



Report
on the audit of the consolidated annual financial
statement
for the financial year
ended on 31 December 2019
**of the Group of Companies in which the Parent Entity is
Prochem S.A.**

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Misters Audytor Adviser Sp. z o.o.
Warsaw, 24th of April 2020

Report of the independent statutory auditor on the audit for the General Meeting and the Supervisory Board of Prochem S.A.

Report from the audit of the consolidated annual financial statement

Opinion

We audited the annual consolidated financial statements of the Group of Companies in which the Parent Entity is Prochem S.A. ("Parent Entity") ("Group") which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January to 31 December 2019 and additional information including a description of accounting policies adopted and other explanatory information (the "consolidated financial statements").

In our opinion, the attached annual financial statement:

- give a true and fair view of the consolidated property and financial position of the Group as at 31 December 2019 and its consolidated financial result as well as consolidated cash flows for the financial year ended on that day in accordance with the applicable International Financial Reporting Standards approved by the European Union and adopted accounting principles (policy);
- are in respect of the form and content in accordance with legal regulations governing the Group and the Group's Statute.

This opinion is consistent with the additional report for the Audit Committee, which we issued on 24 April 2020.

Basis for the opinion

Our audit was conducted in accordance with the National Standards of Auditing in the wording of the International Standards of Auditing adopted by No. 3430/52a/2019 of 21 March 2019 regarding the National Standards of Auditing and other documents within the scope of § 1 section 1 item 7, 24, 29 to 32 and 34 ("NSA") and pursuant to the Act on Statutory Auditors, Auditing Firms and Public Oversight of 11th of May 2017 ("Act on Statutory Auditors" – Journal of Laws of 2017, item 1089, as amended) and EU Regulation No. 537/2014 of 16 April 2014 on detailed requirements regarding statutory audits of financial statements of public interest entities ("EU Regulation" – UE Journal of Laws L158). Our responsibility in accordance with these standards has been

further described in the section of our report *Responsibility of the statutory auditor for auditing the consolidated financial statement*.

We are independent of the Companies of the Group in accordance with the Code of Ethics for Professional Accountants of the International Federation of Accountants ("IFAC Code") adopted by resolutions of the National Council of Statutory Auditors No. 2042/38/2018 of 13 March 2018 on the professional ethics of statutory auditors and other ethical requirements that apply to the audit of financial statements in Poland. We have fulfilled our other ethical duties in accordance with these requirements and IFAC Code. During the audit, key statutory auditor and the audit firm remained independent from the rest of the Group in accordance with the requirements of independence set out in the Act on auditors and the EU Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

Key audit matters

The key audit matters are matters that, according to our professional judgment, were the most significant when auditing the consolidated financial statements for the current reporting period. These include the most significant evaluated risks of material misstatement, including the assessed risks of material misstatement due to fraud. We referred to these matters in the context of our audit of the consolidated financial statements as a whole and in the formulation of our opinion, and summarized our response to these risks and in cases where we deemed it necessary we presented the key observations related to these risks. We do not express any separate opinion on these matters.

Key matter of the audit

How our audit referred to this matter

Settlement of long-term contracts

As a result of the valuation of uncompleted construction contracts, the Group recognized in the financial statements as at 31 December 2018 an asset due to the excess of revenues due over invoiced in the amount of PLN 22,851,000. In accordance with International Financial Reporting Standard No. 15 "Revenues from contracts with customers" ("IFRS 15") The Group determines revenues from construction, design and engineering services contracts in proportion to the stage of service, which is measured by the share of costs incurred to budgeted costs. The method of recognizing revenues from the above-mentioned contracts

Our auditing procedures included in particular:

- understanding and evaluation of the process of determining the level of advancement of work in the Group; we have conducted compliance tests for selected control mechanisms
- assessing the compliance of the adopted accounting policy in the field of recognizing revenues with appropriate financial reporting standards
- a historical analysis of the implementation of contractual budgets for significant contracts completed in a given financial year in order to compare

requires an important element of the judgment of the Parent Company's Management Board in relation to the identification of obligations to meet the performance and significant estimates of the Management Board in terms of the degree of advancement. Due to the fact that improper assessment or management of the Management Board in these areas may cause erroneous determination of revenues from contracts with clients, we consider this issue to be a key issue of the audit.

forecasts and budgets of contracts that have not been completed and to assess the accuracy of the management board's estimates

- discussions with the Management Board of the Parent Company and managers of selected long-term contracts recognized according to the stage of completion, to discuss the assumptions regarding budgets and risks and the degree of advancement of work on contracts performed, probability of change in contract results
- assessment of the adequacy of the presentation and disclosures in the financial statements regarding revenues from contracts with clients

As a result of the procedures carried out, we did not find any material issues causing the necessity to introduce adjustments in the financial statements.

Valuation of shares using the equity method

In the consolidated statement of the financial position as at 31 December 2018, the value of shares in entities accounted for using the equity method amounted to PLN 28,111,000.

A key component of the entity's assets is a jointly controlled investment property recognized in the statement at fair value. The valuation is based on the Management Board's estimates made on the basis of valuation of property appraisers. Due to the significance of the position and the risk related to the uncertainty of the Management Board's

Our audit procedures included in particular:

- understanding and evaluation of the designed property valuation procedures in the Group
- analysis and assessment of the adequacy and continuity of the real estate valuation methods and techniques used
- analysis and assessment of the rationality of key assumptions and parameters regarding property valuation
- assessing the compliance of the adopted accounting policy for the valuation

estimates, this issue was considered as crucial for the audit of the Group's financial statements.

of shares using the equity method with appropriate financial reporting standards

- analysis of the correctness of the arithmetic and substantive valuation of shares using the equity method
- confirmation of the completeness of disclosures in the consolidated financial statements regarding real estate valuation at fair value.

As a result of the procedures carried out, no relevant issues were found that would bring the necessity to make adjustments in the financial statements.

Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements

The Management Board of the Parent Entity is responsible for preparing the consolidated financial statements, that would give true and fair view of the asset and financial position and the financial result of the Group in accordance with the International Financial Reporting Standards approved by the European Union, adopted accounting principles (policy) and the applicable laws and statute, and for such internal control as the Management Board of the Parent Entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Upon preparing the financial statement, the Parent Entity's Management Board is responsible for assessing the Group's ability to continue business operation, disclosure, if applicable, any issues related to business continuity and for the adoption of the going concern principle as the basis of accounting, except for cases when the Board intends either to liquidate the Group or to cease its activities or has no realistic alternative to liquidation or discontinuing business operations.

The Management Board of the Parent Entity and Members of the Supervisory Board of the Parent Entity are obliged to ensure that the consolidated financial statements meet the requirements provided for in the Act of 29 September 1994 (the "Accounting Act" - Journal of Laws of 2019 item 351). Members of the Supervisory Board of the Parent Entity are responsible for supervising the financial reporting process.

Responsibility of the statutory auditor for auditing the consolidated financial statement

Our objective is to obtain reasonable assurance whether the consolidated financial statement, as a whole, is free from any material misstatements due to fraud or error, and issue an audit report that contains our opinion. Reasonable assurance is a high level of assurance but does not guarantee that the audit carried out pursuant to NSA shall always detect the existing material misstatements. Misstatements can occur as a

result of fraud or error, and are considered material if it can be reasonably expected that they could affect, either individually or collectively, the economic decisions of users taken on the basis of the consolidated financial statement. The concept of materiality applied by the auditor both in planning and carrying out the audit and in the assessment of the impact of the misstatements identified during the audit and uncorrected misstatements present, if any, in the financial report and also in the formulation of auditor's opinion. Now therefore, all opinions and statements contained in the audit report are expressed in terms of the qualitative and valuable level of significance determined in accordance with the audit standards and the professional judgment of the statutory auditor.

The scope of the audit does not include assurance as to the future profitability of the audited Group, nor the effectiveness or efficiency of the Management Board's conduct of the Parent Entity's affairs, either currently or in the future.

During the audit carried out in accordance with the NSA, we use professional judgment and maintain professional scepticism and:

- we identify and evaluate risks of material misstatement of the consolidated financial report due to fraud or error, we design and we audit procedures corresponding to those risks and obtain audit evidence that is sufficient and appropriate to constitute basis for our opinion. The risk of failure to detect material misstatement due to fraud is greater than that resulting from error as fraud can be a result of collusion, forgery, intentional omissions, misrepresentation or bypassing internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we assess the adequacy of the applied accounting principles (policy) and appropriateness of accounting estimates and related disclosures made by the Management Board of the Parent Entity;
- we draw a conclusion on the appropriateness of the application of the going concern principle by the Management Board of the Parent Entity as the primary accounting basis and on the basis of the obtained audit evidence to determine whether there is material uncertainty associated with events or conditions that may be raise a material doubt towards the Group's ability to continue the business operations. If we come to the conclusion that there is such material uncertainty, it is required from us to pay attention in our auditor's report on the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, we modify our opinion. Our conclusions are based on the audit evidence obtained to the date of preparation of our statutory auditor's report, however future events or conditions may lead the Group to cease its business activities;
- we assess the overall presentation, the structure and content of the financial statement, including the disclosure, and whether the financial statement provides transactions and events that constitute the basis for the disclosures in such a way as to ensure fair presentation;
- we obtain sufficient relevant audit evidence regarding the financial information of entities or businesses within the Group to express an opinion on the consolidated financial statements. We are responsible for managing, supervising and conducting the audit of the Group and we remain solely responsible for our audit opinion.

We provide the Supervisory Board of the Parent Entity with information about, among other things, the planned scope and time of the audit and significant findings of the audit, including any significant weaknesses of internal control that we will identify during the audit.

We submit to the Parent Entity's Supervisory Board a statement that we have complied with the applicable ethical requirements regarding independence and that we will inform them of all relationships and other issues that could reasonably be considered to pose a threat to our independence and, where applicable, we report security measures applied.

We determined among the issues forwarded to the Supervisory Board of the Parent Entity those that were most significant during the audit of the consolidated financial statements for the current reporting period and therefore we considered them as the key matters of the audit. We describe these matters in our auditor's report, unless laws or regulations prohibit their public disclosure or when, in exceptional circumstances, we determine that the issue should not be presented in our report because it would reasonably be expected that the negative consequences would outweigh the benefits of such a report for the public interest.

Other information, including statement of activities

Other information consists of a report on the Group's operations for the financial year ended 31 December 2019 ("Statement of activities") together with a statement on corporate governance referred to in Art. 49b (1) of the Accounting Act, which constitutes a separate part of this report and the Annual Report for the financial year ended 31 December 2019 ("Annual Report") (together "Other Information").

Responsibility of the Management Board and Supervisory Board of the Parent Entity

The Management Board of the Parent Entity is responsible for preparing Other Information in accordance with the law.

The Management Board of the Parent Entity and members of the Supervisory Board of the Parent Entity are obliged to ensure that the Report on the Group's operations along with the separated part meet the requirements provided for in the Accounting Act.

Responsibility of the statutory auditor

Our opinion on the audit of the consolidated financial statements does not include Other Information. In connection with the audit of the consolidated financial statements, it is our duty to read Other Information and, in doing so, consider whether they are materially consistent with the consolidated financial statements or our knowledge gained during the audit or otherwise appear materially misstated. If, on the basis of the conducted work, we find a material misstatement in Other Information, we are obliged to inform about this in our audit report. Our responsibility, in accordance with the Act on Act on Statutory Auditors, is to also issue an opinion as to whether the Group's Statement of activities has been drawn up in accordance with the law and whether it is consistent with the information contained in the consolidated financial statement. In addition, we are required to issue an opinion on whether the Group has included the required information in the corporate governance statement.

Opinion on the Operations Statement

On the basis of the work done during the audit, in our opinion, the Company's Operation Statement:

- has been drawn up in accordance with Article 49 of the Accounting Act and paragraph 71 of the Regulation of the Minister of Finance dated 29 March 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by the law of a non-member state as equivalent ("Current Information Regulation") – Journal of Laws of 2018 item 757.);
- is consistent with the information contained in the attached consolidated financial statement. In addition, in the light of knowledge on the Group and its environment, obtained within our audit, we declare that we did not find any material misstatements in the Statement of activities.

Opinion on the statement on the application of corporate governance

In our opinion, in the statement on the application of corporate governance, the Group has included the information set out in section 70, para. 6 point 5 let. a, b, g, j, k and let. l about current information. In addition, in our opinion, the information indicated in section 70 para. 6 point 5 let. c-f, h and let. i and the Regulations contained in the corporate governance statement comply with the applicable regulations and information contained in the consolidated financial statements.

Report on other legal and regulatory requirements

A statement on the provision of non-audit financial statements

To the best of our knowledge and belief, we declare that services that are not an audit of the financial statements, which we provide to the Group, are compliant with laws and regulations in force in Poland and that we have not provided non-audit services that are prohibited under Art. 5 para.1 of the EU Regulation and Art.136 of the Act on Statutory Auditors.

In the audited period, apart from auditing the financial statements of PROCHEM S.A. and the consolidated statement of the Capital Group of PROCHEM S.A., we also reviewed the condensed financial statements of PROCHEM S.A. and the condensed consolidated financial statements of the PROCHEM S.A. Capital Group, auditing the Elektromontaż Kraków S.A. financial statements and the consolidated financial statements of the Elektromontaż Kraków S.A. Group., as well as audits of financial statements of Prochem Inwestycje Sp. z o.o. and Irydion Sp. z o. o.

Selection of audit company

We have been selected for the first time to audit the Group's consolidated financial statements by a resolution of the Supervisory Board of the Parent Entity of 12 June 2018. We have been auditing the Group's consolidated financial statements for 2 years.

The key statutory auditor responsible for the audit, the result of which is the independent auditor's assessment report, is Paulina Markowska.

Acting on behalf of **Misters Auditor Adviser sp. z o.o.** with its registered office in Warsaw, entered into the list of auditing companies under number 3704 on behalf of which the key statutory auditor examined financial statements

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Paulina Markowska
No. in register
13230
Warsaw, 24 April 2020