year	172	273
e) above 1 year	4 359	4 109
Total past due receivables from supplies and services (gross)	**5 954**	**9 910**
f) write-down of past due receivables from supplies and services	4 617	5 508
Total past due receivables from supplies and services (net)	**1 337**	**4 402**

Note No. 10 – Other Assets

Other assets by type :	31 December 2018	31 December 2017
a) prepayments	1 202	2 466
- cost of property and personal insurance	411	350
- software maintenance costs	582	540
- subscriptions	14	18
- deferred costs	121	1 555
- other	74	3
Total other assets	**1 202**	**2 466**

The item - *other prepayments* - comprises the valuation of contracts for construction services that are in progress at the balance sheet date.

Note No. 11 – Share capital

SHARE CAPITAL (THE STRUCTURE)							
Series / emission	Type of share	Type of shares preference	Number of shares	Series / emission at nominal value	Method of coverage of capital	Registration date	Right to dividend (from the date)
Founding	inscribed	3 votes per 1 share	580	580	Cash	23-07-1991	01-10-1991
Founding	inscribed	-	6 816	6 816	Cash	23-07-1991	01-10-1991
Founding	bearer	-	1 810 104	1 810 104	Cash	23-07-1991	01-10-1991
B	inscribed	-	750	750	Cash	29-07-1993	01-01-1993
B	bearer	-	681 750	681 750	Cash	29-07-1993	01-01-1993
C	bearer	-	435 000	435 000	Cash	20-04-1994	01-01-1994
Total number of shares			**2 935 000**				
Total share capital				**2 935 000**			
Nominal value of 1 share = PLN 1.00							

On September 10, 2018, the company Prochem received the decision of the District Court for the capital city of Warsaw in Warsaw, 13th Commercial Department of the National Court Register on making the entry in the National Court Register (KRS).
On August 29, 2018, the Court registered changes to the Company's Statutes resulting from the resolutions of the Ordinary General Meeting of June 21, 2018. The Issuer informs that in pursuance to the resolutions of the abovementioned Ordinary General Meeting of the Issuer's Shareholders, the Court registered the reduction of the Company's share capital from PLN 3,895,000.00 to PLN 2,935,000.00, i.e. by PLN 960,000 by redemption of 960,000 shares with the nominal value of PLN 1.00 each, representing 960,000 of votes. The share capital of the Company currently amounts to PLN 2,935,000.00 and is divided into 2,935,000 shares with the nominal value of PLN 1.00 each, giving jointly the right to 2,936,160 votes.

Total number of votes from all shares is 2 936 160.

Changing the rights from the issuer's securities

In accordance with information / notifications received from shareholders, the Company informs that as at the date of this report the following shareholders hold at least 5% of votes at the general meeting of shareholders:

Name of the shareholder	**Number of shares held (in pcs)**	**Number of votes held**	**% of votes in total number of votes**	**% of share capital**
1. Steven Tappan	965 000	965 000	32.87	32.88
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”	284 900*	284 900	9.70	9.71
3. Funds manager by Esaliens TFI including: - Esaliens Parasol FIO - Esaliens Akcji Skoncentrowany FIZ	168 646** 114 114	168 646 114 114	5.74 3.89	5.75 3.89
4. Andrzej Karczykowski	201 882***	201 882	6.88	6.88

*) according to the number of shares registered on XXXIX AGM of Prochem S.A. on 21.06.2018
**) information on the number of shares managed jointly by Esaliens TFI - notification dated February 14, 2019
***) information from January 18, 2018. (274 586 of shares) and information from March 23, 2018 (sale of 72 704 shares).
As of 13 June 2017, the Legg Mason TFI fund changed its name to Esaliens TFI S.A. The names of all funds managed by the fund have also changed.

In the period from the submission of the annual report for 2017, the Company has received the following information about the change in the shareholding:

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

On September 12, 2018 received from Mr. Steven Tappan information about the change of share in equity and voting rights. The change occurred in result of the redemption of 960,000 shares. After the change, Mr. Steven Tappan exceeded the threshold of 25% of the total number of votes and as at the date of publication of the report holds 32.88% of the share capital and 32.87% in the total number of votes at the General Meeting.

Note No. 12 – Revaluation Reserve

	31 December 2018	31 December 2017
As at opening balance sheet	11 521	12 019
Foreign exchange translation differences	200	-
Actuarial losses on valuation of provisions for employee benefits	-181	69
Revaluation of non-current assets	310	-570
Other changes	-61	3
As at closing balance sheet	**11 789**	**11 521**

Note No. 13 - Retained Earnings

	31 December 2018	31 December 2017
Spare capital	49 741	46 290
Other capital reserve	18 688	28 283
Profit (loss) brought forward	-1 136	-1 575
Profit (loss) of the period	1 923	16 828
Total	**69 216**	**89 826**

Note No. 14 – Non-current Bank Loans

	31 December 2018	31 December 2017
- loans	52	141

Information on bank loans

Name of the bank	Registered office	Limit of the loan	Amount engaged	Repayment date	Terms of interest	Collateral
By Pro-Inhut Sp. z o. o.						
ING Bank Śląski S.A.	Dąbrowa Górnicza	200	52	30 July 2020	WIBOR for 1-month deposits in PLN + margin	BGK Bank Guarantee based on a portfolio agreement. A promissory note in blank.

Note No. 15 – Provisions for Retirement and Similar Benefits

The Group implemented the post-employment benefits program, which include the retirement and disability pension gratuity for employees. Provisions for retirement and disability pension gratuity payments are calculated on an individual basis for every employee. The basis for calculating the provision for employee is the expected amount of the benefit that the Company obliges to pay according to applicable Regulations of remuneration. Retirement and disability pension gratuity is paid once at the moment of the beginning of retirement or disability pension of the person. Current value of these obligations is determined by an independent actuary. The level of provisions corresponds with the discounted payments that will be made in the future, taking into consideration the staff turnover, and relate to the period until the date ending the reporting year.

Here below are the averaged values of indicators determined on the basis of detailed actuarial assumptions, which were accepted for the calculation of provisions as at December 31, 2018

- weighted average rotation ratio: general 8.71% – 22.0% depends on the Company, including for the traineeship > 3 years 4.89% - 5.54%
- weighted average probability of death: 0.002904 – 0.004873 depends on the Company (based on tables of the Central Statistical Office GUS PTTŻ 2017 which were reduced to 40%)
- weighted average probability of total disability: 0.001256 – 0.002136 (tables based on the Social Insurance Office (ZUS) case law for the years 2014 – 2017 multiplicatively increased applying an indicator of from 150% to 200% depends on the Company)
- average annual increase in the basis for benefits: 1.64% – 2.0% (depending on the obligations length and type of benefit)
- fixed interest rate used for discounting depending on total obligations length in the Company: 3.25% - 3.75% on the basis of the yields of Polish Treasury bonds with an adequate maturity, increased by 0.25 percentage point.

For comparison, the average values of indicators determined on the basis of actuarial assumptions, which were accepted for the calculation of provisions as at 31 December 2017:

- weighted average index of rotation: 14.6%, including for the traineeship > 3 years 5.17%
- weighted average probability of death: 0.003931
- weighted average probability of total disability: 0.003129
- average annual increase in the basis for benefits: 1.78%
- interest rate used for discounting 3.52%

Change in provisions for retirement and disability pension gratuity and jubilee gratuity

Description	In 2018	In 2017
Opening balance for the provisions for benefits	**2 040**	**2 188**
Benefits paid during the period (-)	-274	-487
Interest cost	67	68
Current employment costs /current write-downs/	110	70
Actuarial losses (gains)	264	141
Cost of past employment	0	60
Effects of the sale / merger of the Companies	0	0
Closing balance for provisions for benefits	**2 207**	**2 040**
Including current provision	445	328
Including non-current provision	1 762	1 712

Burdens in the period being recognized in profit or loss due to benefits:

Description	In 2018	In 2017
Current employment cost /current write-down/	-110	-70
Interest cost	-67	-68
Actuarial losses (gains) under other non-current benefits	-54	-181
Cost of past employment	-	-62

Total gains (losses)	**-231**	**-381**

Recognized in other comprehensive income:

Description	In 2018	In 2017
Actuarial gains (losses) on post-employment benefits	-210	90

Distribution of actuarial gains /losses

Description	In 2018
Actuarial gains (losses) ‘ex post’	223
Actuarial gains (losses) from the update of demographic assumptions	8
Actuarial gains (losses) from the update of financial assumptions	-49
Total actuarial gains (losses)	**-264**

Maturity profile of benefits (amounts in PLN thousands, duration in years)

Period	Flows	Distribution of provisions
2018	453	438
2019	356	325
2020	264	226
2021	159	132
2022	160	119
≥ 2023	3 508	967
Total	**4 900**	**2 207**
PV / duration	3 356	10.85

Sensitivity analysis of provisions for changes in basic actuarial assumptions

Sensitivity analysis for the interest rate		Sensitivity analysis for the interest rate		Sensitivity analysis for increases in the basis of benefits	
Change in percentage points	Increase in provisions	Change in %	Increase in provisions	Change in percentage points	Increase in provisions
-1.0%	+152	-20%	+99	-1.0%	-145
-0.5%	-73	-10%	+48	-0.5%	-75
0.0%	**0**	**0%**	**0**	**0.0%**	**0**
0.5%	-68	10%	-45	0.5%	79
1.0%	-131	20%	-88	1.0%	+164

Note No. 16- Other Non-current Liabilities

Other non-current liabilities	31 December 2018	31 December 2017
- capital unpaid	50	50
- financial lease agreements	482	287
- the security deposits retained	88	45
Total non-current liabilities	**620**	**382**

Note No. 17- Current Bank Loans

	31 December 2018	31 December 2017
- loans	7 077	2 233

Information on contracted bank loans

Name of the bank	Registered office	Loan limit	The amount of engagement	Repayment date	Terms of interest	Collateral
By Prochem S.A.						
mBank SA	Warsaw	6,000 Credit in overdraft	3 830	29 November 2019	WIBOR for O/N deposits in PLN + margin	Promissory note in blank, court pledge on shares of company Elektromontaż Kraków S.A., mortgage established on real estate owned by company Elpro Sp. z o. o. in Krakow
By Elektromontaż Kraków S.A.						
mBank S.A.	Warsaw	500	-	28 February 2019	WIBOR for 1-month deposits in PLN + margin	Mortgage
ING BANK Śląski	Katowice	2 500	1 963	19 November 2019	WIBOR for 1-month deposits ON in PLN + margin	Mortgage
By Elmont Pomiary Sp. z o.o.						
Pekao S.A.	Warsaw	200	-	31 March 2019	WIBOR for 1-month deposits in PLN + margin	Promissory note in blank
By Atutor Integracja Cyfrowa sp. z o. o.						
Bank Millenium S.A.	Warsaw	150	150	15 April 2019	WIBOR 1month plus margin	Granting the bank of a power of attorney to collect and repay from the account and block the funds if the loan is not repaid on time
By Pro-Inhut sp. z o.o.						
ING Bank Śląski S.A.	Dąbrowa Górnicza	734	734	17May2019	WIBOR for 1-month deposits in PLN + margin	BGK Bank Guarantee based on a portfolio agreement. Promissory note in blank
ING Bank Śląski S.A.	Sosnowiec	400	400	30July2020	WIBOR for 1-month deposits in PLN + margin	BGK Bank Guarantee based on a portfolio agreement. Promissory note in blank

Note No. 18 – Trade Payables

	31 December 2018	31 December 2017
a)to associated entities and jointly-controlled entities	12	10
- from supplies and services, with maturity period:	12	10
- up to 12 months	12	10
b) to other entities	31 614	22 416
- from supplies and services, with maturity period:	31 614	22 416
- up to 12 months	30 929	22 416
- above 12 months	685	0
Total trade payables	**31 626**	**22 426**

Note No. 19 – Amounts Owed to Recipients under Non-current Agreements

Description	31 December 2018	31 December 2017
The value of revenues according to contracts	361 967	219 689
The revenues invoiced	219 674	179 418
Liabilities planned under the implementation of contracts	338 234	210 153
Realized contractual liabilities	216 775	180 945
Amounts due from recipients	13 691	8 805
Amounts owed to suppliers	2 863	1 913

Note No. 20 – Other Liabilities

	31 December 2018	31 December 2017
a) to other entities	4 540	4 473
- under taxes, duties, insurance and other charges	3 409	3 337
- under remuneration	477	399
- other (by type)	654	737
liabilities to employees	43	51
liabilities to shareholders	17	16
liabilities under lease agreements	338	625
other	256	45
b) other non-current provisions	4 418	4 399
- provision for costs booked to the previous year relating to long-term contracts	1 550	477
- provision for costs	885	2 143
- cost of audit	67	69
- non-current provision for retirement benefits	445	328
- provision for unused holiday leaves	1 471	1 382
Total other liabilities	**8 958**	**8 872**

Liabilities under lease agreements

	Current value	Interest	Future minimum payments under lease	Current value	Interest	Future minimum payments under lease
In PLN thousands	In 2018	In 2018	In 2018	In 2017	In 2017	In 2017
Up to 1 year	305	33	338	591	34	625
From 1 to 5 years	448	34	482	265	22	287
Total	**753**	**67**	**820**	**856**	**56**	**912**

Note No. 21 – Deferred income

	31 December 2018	31 December 2017
- advanced payments and prepayments received	77	-
- other	324	324
Deferred income as at the end of the period, including:	**401**	**324**
Non-current liabilities	**-**	**-**
Current liabilities	**401**	**324**

Note No. 22- Revenues from Sale of Services

Revenues from sale of services (type of service and type of activity)	**In 2018**	**In 2017**
- Revenues from sale of services, including:	**150 287**	**111 133**
- from related entities	13 063	13 033

Revenues from sales (territorial structure)	**In 2018**	**In 2017**
Domestic market	150 149	110 957
- including from related entities	13 063	13 033
exports	138	176

Revenues under contracts for construction services (general contracting) and other services are presented in Note No. 31.The gross amount due from ordering parties/buyers for the work under the contracts was presented in Note No. 11.
Information on major customers, whose total value of revenues from sales of services exceeds 10% of the total revenues of the Group in 2018 is included in Note No. 31.

Note No. 22 - Revenues from Sale of Goods and Materials

Revenues from sale of goods and materials (by structure and type of activity)	**In 2018**	**In 2017**
Goods and materials	**2 907**	**873**

Revenues from sale of goods and materials (territorial structure)	**In 2018**	**In 2017**
Domestic market	2 907	873

Note No. 24 – Cost of Services Sold

Costs by type :	**In 2018**	**In 2017**
a) amortization and depreciation	2 085	2 014
b) consumption of materials and energy	24 131	21 668
c) outsourcing	87 075	56 238
d) taxes and levies	519	817
e) remuneration	32 097	29 983
f) social security and other benefits	5 994	5 756
g) other types of costs (by category)	3 856	4 158
- property and personal insurance	891	734
- business trips	1 236	1 398
- State Fund for Rehabilitation of Disabled Persons (PFRON)	203	214
- car rental	850	926
- other	676	886
Total costs by type	**155 757**	**120 634**
Change in inventories, goods and accruals and prepayments	-2 427	241
General and administrative expenses (negative value)	-13 315	-13 328
Cost of services sold	**140 015**	**107 547**

Note No. 25 – Other Operating Income

	In 2018	In 2017
a) gain on sale of non-financial non-current assets	172	446
b) reversal of impairment allowance (due to)	128	23
- for receivables	113	23
- other	15	-
c) other, including:	4 766	195
- reimbursement of litigation costs	385	11
- received compensation, fines and penalties	407	111
- other revenues disclosure of asset held for sale	676	-
- writing down of past due liabilities	1 871	1
- revaluation income	1 396	-
- other	31	72
Pozostałe przychody operacyjne, razem	**5 066**	**664**

Note No. 26 – Other Operating Expenses

	In 2018	In 2017
a) a) loss on disposal of non-financial non-current assets	-	5
b) impairment allowance (for)	298	440
- receivables	298	440
c) other, including:	1 126	297
- litigation costs	99	26
- impairment of PPE	106	-
- paid compensation, fines and penalties	16	53
- the net value of the investment property sold	246	-
- giving up investment	377	-
- other	282	218
Total other operating expenses	**1 424**	**742**

Note No. 27 – The Result of One-off Events

	In 2018	In 2017
Interest received from PERN according to the court judgment	-	25 082
Amount adjudged from PERN in accordance with a court judgment	-	6 819
Cost of inventories written off	-	-1 668
Interest paid and settled with PERN	-	-2 841
Cost of provisions for future liabilities	-	-476
Costs related to the court proceedings with PERN	-	-143
Result of the event	**-**	**26 773**

The result on one-off events arose as a result of the completion and accounting for of a court case with PERN S.A. described in note 39 – *Information on significant proceedings pending before the Court.*

Note No. 28 – Financial income

	In 2018	In 2017
a) interest under loans granted	377	379
- from jointly-controlled entities	377	379
b) other interest	60	22
- from other entities	60	22
c) surplus of positive exchange rate differences	39	59
d) other, including:	209	95
- revenues under discounted non-current liabilities	205	39
- other	4	56
Total financial income	**685**	**555**

Note No. 29 – Finance costs

	In 2018	In 2017
a) interest on bank loans	190	438
b) other interest	34	47
- for other entities	34	47
c) surplus of negative exchange rate differences	4	0
d) other, due to :	696	539
- commission on bank guarantees	266	242
- commission on loans	137	138
- the cost of discounting of assets	206	145
- other costs	87	14
Total finance costs	**924**	**1 024**

Note No. 30 – Income tax

Deferred income tax disclosed in the statement of profit and loss	**In 2018**	**In 2017**
- decrease (increase) from arising and reversal of temporary differences	399	2 754
Total deferred income tax	**399**	**2 754**

Establishment of the effective tax rate

(in PLN thousands)	**In 2018**	**In 2017**
Tax rate	**19%**	**19%**
Profit for the period	1 839	16 976
Income tax	360	3 104
Before tax profit	2 199	20 080
Income tax at the applicable rate of 19%	418	3 815
Tax losses brought forward, which will not be settled	-203	-520
Revenues, not classified as tax revenues	283	-1 292
Costs not constituting tax deductible expenses	8	1 039
Tax loss outside the Republic of Poland	-	62
Other	-146	-
Total income tax disclosed in the statement of profit and loss	**468**	**3 104**

Note No. 31 – Additional Disclosures to the Statement of Cash Flows

Operating activities include basic activity and turnover from other operating activity.
Investing activities include the turnovers in the scope of investment in PPE, intangible assets, equity investments and securities held for trading.
Received dividends are recognized in cash flows from investing activities. Loans granted and repaid together with accrued interest are disclosed 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.

Differences between the amounts established directly from the financial statements and disclosed in the statement of cash flows, are resulting from a transfer of individual amounts from operating activity to investing activity and financing activity.

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

Change in inventories	**-1 156**
Inventories as at 1 January	2 222
As at opening balance sheet	**2 222**
Inventories as at 31 December	3 378
As at closing balance sheet	**3 378**
Change in current receivables	**-13 956**
Receivables as at 1 January	32 014
Amounts due from recipients under contracts 1 January	8 415
Other assets as at 1 January	2 466
Receivables under retained security deposits as at 1 January	222
Receivables from PPE sold	-15
Receivables under income tax	-641
Closing balance sheet after adjustments	**42 461**
Receivables as at 31 December	41 472
Amounts due from recipients under agreements as at 31 December	13 691
Other assets as at 31 December	1 202
Receivables under retained security deposits as at 31 December	63
Receivables from PPE sold	-11
Closing balance sheet after adjustments	**56 417**
Change in current liabilities except for current borrowings and special funds	**7 728**
Trade payables as at 1 January	22 426
Other liabilities as at 1 January	8 872
Amounts due to suppliers under contracts adjustment as at 1 January	1 913
Liabilities under retained security deposits as at 1 January	4 592
Provisions to current retirement benefits	-323
Provisions to annual leaves	-1 382
Provision to audit	-71
Provision to current other costs	-477
Liabilities under lease	-276
Liabilities to shareholders	-16
Opening balance sheet after adjustments	**35 258**
Trade payables as at 31 December	31 626
Amounts owed to recipients under contracts as at 31 December	2 863
Other liabilities as at 31 December	8 958
Liabilities under retained security deposits as at 31 December	3 569
Provisions to current retirement benefits	-445
Provisions to annual leaves	-1 471
Provision to audit	-67
Investment liabilities	-1 550
Liabilities under lease	-480
Liabilities to shareholders	-17
Closing balance sheet after adjustments	**42 986**

	In 2018	**In 2017**
Change in other adjustments as at 31 December	**-662**	**-208**
Change in deferred income - advances received	-1 271	496
Change in deferred income under amounts owed to the ordering parties under long-term contracts	-	-644
Other	609	-60

Note No. 32– Operating Segments

Operating segment is a component part of the Group:

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

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

Costs 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 companies from Capital Group and the Issuer, for the managing purposes were divided into the eleven basic operational sectors such as: execution (general contracting), design services and other engineering services (supervisions along with the project engineer service), the lease of the construction equipment, assembly of electrical installations, lease of office space, commercial activity and other activity.
Segment assets include all assets used by a segment, consisting primarily of receivables, inventories and property, plant and equipment diminished by the value of provisions and impairment losses.
Some assets in the joint use are assigned to the segments based on reasonable weights.
In 2018 revenues from activities achieved by the Issuer outside Polish borders (exports) and recognized in the consolidated statement of profit and loss amounted to PLN 138 thousand, which constitutes 0.1% of sales revenue. In the analogous period of the previous year such revenues amounted to PLN 176 thousand, which represented 0.2% of sales revenue.

Information on major customers of the Issuer, which share in the sales revenue was recognized in the consolidated statement of profit and loss for 2018 exceeded 10% of the total sales revenue:

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

- A customer who deals in the production of chemical raw materials – sales revenue PLN 52,616 thousand, which represents 34.3 % of sales revenue, which was shown in the segment "General contracting" and "Design services and other engineering services".
- Irydion Sp. z o. o. jointly-controlled company – revenues in the amount of PLN 13 063 thousand, which represents 8.5% of sales revenue, which were shown in the segment "General contracting" and "Design services and other engineering services".

Detailed data on the activities of the companies from the Group in the individual segments are shown in the tables below.

Information about the geographical areas

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

	Note No.	**In 2018**	**In 2017**
Poland		150 149	111 830
Other countries		138	176
	22	**150 287**	**112 006**

Geographical breakdown of non-current assets

	Note	**In 2018**	**In 2017**

	No.		
Poland		35 019	34 035
Other countries		-	
	1, 2 and 3	**35 019**	**34 035**

Current data

In 2018	General contracting	Design services and other engineering services	Rental of construction equipment	Electrical installations	Rental of office space	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenue to customers	75 837	27 347	2 130	37 617	4 899	-	2 907	786	1 671	-	153 194
Total segment revenues	75 837	27 347	2 130	37 617	4 899	-	2 907	786	1 671	-	153 194
Result											
Profit (loss) of the segment	**2 199**	**-5 954**	**243**	**24**	**463**	**-**	**213**	**71**	**-86**	**-**	**-2 827**
Financial income	-	-	-		-	-	-	-	-	685	685
Finance costs	-	-	-	-	-	-	-	-	-	-924	-924
Net financial activities	-	-	-		-	-	-	-	-	-239	**-239**
Profit sharing in entities valued under the equity method	-	-	-	-	-	-	-	-	-	1 623	**1 623**
Loss on other operating activities	-	-	-	-	-	-	-	-	-	3 642	**3 642**
Before tax profit	-	-	-	-	-	-	-	-	-	2 199	**2 199**
Income tax	-	-	-	-	-	-	-	-	-	360	**360**
Profit for the current period	-	-	-	-	-	-	-	-	-	1 839	**1 839**
Loss assigned to non-controlling interest	-	-	-	-	-	-	-	-	-	-84	**-84**
Profit for the period assigned to shareholders of parent entity	-	-	-	-	-	-	-	-	-	**1 923**	**1 923**
Segment assets (related to activity)	27 289	6 187	570	10 681	14 102	-	783	998	237	-	60 847
Assets unallocated (among others shares and other financial assets)	-	-	-	-	-	-	-	-	-	88 931	88 582
Total assets	**27 289**	**6 187**	**570**	**10 681**	**14 102**	**-**	**783**	**998**	**237**	**88 931**	**149 778**
Liabilities of the segment (related to activity)	2 846	952	1 134	7 511	723	-	-	521	898	44 783	59 368
Equity of the owners of the parent entity										83 940	83 940
Non-controlling interest										6 470	6 470
Total liabilities and equity	**2 846**	**952**	**1 134**	**7 511**	**723**	**-**	**-**	**521**	**898**	**135 193**	**149 778**
Depreciation of property, plant and equipment	116	111	93	599	712	-	-	65	238	-	1 934
Amortisation of intangible assets	-	9	-	19	4	-	-	3	116	-	151
Write-down of segment assets	-	-279	-3 061	-1 106	-145	-	-	-	-26	-	-4 617

Comparative data

In 2017	General contracting	Design services and other engineering services	Rental of construction equipment	Electrical installations	Rental of office space	Maintenance	Commercial activity	Other IT services	Other	Items not assigned	Total
Revenue to customers	33 255	30 277	2 515	38 164	4 487	710	873	421	1 304	-	112 006
Total segment revenues	33 255	30 277	2 515	38 164	4 487	710	873	421	1 304	-	112 006
Result											
Profit (loss) of the segment	**-1 184**	**-9 327**	**384**	**203**	**497**	**-36**	**135**	**-140**	**-139**	**-**	**-9 607**
Financial income	-	-	-		-	-	-	-	-	555	555
Finance costs	-	-	-	-	-	-	-	-	-	-1 024	-1 024
Net financial activities	-	-	-		-	-	-	-	-	-469	**-469**
Profit sharing in entities valued under the equity method	-	-	-	-	-	-	-	-	-	3 641	**3 641**
Loss on other operating activities	-	-	-	-	-	-	-	-	-	26 695	**26 695**
Before tax profit	-	-	-	-	-	-	-	-	-	20 080	**20 080**
Income tax	-	-	-	-	-	-	-	-	-	3 104	**3 104**
Profit for the current period	-	-	-	-	-	-	-	-	-	16 976	**16 976**
Loss assigned to non-controlling interest	-	-	-	-	-	-	-	-	-	148	**148**
Profit for the period assigned to shareholders of parent entity	-	-	-	-	-	-	-	-	-	**16 828**	**16 828**
Segment assets (related to activity)	12 652	11 319	699	5 447	17 063	379	1 175	-	154	-	48 888
Assets unallocated (among others shares and other financial assets)	-	-	-	-	-	-	-	-	-	107 936	107 936
Total assets	**12 652**	**11 319**	**699**	**5 447**	**17 063**	**379**	**1 175**	**-**	**154**	**107 936**	**156 824**
Liabilities of the segment (related to activity)	2	4 497	332	6 771	2 924	37	582	2	811	29 138	45 096
Equity of the owners of the parent entity										105 204	105 204
Non-controlling interest										6 524	6 524
Total liabilities and equity	**2**	**4 497**	**332**	**6 771**	**2 924**	**37**	**582**	**2**	**811**	**140 866**	**156 824**
Depreciation of property, plant and equipment	100	77	91	489	699	63	-	45	270	-	1 834
Amortisation of intangible assets	-	18	-	17	7	-	-	-	138	-	180
Write-down of segment assets	-344	-422	-3 092	-1 107	-289	-	-	-	-254	-	-5 508

Note No. 33 – Profit Per One Share

Net loss per 1 share remaining in trading as at balance-sheet day 31 December 2018 amounts to PLN 0.79 and in 2017 PLN 4.32.

Note No. 34 - Profit Distribution and Loss Coverage

The Issuer's net profit for 2017 in the amount of PLN 12 684 166.55 according to Resolution No. 15 of the Ordinary General Meeting of Shareholders of June 21, 2018, was allocated to reserve capital.

Proposed distribution of net profit for 2018

The Management Board of Prochem S.A. proposes to allocate net profit for 2018 in the amount of PLN 1 088 573.12 to reserve capital.

Note No. 35 - Dividends

The Issuer did not pay dividend for 2017.

Note No. 36 - Financial Instruments and Financial Risk Management

36.1 Categories and classes of financial instruments

Financial assets

(in PLN thousands)		Categories of financial instruments – Loans, receivables and other	
Classes of financial instruments	**Note No.**	**31 December 2018**	**31 December 2017**
Trade receivables	9	40 198	28 674
Cash		3 250	28 815
Loans granted	7,10	19 090	18 713
Other financial assets – non-current security deposit	7	1 332	-
Total		**63 870**	**76 202**

Financial liabilities

31 December 2018

(in PLN thousands)		Categories of financial instruments		
		Financial liabilities measured at amortized cost	**Liabilities excluded from IAS 39**	**Total**
Classes of financial instruments	**Note No.**			
Loans	18,15	7 129	-	7 129
Finance lease	17,20	-	820	820
Trade payables	19	35 195	-	35 195
Total		**42 324**	**820**	**43 144**

31 December 2017

(in PLN thousands)		Categories of financial instruments		
		Financial liabilities measured at amortized cost	**Liabilities excluded from IAS 39**	**Total**
Classes of financial instruments	**Note No.**			
Loans	18,15	2 374	-	2 374
Finance lease	17,20	-	912	912

Trade payables	19	27 018	-	27018
Total		**29 392**	**912**	**30 304**

Impairment allowances of financial assets by classes of financial instruments

(in PLN thousands)	As at 31 December 2018	31 December 2017
Trade receivables	4 617	5 508
Total	**4 617**	**5 508**

Impairment allowances of financial assets are presented in Note 9.

Fair value of financial instruments

(in PLN thousands)	Nota No.	31 December 2018 Fair value	31 December 2018 Book value	31 December 2017 Fair value	31 December 2017 Book value
Financial assets					
Tr4ade receivables	9	40 198	40 198	28 674	28 674
Cash		3 250	3 250	28 815	28 815
Loans granted	7,10	19 090	19 090	18 713	18 713
Other financial assets – non-current security deposit	7	1 332	1 332	-	-
Total		**63 870**	**63 870**	**76 202**	**76 202**
Financial liabilities					
Loans	15,18	7 129	7 129	2 374	2 374
Finance lease	17,20	820	820	912	912
Trade payables	19	35 195	35 195	27 018	27 018
Total		**43 144**	**43 144**	**30 304**	**30 304**

The fair value of financial instruments approximates to the carrying amount due to their short-term nature and the floating interest rate.

Operating lease

The Group is a party to the lease agreement of office space and a lease agreement of real estate.
These agreements have been classified as operating lease.
Agreement on the lease of office space for the conducted business activity includes also additional fees for additional services that are settled once a year. According to the agreement a rent is subject to valorisation once a year according to a Harmonized Index of Growth of Consumer Goods Price in the European Union (index), which is published two months prior to the date of indexation.
Part of leased office space is a subject of sublease. The lease agreement for office space and sublease agreements will expire in 2023.

Lease agreement of real estate expires in August 2034. Area of the property is rented for the offices, within business conducted, on the basis of rental agreements. According to the agreements a rent is subject to valorisation once a year according to a Harmonized Index of Growth of Consumer Goods Price in the European Union (index), which is published two months before the date of indexation or other ratio. Rental agreements include also additional fees for additional services that are settled once a year or two months after the end of the quarter.
The lease agreements are mostly concluded for 5 years (until 2019) and for an indefinite period of time.

On April 1, 2016, the Group entered into an agreement on lease of resort located in Tleń, municipality Osie. The contract was concluded for a definite period until December 31, 2020.
Revenues under the rental increase the social fund, in 2017 amounted to PLN 10 thousand.
Other revenues from the reimbursement of fees incurred by the lessor are included in the consolidated income statement as rental income and expense in the amount PLN 15.0 thousand, and in 2017 17.7

thousand. On November 21, 2018, pursuant to the notary act Repetytorium A No. 5893/2018, the Issuer sold the investment real estate.

In 2018 in the consolidated profit and loss account was recognized an amount of PLN 4 445 thousand as the cost of fees resulting from the lease agreement of office space, and from the lease agreement of real estate, and in 2017 this amount was PLN 4 607 thousand.
Revenue from sublease is recognized in operating income.
Over the year 2018 in the consolidated statement of profit and loss was recognized an amount of PLN 4 808 thousand as revenue from lease and sublease, and in 2017 this amount was PLN 5 010 thousand.

From 18 January 2011, the Group is a party to an agreement of rental of passenger cars concluded with Toyota Leasing Polska sp. z o. o.
As at 31 December 2018, 47 company cars were covered by lease agreements.
Over the year 2018 in the consolidated profit and loss account was recognized an amount of PLN 830 thousand as a cost under rental of cars, and in 2017 PLN 889 thousand.

The minimum payments under non-cancellable operating leases are as follows:

Operating lease agreement in which the Group is a lessee

In PLN thousands	**In 2018**	**In 2017**
Up to 1 year	5 448	4 862
1-5 years	16 968	19 021
More than 5 years	12 319	13 793

Operating lease agreement in which the Group is a lessor

In PLN thousands	**In 2018**	**In 2017**
Up to 1 year	777	4 345
1-5 years	3 142	17 947
More than 5 years	58	2 654

36.2. Financial Risk Management

The Group’s operations are exposed to the following financial risks:
- credit risk;
- liquidity risk;
- market risk (including currency risk, interest rate risk).

Credit risk

The Group, while conducting commercial activities, sells services for business entities with a deferred payment date, as a result of which a risk of not receiving receivables from contractors for services provided may arise. In order to mitigate credit risk, the Group manages risk through the applicable procedure of obtaining collateral.
Assumed repayment period of amount due associated with the normal course of the sale is 14 - 60 days.
Amounts due from contracting parties are regularly monitored by the financial services. In case of overdue amounts procedures of the vindication are started.
The age analysis of trade receivables, which are overdue on the end of the reporting period, but in case of which no impairment occurred, is presented in Note 9.
In order to alleviate the risk of not recovering the receivables from deliveries and services, the Group accepts a collateral from its customers in the form of, among other: bank and insurance guarantees, mortgages, promissory notes, as well as security deposits.

For the improvement of the current liquidity, and in order to release the receivables, which were being retained by investors for a proper security for the implemented contracts, and statutory warranty for construction work and assembly work, the Group grants bank guarantees and the insurance guarantees within guarantee lines, which were launched with this purpose.
Credit risk associated with cash and bank deposits is considered by the Group to be low.
All entities in which the Group deposits its free monetary resources operate in the financial sector. These include domestic banks and branches of the foreign banks of a credit credibility short-term of adequate quality.
The risk of impaired financial assets is reflected in impairment allowances of their value.

Liquidity risk

The Group is exposed to the liquidity risk resulting from the relation of current liabilities to current assets.
As at 31 December 2018 and as at 31 December 2017 the index of ratio of current assets to current liabilities (current liquidity ratio) was respectively 1.24 i 1.84.
Detailed information regarding loans is disclosed in Notes No. 14 and 17.
Analysis of maturity of the liabilities in Notes from 15 to 21.

Currency exchange rate risk

Part of contracts of sale of services is concluded with foreign companies in foreign currencies (EURO, USD and BYR). In case of a significant strengthening of the domestic currency it may adversely affect the performance of the Group. Partly, this risk is mitigated in the natural way through the purchase of equipment and services necessary for the accomplishment of these contracts abroad, as well as through the purchase of relevant financial instruments.

Exposure to currency risk as at 31 December 2017

(in PLN thousands)	**EUR**	**USD**	**NOK**	**Other in PLN**	**Total after translation into PLN**
Financial assets					
Receivables from supplies and services	50	-	-	-	215
Amounts due from recipients under agreements	2 306	-	-	-	9 916
Cash	230	57	88	6	1 247
Total	**2 586**	**57**	**88**	**6**	**11 378**
Financial liabilities					
Trade payables	1 091	50	-	-	4 879
Total	**1 091**	**50**	**-**	**-**	**4 879**

Exposure to currency risk as at 31 December 2017

(in PLN thousand)	**EUR**	**USD**	**NOK**	**BYR**	**Total after translation into PLN**
Financial assets					
Receivables from supplies and services	30	-	-	-	126
Cash	2	1	88	6	55
Total	**546**	**1**	**88**	**6**	**181**
Financial liabilities					
Trade payables	403	80	-	-	1 959
Total	**403**	**80**	**-**	**-**	**1 959**

Analysis of sensitivity to currency risk as at 31 December 2018

(in PLN thousands)	Increase in exchange rate	Total impact on before tax profit	Drop in the exchange rate	Total impact on before tax profit
EUR/PLN	15%	964	15%	-964
USD/PLN	15%	32	15%	-32
NOK/PLN	15%	6	15%	-6
Total impact		**1 002**		**-1 002**

Analysis of sensitivity to currency risk as at 31 December 2017

(in PLN thousands)	Increase in exchange rate	Total impact on before tax profit	Drop in the exchange rate	Total impact on before tax profit
EUR/PLN	15%	-232	15%	232
USD/PLN	15%	1	15%	-1
NOK/PLN	15%	6	15%	-6
Total impact		**-225**		**225**

Exposure to currency risk of revenues and expenses during the reporting period

Revenues in foreign currency, achieved in the currency in the years 2018 and 2017 were as follows:

currency	revenues		Average exchange rate for sales		expenses		Average exchange rate for purchases	
(in PLN thousands)	2018	2017	2018	2017	2018	2017	2018	2017
EUR	360	42	4.2810	4.2294	1 319	932	42713	4.2466
USD	1 805	-	3.7324	3.9295	721	9	3.6805	3.9862

Analysis of the impact of potential change in the value of financial instruments as at 31 December 2018, on the gross financial result in connection with hypothetical change in foreign currency exchange rates compared to the Polish Zloty/functional currency.
The above fluctuations were calculated based on historical volatility of particular currencies and forecasts.

The main foreign currency in the reporting period was EURO.

Hypothetically assuming, in case of depreciation/appreciation of Polish Zloty by 1% in relation to EURO, then revenues in 2018 would increase or decrease by PLN 15 thousand and in 2017 by PLN 2 thousand, which would affect the before tax profit, while the costs would increase or decrease in 2018 by PLN 56 thousand, and in 2017 by PLN 40 thousand.
The above fluctuations were calculated based on historical volatility of particular currencies and forecasts.
Sensitivity of financial instruments for currency risk was calculated as the difference between the initial book value of financial instruments and its potential book value, assuming increase/decrease of exchange rates.

For other currencies, the sensitivity of financial instruments is unessential.

Interest rate risk

The Group is exposed to the risk of volatility of cash flows under interest rate resulting from bank loans based on floating interest rate WIBOR ON (overnight) and loans granted based on floating rate WIBOR 6M, and bill of exchange rediscount rate. The Group did not take into account the decline in interest rates in its analysis.

Analysis of financial instruments with floating interest rate

	WIBOR		Fixed rate of interest	
(in PLN thousand)	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Financial assets				
Loans granted	11 988	11 988	6 775	6 726
Financial liabilities				
Loan	2 374	2 374	-	-

Analysis of cash flow sensitivity of financial instruments with floating interest rate on profit before tax

	Fluctuations assumed		**impact (in PLN thousands)**	
(in PLN thousands)	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Financial assets				
WIBOR	+50 base point	+50 base point	62	94
Financial liabilities				
Loan	+50 base point	+50 base point	(36)	(12)

Note No. 37 – Related Party Transactions

Related entities include entities controlled and jointly – controlled entities, as well as those on which the Issuer has an influence and members of key management staff of the Issuer.

Key management personnel include Members of the Company's Management Board and Members of the Company's Supervisory Board.
In 2018, key management personnel and persons related to key management personnel, in addition to remuneration did not conclude other transactions with the Issuer and the companies from the Capital Group.

Remuneration paid in 2018 in the Issuer's enterprise to the Members of Management Board:

1. Jarosław Stępniewski PLN 576 thousand
2. Marek Kiersznicki PLN 483 thousand
3. Krzysztof Marczak PLN 458 thousand

Remuneration paid in 2018 in the Issuer's enterprise to the Members of the Supervisory Board:

1. Marek Garliński PLN 76 thousand,
2. Andrzej Karczykowski PLN 60 thousand,
3. Krzysztof Obłój PLN 60 thousand
4. Marcin Pędziński PLN 60 thousand
5. Karol Żbikowski PLN 60 thousand

The remuneration on account of serving on the Management Boards and the Supervisory Boards of companies belonging to the Capital Group paid to Members of the Management Board in 2018 have received the following persons:

1. Jarosław Stępniewski PLN 76 thousand
2. Marek Kiersznicki PLN 86 thousand
3. Krzysztof Marczak PLN 126 thousand

Transactions with affiliated entities, as below, were concluded on market conditions and relate to sale and purchase of services, among others – of construction and assembly services, and rental services, as well as loans mutually granted.
Guarantees and sureties granted to related entities are presented in note 38.

Reporting period
(in PLN thousands)

from 1 January 2018 to 31 December 2018

	Sale of services	Purchase of services	Financial income – interest on loans
Jointly-controlled entities and associated entities	13 063	3 404	377

The sale of services in its entirety relate to revenues from the jointly – controlled company Irydion Sp. z o. o. in Warsaw, for the benefit of which is implemented investment task under the name of "Astrum Business Park" in Warsaw, and costs of purchase of services – relate to fees for rental of office.

As at 31 December 2017

	Trade and other receivables	Receivables under loans granted	Trade payables
Jointly-controlled entities and associated entities	1 562	19 090	12

Comparative period
(in PLN thousands)

from 1 January 2017 to 31 December 2017

	Sale of services	Purchase of services	Financial income – interest on loans
Jointly-controlled entities and associated entities	13 033	3 878	379

As at 31 December 2017

	Trade receivables	Receivables under loans granted	Trade payables
Jointly-controlled entities and associated entities	7 903	18 713	10

Revenues from the sale of services to jointly-controlled entities and associated entities in its entirety relate to revenues from the jointly controlled company Irydion Sp. z o. o. in Warsaw, for the benefit of which is implemented investment task under the name of "Astrum Business Park" in Warsaw.
In 2018 the costs relate to the rental of office space.

Note No. 38- Contingent Liabilities and Contingent Assets and Other Collateral

Contingent Liabilities

Contingent liabilities include bank guarantee of a good performance, guarantee of reimbursement of advance payment, guarantee of payment, tender guarantee, and promissory note securing good performance of a contract, which as at the balance sheet date are amounting to:

	31 December 2018	31 December 2017
Collateral granted		
Bank guarantee of the good performance	14 192	11 475
Guarantee of reimbursement of advance payment	11 400	1 177
Guarantee of payment	0	-
Tender guarantee	250	-
Total collateral granted	**14 192**	**12 652**
Contingent liabilities		
surety concerning bills of exchange issued by subsidiary Pro-Inhut Sp. z o. o. seated in Dąbrowa Górnicza for the benefit of an investor to secure the claims concerning good performance	247	247
Total collateral granted and contingent liabilities	**14 439**	**12 899**

Contingent assets

Contingent assets of the Group are bank guarantees of the good performance, which as at balance-sheet day amount to:

Collateral received

	31 December 2018	31 December 2017
Bank guarantee of the good performance	16 865	3 866
Bill-of-exchange guarantees securing the terms of the contract	450	-
Total contingent assets	**17 315**	**3 866**

Note No. 39 - Information on Significant Proceedings Pending before the Court

On 22 October 2018 the Management Board of PROCHEM S.A. received from their proxy a copy of the decision of the Supreme Court refusing to take for consideration a cassation complaint lodged by the Public Prosecutor's Office of the Republic of Poland on behalf of PERN S.A. from the verdict of the Court of Appeal in Warsaw, 1st Civil Department of October 30, 2017.

Note No. 40- Events after Reporting Date

Did not occur.

Note No. 41 - Other Explanatory Information to the Financial Statements

Statement of changes in the shareholding of the issuer's shares or rights to them (options) by the Management Board and the Supervisory Board, in accordance with the Issuer's knowledge

As at the date of preparation of the hereby financial statements, the following members of the Management Board and Supervisory Board of the company hold shares of Prochem S.A.

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

The nominal value of 1 share is PLN 1.

Note No. 41- Approval of the Financial Statements

Consolidated financial statements of the Prochem S.A. Capital Group for the year 2018 were approved for issue by the Management Board of the Parent Company on 26 April 2019.

Signatures of the Members of the Management Board

26 April 2019	Jarosław Stępniewski	President of the Management Board	....
date	first name and surname	position	signature
26 April 2019	Marek Kierszniki	Vice President of the Management Board	....
date	first name and surname	position	signature
26 April 2019	Krzysztof Marczak	Vice President of the Management Board	....
date	first name and surname	position	signature

Signature of the person responsible for bookkeeping

26 April 2019	Barbara Auguścińska-Sawicka	Chief Accountant	....
date	first name and surname	position	signature