

PROCHEM S.A. FINANCIAL STATEMENT

prepared as at and for the period ended on 31 December 2010

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

PROCHEM S.A. Financial Statement	Page
1. Statement of Financial Position	3
2. Statement of Comprehensive Income	4
3. Statement of Changes in Owners' Equity	5
4. Statement of Cash Flows	5
Notes on assumed accounting principles (policy) and other explanatory remarks	6
1. Explanatory Notes to Financial Statement	23
2. Other Explanatory Information to Financial Statement	64

***PROCHEM S.A. Financial Statement prepared as at and for the period ended
on 31 December 2010***

Statement of financial position

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

	Note No	As at 31 Dec. 2010	As at 31 Dec.2009 (restated data)
Assets			
Fixed Assets			
Tangible assets	1	3 603	4 853
Intangible assets	2	111	398
Shares and stocks in subordinated entities and others	3	10 605	10 430
Shares and stocks in associated entities	4	708	708
Deferred tax assets	5	1 538	281
Other financial assets	6	18 120	21 072
Total Fixed Assets		34 685	37 742
Current Assets			
Inventory	7	2 925	3 302
Trade receivables and other receivables	8	51 098	52 430
Other financial assets	9	997	1 783
Other assets	10	10 023	13 181
Cash and cash equivalents	28	2 074	2 940
Fixed assets to be disposed	3	3 361	-
Total Current Assets		70 478	73 636
Total Assets		105 163	111 378
EQUITY AND LIABILITIES			
Equity			
Share capital	11	3 895	3 900
Shares of parent entity (negative value)		-	-5
Retained earnings	12	59 734	58 367
Total Equity		63 629	62 262
Long-term Liabilities			
Retirement benefit obligations	13	330	283
Other long-term liabilities	14	-	253
Total Long-term Liabilities		330	536
Short-term Liabilities			
Short-term bank credits	15	277	2 620
Trade payables	16	37 596	41 724
Other liabilities	17	3 211	4 011
Deferred income	18	120	225
Total Short-term Liabilities		41 204	48 580
Total Liabilities		41 534	49 116
Total Equity and Liabilities		105 163	111 378

Statement of Comprehensive Income
for the period from 1 January 2010 to 31 December 2010
(all amounts in thousands of PLN if not marked otherwise)

	Note No	Period ended on 31 December 2010	Period ended on 31 December 2009 (restated data)
Income from sale, including:		47 594	105 708
Income from sale of services	19	47 202	103 980
Income from sale of goods and materials	20	392	1 728
Cost of sale including:		41 876	102 292
Cost of services sold	21	41 491	100 598
Cost of goods and materials sold		385	1 694
Gross profit from sale		5 718	3 416
General and administrative expense		6 961	6 448
Other operating income	22	1 812	1 915
Other operating costs	23	1 505	4 574
Loss from operating activity		-936	-5 691
Financial income	24	1 720	3 395
Finance costs	25	778	853
Profit (loss) before tax		6	-3 149
Income tax :		-1 259	-223
- current income tax	26	40	3
- deferred income tax	26	-1 299	-226
Net profit (loss)		1 265	-2 926
Other comprehensive income			
Revaluation of fixed assets	1	228	-
Income tax concerning other comprehensive income		44	-
Other comprehensive income (net)		184	-
Total comprehensive income		1 449	-2 926
Weighted average number of ordinary shares (Units)		3 895 000	3 895 000
Profit (loss) per one ordinary share (In PLN per 1 share)		0.32	-0.75
Comprehensive income per one ordinary share (in PLN per one share)		0.37	-0.75

Statement of Changes in Owners' Equity

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

	Share capital	Shares of parent entity	Retained earnings	Total equity
Reporting period for the period from 1 January 2010 to 31 December 2010				
As at the beginning of period (restated data)	3 900	-5	58 367	62 262
Net profit (loss) for the given period			1 265	1 265
<i>Net other comprehensive income</i>			184	184
Total comprehensive income	0	0	1 449	1 449
Own shares purchased with the aim of redemption	-5	5	-82	-82
As at the end of period	3 895	0	59 734	63 629
Reporting period for the period from 1 January 2009 to 31 December 2009				
As at the beginning of period	3 900	-2	62 558	66 456
Influence of changes of accounting principles (policy) as at 1 January 2009			-728	-728
As at the beginning of period (restated data)	3 900	-2	61 830	65 728
Payment of dividend			-506	-506
Other movements			-31	-31
Net other comprehensive income				
Net profit (loss) for the given period (restated data)			-2 926	-2 926
Total comprehensive income	0	0	-3 463	-3 463
Own shares purchased with the aim of redemption		-3	0	-3
As at the end of period (restated data)	3 900	-5	58 367	62 262

Statement of Cash Flow

for the period from 1 January 2010 to 31 December 2010 (indirect method)

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

	Note No	Period ended on 31 December 2010	Period ended on 31 December 2009 (restated data)
Operating cash flow			
Gross profit (loss)		6	-3 149
Total adjustments		1 386	-4 849
Amortization and depreciation		1 890	2 234
Interest and profit sharing (dividends)		-799	-2 476
(Profit)loss from sales of tangible assets		-82	-43
Movements in provisions		-1 270	-2 767
Change in inventory		377	432
Movements in receivables	28	4 553	62 234
Movements in current liabilities, with the exception of loans and credits	28	-3 180	-62 352
Other adjustments		-103	-2 111
Operating cash		1 392	-7 998
Income tax paid		40	3
Net operating cash		1 352	-8 001

Investment cash flows			
Inflows		5 325	2 794
Sales of intangible assets and tangible assets		97	174
From financial assets, including:		5 228	2 620
in affiliates		5 228	2 620
- repayment of granted loans		4 205	700
- dividends and profit sharing		302	1 876
- repayment of interest on granted loans		721	44
Outflows		4 189	3 337
Purchase of intangible assets and tangible assets		252	207
Purchase of financial assets in affiliates, including :		3 937	3 130
- purchase of financial assets /shares in subsidiaries		3 534	30
- loans granted		403	3 100
Net cash flow from investment activity		1 136	-543
Financial cash flow			
Inflows		-	2 620
Bank credits		-	2 620
Outflows		3 354	1 590
Purchase of own shares (stocks)		-	3
Other than payments to shareholders		-	506
Repayment of credits and loans		2 343	-
Payments from the title of finance lease		722	822
Interest and commissions paid		289	259
Net cash from financial activity		-3 354	1 030
Total net cash flow		-866	-7 514
Increase /(decrease) of net cash flow and cash equivalents	28	-866	-7 514
Cash and cash equivalents at the beginning of period	28	2 940	10 454
Cash and cash equivalents at the end of period	28	2 074	2 940

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

1. The formation of a company and the basic scope of its activity

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

2. Managing and supervising bodies of the Issuer

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

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

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

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

On 11 June 2010 the company get information about the resignation of Mr Steven Tappan from the membership of the Supervisory Board of PROCHEM S.A. as from June 13th 2010.

On 24 July 2010 the Extraordinary General Meeting of PROCHEM S.A. passed resolution No 1 by virtue of which Mr. Adam Parzydeł was elected the supervisory board member of 7th joint term of office.

3. Employment

Average employment in 2010 was 219 FTEs. Level of employment in persons as at 31 December 2010 was 224 persons.

4. Applied Accounting Principles

Base for the preparing

Financial statement of PROCHEM S.A. for the period from 1 January to 31 December 2010 and corresponding period of the comparable year was drawn up according to International Accounting Standards and International Financial Reporting Standard, which were approved by European Union (EU) and were in force as at 31 December 2010. Scope of financial statement is in conformity with Regulation of the Minister of Finance of 19 February 2009 on current and periodical data to be submitted by issuers of securities and concerning conditions for recognition as equivalent the required information with provisions of the law of the country not being a member state. (Journal of Laws No 33, item 259 with amendments).

This financial statement meets all IFRS requirements approved by EU and gives a true and fair view of the Company's material and financial position as at 31 December 2010 and comparable data as at 31 December 2009, as well as results of such activity in the year ended on 31 December 2010 and comparable data for the year ended on 31 December 2009.

Financial statement of PROCHEM SA as at 31 December 2010 was prepared at assuming continuing economic activity in a foreseeable future and it is stated that circumstances pointing out to the threat to continuing activity by the Issuer don't exist.

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

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

Changes in Accounting Estimates and Accounting Principles (Policy)

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

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

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

In case of changes of accounting principles it is assumed that new accounting principles were always applied, except for the ones which aren't anticipating the retrospective change. Adjustments associated with it are being indicated as changes in owners' entity. For ensuring the comparability the transformations of financial statements for the earlier presented period are done in such way that reports also include changes, except for situations, when establishing the influence of the change on individual periods or its total influence is in practice impossible. Changes in the accounting principles (policy) were described in detail in item 5 - *conversion of financial statements*.

Transactions in foreign currencies

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

New standards, interpretations and changes of published IFRS

Standards and interpretations approved by EU

The Company is going to accept changes of IFRS published, but inoperative until 31 December 2010, according to the date of their entry into force. In the current annual reporting period in the Company wasn't made a decision on earlier applying of changed standards and interpretation.

Amendments to IFRS 1 – limited exemptions concerning disclosures in accordance with IFRS 7 for entities applying IFRS for the first time.

The change is pertinent to exemptions from disclosing information in the comparable period required by changed IFRS 7 for entities applying IFRS for the first time. This exemption concerns the situation, when the first financial statement was prepared for the period beginning earlier than 1 January 2010. The changed standard was published on 1 July 2010. According to the Regulation of the Committee No. 574 / 2010 all entities apply amendments to IFRS 1 and IFRS 7 along with beginning one's first reporting year after 30 June 2010 at the latest. The changed standard isn't concerning the financial statement of the Company.

IAS 24 brought up to date - related party disclosures The change is introducing immunity concerning disclosures of transaction amounts with affiliated companies, amounts of balances, including contingent liabilities from:

- government which is exercising the control or the co-control over the reporting entity or is exerting significant influence on it,
- other entity being affiliated company, since the same government is exercising the control or the co-control over the reporting entity and this second entity or is exerting significant influence on it.

The standard brought up to date requires effecting peculiar disclosures from entities which are using this exemption. The standard brought up to date is also changing definitions of affiliated companies, in this way, that this definition includes with one's scope additional subjects like e.g. associated companies with the controlling shareholder and controlled entities or co-controlled by members of the crucial managerial staff.

The standard brought up to date was published on 20 July of 2010. In accordance with the Regulation of the Committee No. 632 /2010 all entities apply standard brought up to date along with beginning one's first reporting year after 30 June 2010. The changed standard will have no effect on the financial statement of the Company.

Amendments to IAS 32 – classification of rights issues

The change demands that rights, options, warrants concerning the specific number of own equity instruments for the stated amount in any currency constitute equity instruments, if the entity offers mentioned above rights, options and warrants pro rata to previous owners of the same class of equity instruments not being derivative securities. The company didn't issue such equity instruments in the past. Amendments to IAS 32 don't concern the financial statement of the Company.

Amendments to CI IAS 14 (committee of interpretation of international accounting standards) – prepayments of a minimum funding requirement

Changed CI IAS 14 is regarding arithmetic including of advance payments in the event that minimum requirements of financing exist. According to these changes the entity is obliged to include such advance payments as the component of assets therefore, as it is getting future economic benefits resulting from the made advance payment and they are available in the form of reducing future contributions in periods, in which payments associated with minimum requirements of financing would be due in case of earlier advance payments.

Amendments to interpretation were published on 20 July 2010. In accordance with the Regulation of the Committee No. 633 /2010 all entities apply standard brought up to date along with beginning one's first reporting year after 31 December 2010. Changes aren't applying to the financial statement of the

Company, because the Company isn't holding determined benefits with minimum requirements of financing.

CI IAS 19 – extinguishing financial liabilities with equity instruments

This interpretation is explaining applied accounting rules in the situation when as a result of the renegotiation by the entity of conditions of its debt the obligation is settled in full or in part through issuing of equity instruments directed at the creditor. This interpretation was published on 24 July 2010. In accordance with the Regulation of the Committee No. 662 /2010 all entities apply above standards along with beginning one's first reporting year after 30 June 2010. In the current period the Company didn't issue equity instruments in order to settle financial liabilities. For this reason interpretation won't have a significant effect to comparative data demonstrated in the financial statement for the financial year ending on 31 December 2010. Moreover, since interpretation can only apply to transactions which will be taking place in the future, isn't possible to predetermine the influence of applying interpretation.

Improvements to IFRS arising from the draft of annual amendments which were published on 11 February 2011

11 amendments to 6 standards and 1 interpretation are mainly for terminating the incompatibility and making records more precise, clarifying the required recognition in situations, when previously the freedom was. Changes were implemented with Regulation of the Committee No. 149 / 2011. The amendments will have no significant effect on the financial statement of the Company.

Standards and interpretations waiting for approval by EU

Amendments to IFRS 1 – the hyperinflation and removing permanent dates for applying IFRS for the first time.

The change is adding the dismissal which can be applied as at the day of the transition to IFRS by entity operating in conditions of the hyperinflation. Effective date is of 1 July 2011.

It is not expected that the above change has a significant effect on the financial statement of the Company.

Amendments to IFRS 7 disclosures – transfer of financial assets

Disclosures may help recipients of the financial statement to evaluate the risks associated with transfer/ moving of financial assets and the influence of these risks on financial position of the entity. Effective date for periods starting is on 1 July 2011 and later. It is expected that in the moment of the IFRS 7 application a number of disclosures in the financial statement will rise.

IFRS 9 – financial instruments - is being applicable for annual periods starting 1 January 2013 or later. IAS 39 and IAS 9 are supposed to be replaced with IFRS 9 This standard is implementing the improved and simplified attempt to classification and evaluations of financial assets in the comparison with IAS 39 requirements. The company doesn't expect that IFRS 9 (2010) will have a significant effect on the financial statement. It is expected that on account of the specificity of operations of the Company and the kind of kept financial assets, principles of classification and evaluations of financial liabilities will not change.

Amendments to IFRS 12- deferred income tax

The change from 2010 is implementing the exception to current principles of valuation of deferred income tax. The exception is concerning the deferred income tax on real estate investments valued in compliance with IAS 40 by introducing the assumption that a sale will be exclusively the method of realisation of book value of these assets. Intentions of the management Board won't be important, unless the real estate investment is subject to depreciation and is being held in frames of the business model, aiming at consuming all economic benefits from given assets for the period of his service life. It is only case, when this assumption can be rejected. The change will be in force for periods starting from 1 January 2012 and later. The above change won't be affecting financial statements of the Company, since the Company doesn't have an investment real estate.

Functional currency and presentation currency of the statement

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

Applied accounting principles followed by the Company are introduced below Tangible assets and intangible assets

Tangible assets are presented in accordance with International Accounting Standards 16 (MSR 16).

Tangible assets comprises fixed assets and outlay on fixed assets (construction) in-progress which the entity is going to exploit in their activity in the period longer than one year, and which in the future will result in benefit to the entity.

Expenditure on fixed assets include investment outlay as well as incurred expenses for future deliveries of machinery, equipment and services associated with production of fixed assets (transferred advance payments).

Tangible assets at first are being evaluated according to the purchase price or the manufacturing costs. Principles of valuation following the initial approach:

- Land, buildings and constructions buildings are shown in the post-revaluation amount, being its fair value as at the day of the revaluation, set by experts, reduced by the amount of the later accumulated depreciation and later accumulated revaluating write-off. Fair value will be set by experts regularly every two years.
- Other tangible assets are being shown according to the purchase price or the manufacturing cost, increased by possible costs of improvements, but reduced by the accumulated depreciation and accumulated revaluating write-off.

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

The company treats right to perpetual usufructs as land.

Value of fixed assets intended for liquidation, withdrawn from use as a result of the change of technology or other reasons, is being revalued by revaluating write off. Revaluating write - off is carried to the debit of other operating costs.

Tangible fixed assets available for sale are shown according to International Financial Reporting Standards 5 (MSSF 5).

Outlays on tangible assets to be borne later are recognized at their balance-sheet value, when it is probable that the entity will benefit from it, and this cost could be credibly evaluated. All other costs of repairs and maintenance of tangible fixed assets are included in the period costs, in the time period incurred.

Profit and loss from selling of tangible assets are being set by comparing the sales revenue with the balance-sheet value of the given tangible asset and included in the Statement of the Comprehensive Income.

Tangible fixed assets are subject to depreciation since they are available for use. Allowance for depreciation on tangible assets is provided by systematic, scheduled dividing the initial value into the established service life of the asset component. A straight line depreciation method is applied.

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

- of buildings and constructions 10-40 years
- of technical devices and machines 5-12 years
- of means of transport 5 years
- of tools, devices, movables and equipping 5-10 years

Correctness of applied life cycles, of depreciation formulas is verified for the end of every year under review and where justified corrected.

Own land is not depreciated.

Tangible assets- in-progress coming into existence for purposes of the conducted operational activity, as well as for purposes not yet determined, are being presented in the financial statement at the production cost reduced by recognized allowances for depreciation. The manufacturing cost includes all payments and costs of the external financing capitalized according to applied accounting principles. The depreciation concerning these tangible assets is starting in the moment of beginning using them.

Tangible fixed assets are being subjected to the impairment test if premises pointing at appearing of the impairment exist, in addition for the construction-in-progress in the period of the realization, possible depreciation is determined for every balance sheet day. Effects of the impairment are being carried forward on other operating costs. Management Board of the Company is of the opinion that in 2010 the premises pointing out to the impairment of tangible fixed assets didn't appear.

Intangible assets are presented in accordance with International Accounting Standards 38 (MSR 38). The component of intangible asset is valued at purchase price less allowance for amortization and impairment.

Intangible assets, apart from the goodwill are being amortized. Amortization of intangible assets is provided by systematic, scheduled dividing the initial value into the established service life of the asset component. A straight line of depreciation method is applied.

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

Correctness of applied life cycles, of depreciation formulas is verified for the end of every year under review and where justified corrected.

Intangible assets are being subjected to the impairment test if premises pointing at appearing of the impairment exist. Effects of the impairment are being carried forward on other operating costs. Management Board of the Company is of the opinion that in 2010 the premises pointing out to the impairment of intangible fixed assets didn't appear.

Leases

The company as the lessee

Lease, by which part of the risk and of benefits from the title deed is falling to the Company Prochem S.A., constitutes the financial lease.

Components of assets being an object of this lease are being included in the financial statement in the lower amount out of established at the moment of commencing the use: of fair value or in the current value of the minimum lease payments. Every lease payment is being divided into the part constituting the obligation and the financial part. The liability is being shown in balance sheet in the position "Other obligations" with the division into the short-term part (payable up to one year) and long-term (paid in the period longer than one year). Finance charges are being shown in the Statement of Comprehensive Income. Principles of the amortization and depreciation of assets being a subject of the financial lease and the principles of setting revaluating write-offs for assets in the financial lease

are consistent with principles applied for assets being a property of the Company. Tangible fixed assets constituting the leased object are being depreciated during the economic service life of the asset. A straight line of depreciation method is applied.

Lease payments on account of the operating lease and subsequent leasing instalments are recognized in current costs during the life of the leasing with the straight-line method.

The company as the lessor

Lease agreements as which we recognize hiring contracts, according to which the Company is preserving the entire risk and all benefits resulting from having a leased object, are ranked among agreements of the operating lease. Costs of the lease are being included in current costs; however the income on account of the leased object is being included in the income of the period.

Costs of the external financing according to International Accounting Standards 23 (MSR 23) - costs of the external financing are being included as costs in the period, in which they were carried, except for costs which it is possible directly to assign for the purchase, the building or producing the asset component (tangible assets, intangible assets).

Activating of costs of the external financing is starting when:

1. costs of the external financing are being incurred,
2. an expenditure on this asset component is being incurred,
3. action essential to prepare the asset component for his planned use or the sale is being conducted.

Activating costs of financing is being suspended in case of the interrupt for the longer time of active leading the investment activity. Costs of the external financing are subject to activating until intending the component of assets to use or for sale.

Investments in subsidiaries, associated or in joint undertakings are included according to International Accounting Standards 27, 28 or 31 (MSR 27, 28, 31).

The Company is evaluating the value of shares according to the cost, i.e. at the price of the purchase reduced by possible write downs.

Balance value of investment project as at the day when it is stopping to be subsidiary is treated as her purchase price at its initial evaluation as being the component of financial assets according to IAS 39.

As at 31 December 2010 Company's Management Board made an appraisal whether premises pointing out to diminishment in the value of shares held in given entities exist. After carrying out an analysis, the premises which would appoint to the need to recognize the impairment write-offs weren't identified.

Current assets

Inventory – in the item of inventory - materials, goods, semi-finished products and work-in-process are being shown.

Inventory is being evaluated originally at the price of the purchase. As at the balance sheet day the evaluation of materials and goods is held in compliance with principles of the conservative estimate, namely these categories are being valued according to the purchase price, the production cost or the net value possible to get, depending on which one is lower.

Stock of goods and materials slowly-rotating is covered by the write-down according to the individual evaluation of the price possible to get for the balance sheet day. Flow of goods is done with the application of FIFO method „First In, First Out”.

Write-downs concerning inventory and write-ups are parked in the other costs and operating income.

Loans - are coming into existence when the entity is transferring financial means directly to the debtor, not intending to enter their amount due into the trading. They are being ranked among current assets, provided the date of their maturity doesn't exceed 12 months from the balance sheet day.

Loans with the maturity date exceeding 12 months from the balance sheet day are being ranked among fixed assets. At first loans are recognized at their fair value. The evaluation of loans takes place later according to the amortized cost, with the application of the method of the effective interest rate, after reducing by possible write-downs on account of the depreciation.

Amounts due at first are recognized according to their fair value then according to the amortized cost, with the application of the method of the effective interest rate, after reducing by possible write-downs on account of the depreciation. Write-down covering amount due is made when objective evidence exist that the entity won't receive all amounts due resulting from primary conditions of the amount due, and is included in item other operating costs. The amount of write-down is a difference between the balance sheet value of the amount due and current value of estimated future cash flows, discounted according to effective interest rate.

Cash and cash equivalents cover the cash in hand and on banking accounts, deposits with the original maturity date up to three months and financial assets evaluated in the fair value by the financial result meeting the requirements of the definition of the monetary equivalent. Cash is being evaluated in the nominal value. Cash equivalents classified as financial assets are being evaluated in the fair value by the financial result.

Available-for-sale assets

The fixed assets intended for the sale are assets meeting at the same time the following determined criteria according to IFRS 5:

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

The change of classification is being reflected in this reporting period, in which criteria of identity were fulfilled.

Directly before reclassification to the group intended for the sale or the disposal, these assets again are being evaluated according to accounting rules. The assets intended for the sale (excluding financial assets and investment real estates) are included in the financial statement according to lower from two values: of the balance sheet value or the fair value reduced by costs of sale. In case of increased value in the more late period, the income is included at fair value reduced by cost of sale however at the value not higher than write-down recognized earlier.

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

Evaluation of assets and financial liabilities - in the moment of the initial recognition, the Issuer is evaluating the component of assets or liabilities at their fair value , in case of the component of assets or financial liability not qualified as evaluated at the fair value by the financial result, increased by costs of transaction which can be directly assigned to purchase or emission of the component of financial asset such as: payments and commissions paid to advisers, agents, payments imposed by control offices and the stock exchange and taxes. However costs of transactions don't include the bonus or the discount from in debt instruments, of costs of financing, nor of internal administration cost, or storages cost of instruments. For needs of the evaluation as at the end of the reporting period, or for other moment after the initial recognition, the Issuer is qualifying financial assets for one of four categories:

1. evaluated at fair value by the financial result,
2. investments kept to the maturity date,
3. loans and receivables,
4. financial assets available for the sale.

Component of assets valued at fair value by financial result constitutes the component of financial assets which was appointed at initial recognition as evaluated according to fair value by the financial result or was categorized as intended for the trade, because:

- was purchased or contracted mainly for the purpose of sale or buying in the short term,
- is a part of the wallet of determined financial instruments managed together and for which the confirming of current and actual model of generating short-term profits exists, or
- is a derivative instrument (excluding derivative securities being effective instruments (safety)).

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments or maturity which the Company is both able and intending to hold to its maturity.

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

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

Measure of the fair value of financial assets

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

Fair value of financial assets is assessed as follows:

The value is being set:

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

Investments in equity instruments (equity investment) which don't have quoting of market prices from the active market and of which the fair value cannot be measured credibly, the Company is evaluating according to the cost, i.e. at the price of the purchase reduced by possible write-downs.

Hedged financial assets are subject to an evaluation according to accounting standards for hedging activities.

Profits or losses resulting from the evaluation of the component of financial assets, qualified as evaluated according to fair value by the financial result, are included in the financial result.

Profits or losses resulting from the evaluation of the component of financial assets ranked to available - for - sale are included in other comprehensive income, except for write-downs on account of the depreciation and exchange differences which are being included in the financial result. In case of in debt financial instruments, interest worked out at the application of the method of the effective interest rate is being included in the financial result.

Evaluation of financial assets according to the amortized cost

The company is evaluating loans and other amounts due, including trade receivables and held- to-maturity investments according to the amortized cost with the application of the method effective interest rate. The company applies simplified methods of the evaluation of financial assets evaluated according to the amortized cost if doesn't cause distortions of information included in the statement of financial position in particular in the event that the period to the moment of the repayment of the amount due isn't long. Financial assets evaluated according to the amortized cost, to which the Company applies simplifications, are being evaluated in the moment of initial including in the amount

of the required payment, and in the more late period, at the end of the reporting period in the amount required reduced by write-downs on account of the depreciation.

Measure of the fair value of financial liabilities

The company is evaluating financial liabilities categorized as evaluated at fair value by the financial result (in particular including derivatives not being hedging instruments), as at the last day of the reporting period or other moment after the initial recognition at fair value. Irrespective of features and the aim of the purchase, the Company, in the moment of the initial recognition, is effecting classification of selected financial liabilities as evaluated at the fair value by the financial result, because it is leading to obtaining more useful information. The fair value of the contracted obligation is being set based on the current selling price for instruments quoted on the active market.

In case of the lack of the active market, the fair value of financial liabilities is being established through:

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

Measure of financial liabilities according to the amortized cost

The company is evaluating other financial liabilities according to the amortized cost with the application of the method effective interest rate. If it doesn't cause distortions of information included in the statement of financial position in particular in the event that the period to the moment of the repayment of the amount due isn't long the company applies simplified methods of the evaluation of financial liabilities evaluated according to the amortized cost. Financial liabilities, to which the Company is applying simplifications, are being evaluated in the moment of the initial recognition and in the more late period, at the end of the reporting period, in the amount required for payment. Financial guarantee contracts, i.e. agreements obliging the Company (issuer) for effecting determined payments compensating the owner for the loss he will carry which from the reason of not making payment by the described debtor in the falling time according to original or with changed conditions of the in debt instrument, not categorized as obligations evaluated at fair value by the financial result, are evaluated in the higher value:

- established according to principles of valuation of reserves,
- initial value reduced in appropriate cases by accumulated allowances for amortization.

Reclassifications

The company:

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

Impairment of financial assets value

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

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

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

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

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

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

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

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

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

Calculated obligations are equal to discounted payments which in the future will be made, with taking into account among others the rotation of employment, the planned increase of the level of the remuneration and concern the period up to the day of finishing the year under review.

Reserve to retirement gratuity is formed in order to assign costs up to periods which they concern.

Owners' Equity

PROCHEM S.A.

Sprawozdanie finansowe sporządzone zgodnie z Międzynarodowymi Standardami Sprawozdawczości Finansowej na dzień i za okres kończący się 31 grudnia 2010 roku

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

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

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

Income from sales include fair value of revenues from sales of goods and services.

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

Income tax - fiscal charges contain the current taxation with corporate income tax and the change in reserves or assets on account of the deferred income tax.

Current tax liabilities are being set on the basis of current tax regulations and the set taxable income.

Current tax liabilities in the current period and previous periods are being included as the obligation in the amount, in which it wasn't paid.

The reserve on account of the deferred income tax is included with the method of obligations, on account of temporary differences between the tax value of assets and obligations and their balance sheet value shown in the financial statement. The deferred income tax is set at applying tax rates indeed being in force at the balance sheet day. Temporary differences concern the different asset pricing and obligations for tax purposes and balance. Assets on account of the income tax are being included if it is probable, that in the future a taxable income is gained which will enable using temporary differences. Deferred income tax assets are also recognized from tax losses deductible in the next years.

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

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

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

investment in the co-controlled entity. The partner is evaluating the share in the co-controlled entity under the equity pick-up method. The partner is stopping applying the equity pick-up method with the moment of ceasing exercising the co-control over the co-controlled entity or significant exerting of influence on such an entity.

Shares in the co-controlled entity categorized as available for the sale are being included according to International Financial Reporting Standards 5 (MSSF 5).

5. Transformation of Financial Statements

On 1 January 2010 Company Prochem S.A. changed accounting policy in the scope of methodology of creating provisions to cost estimates of back leaves. The company estimated reserves to leaves using rate 50 % with reference to the amount of unused days of leave and at applying the average remuneration in the company established like for the payment of the equivalent for leave. Correcting the mistake consists in agreeing the reserve for back leaves, for every employee in the 100% according to his individual rate of the remuneration established as for the payment of the equivalent for leave. The change was applied retrospectively, beginning from opening earliest presented periods.

The following table is describing corrections in the statement of the financial standing resulting from applying the new accounting policy.

In PLN thousand	Other liabilities	Deferred tax assets	Retained earnings
Balance as at 1 January 2009	13 261	742	62 558
Influence of changes of accounting policy	899	171	-728
Transformed balance as at 1 January 2009	14 160	913	61 830

Financial statement of Prochem S.A. for the period from 1 January to 31 December 2010 is keeping the comparability in relation to data of the report for the period from 1 January to 31 December 2009. For keeping the comparability also reclassification of determined items of equity was effected which were presented in the following table.

Changes as given below result from:

- Change of principles of accounting policy in the scope of methodology of creating provisions to back leaves,

adaptation of onomastics and disclosures to those widely accepted and required by international standards of financial reporting in the shape being in force for financial statements for periods beginning on 1 January 2009 and later.

Statement of financial position as at 31 December 2009 – transformed

(all amounts in PLN thousand if not marked otherwise)

	Note No	As at 31 Dec.2009	adjustment / transformation	As at 31 Dec. 2009 (restated)
Assets				
Fixed assets				
Deferred tax assets	6	1 597	-1 316	281
Total fixed assets		39 058	-1 316	37 742
Current assets				
Trade receivables and other receivables	10	52 913	-483	52 430
Cash and short-term deposits		3 045	-105	2 940
Total current assets		74 224	-588	73 636
Total assets		113 282	- 1 904	111 378

Liabilities and equity	Note No	As at 31 Dec. 2009	adjustment / transformation	As at 31 Dec. 2009 (restated data)
Equity				
Spare capital		14 812	-14 812	-
Revaluation capital		766	-766	-
Other reserve capitals		46 443	-46 443	-
Profit (loss) for the current year		-3 118	3 654	-
Retained earnings		-	-58 367	58 367
Total equity		62 798	-536	62 262
Long-term liabilities				
Provision for deferred income tax	20	1 481	-1 481	0
Total long-term liabilities		2 017	-1 481	536
Short-term liabilities				
Other liabilities	26	3 898	113	4 011
Total short-term liabilities		48 467	113	48 580
Pasywa razem		113 282	-1 904	111 378

Book value - equity	62 798	-536	62 262
The number of shares (units)	3 895 000	3 895 000	3 895 000
Book value per one share (in PLN)	16.12	-0.14	15.99

Statement of Comprehensive Income for the period from 1 January 2009 to 31 December 2009 – conversion

(all amounts in PLN thousand if not marked otherwise)

	Note No	Period ended on 31 December 2009	Adjustment/conversion	Period ended on 31 December 2009 (restated data)
General and administrative expense	30	6 644	-196	6 448
Operating profit (loss)		-5 887	196	-5 691
Profit (loss) before tax		-3 345	196	-3 149
Income tax	35	-227	4	-223
- deferred income tax		-230	4	-226
Net profit (loss)		-3 118	192	-2 926
Weighted average number of ordinary shares (units)		3 895 000	3 895 000	3 895 000
Profit (loss) per one ordinary share (in PLN per one share) from continuing operations		-0.80	0.05	-0.75
Comprehensive income per one ordinary share (in PLN per one share) from continuing operations		-0.80	0.05	-0.75

- The described above change of principles of the accounting policy had the following influence on the profit:
- on profit PLN 192 thousand
- profit per one share in 2009 increased by PLN 0.05

Statement of Cash Flows for the period from 1 January 2009 to 31 December 2009 – conversion
(all amounts in PLN thousand if not marked otherwise)

	Period ended on 31 December 2009	Adjustment/conversion	Period ended on 31 December 2009 (restated data)
Operating cash flow z działalności operacyjnej			
Gross profit (loss)	-3 345	196	-3 149
Total adjustments to:	-5 758	909	-4 849
Amortization and depreciation	2 234	-	2 234
Interest and profit sharing(dividends)	-2 737	261	-2 476
Profit (loss) on sales of tangible assets	-43	-	-43
Movement in provisions	-597	-2 170	-2 767
Changes in inventory	432	-	432
Movements in receivables	61 286	948	62 234
Movement in short-term liabilities with exception of loans and credits	-66 332	3 980	-62 352
Other adjustments	-1	-2 110	-2 111
Operating cash	-9 103	1 105	-7 998
Income tax paid	-3	6	3
Net cash provided by operating activities	-9 100	1 099	-8 001
Investment cash flows			
Inflows	2 784	10	2 794
Sales of intangible assets and tangible assets	164	10	174
Sale of financial assets	2 620	-	2 620
Outflows	3 261	76	3 337
Purchase of intangible assets and tangible assets	131	76	207
Purchase of financial assets	3 130	-	3 130
Net cash flow from investment activity	-477	-66	-543
Financial cash flows			
Inflows	14 930	-12 310	2 620
Bank credits	14 930	-12 310	2 620
Outflows	12 817	-11 227	1 590
Buy-back of own shares	0	3	3
Outflows under distribution of profit other than payments to shareholders	506	-	506
Repayment of credits and loans	12 311	-12 311	-
Payments from the title of finance lease	-	822	822
Commission, interest paid	-	258	259
Net cash from financial activity	2 113	-1 083	1 030
Total net cash flows	-7 464	-50	-7 514
Increase/(decrease) of net cash and cash equivalents	-7 464	-50	-7 514
Cash and cash equivalents at the beginning of period	10 509	-55	10 454
Cash and cash equivalents at the end of period	3 045	-105	2 940