

**Prochem S.A.**

**Report supplementing  
the auditor's opinion  
on the separate financial  
statements**

**Financial Year ended  
31 December 2010**

The report supplementing the auditor's opinion  
contains 10 pages

Report supplementing the auditor's opinion  
on the separate financial statements  
for the financial year ended  
31 December 2010

*This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation*

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## **1. General**

### **1.1. General information about the Company**

#### **1.1.1. Company name**

Prochem S.A.

#### **1.1.2. Registered office**

ul. Powązkowska 44C  
01-797 Warsaw

#### **1.1.3. Registration in the National Court Register**

Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court
Date:	13 June 2001
Registration number:	KRS 0000019753
Initial capital as at balance sheet date:	PLN 3,895,000.00

#### **1.1.4. Management of the Company**

The Management Board is responsible for management of the Company.

At 31 December 2010, the Management Board of the Company was comprised of the following members:

- Jarosław Stępniewski – President of the Management Board,
- Marek Kiersznicki – Vice-president of the Management Board,
- Krzysztof Marczak – Member of the Management Board.

## **1.2. Auditor information**

### **1.2.1. Key certified auditor information**

Name and surname:	Monika Bartoszewicz
Registration number:	10268

Name and surname:	Alicja Opara
Registration number:	12044

### **1.2.2. Authorized auditor information**

Name:	KPMG Audyt Sp. z o.o.
Registered office:	Warsaw
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000104753
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
Share capital:	PLN 125,000
NIP number:	526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

### **1.3. Prior period financial statements**

The separate financial statements for the period ended 31 December 2009 were audited by Mistery Auditor Sp. z o.o. and received qualified opinion with the following emphasis of matters:

“In the financial statement the Company presents receivables from guarantee deposit from PERN “Przyjaźń” SA in the amount of PLN 17,363,900, of which the repayment date has passed on 13 February 2009. According to the Management position presented in the note no 6.13 to the Directors Report on the Company’s Activities, the allowance for these receivables should not be created. Above mentioned receivables are overdue and unconfirmed and according to our view should not be presented in the Company’s assets.”

The separate financial statements were approved at the General Meeting on 12 June 2010 where it was resolved to cover the loss for the prior financial year of PLN 3,118,140.54 from the reserve capital.

The separate financial statements were submitted to the Registry Court on 29 June 2010 and were published in Monitor Polski B No. 345 on 17 February 2011.

Comparative information included in the statement of financial position as at 31 December 2009 and in the statement of comprehensive income for the year ended as at that date were properly presented in the current financial statement, taking into consideration corrections, that resulted from changes of accounting policy and other restatements, which were described in the point 5 in the Supplementary information, concerning applied accounting policy and other explanatory information to the Financial Statement.

### **1.4. Audit scope and responsibilities**

This report was prepared for the General Meeting of Prochem S.A. seated in Warsaw ul. Powązkowska 44C and relates to the separate financial statements comprising: the separate statement of financial position as at 31 December 2010, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The audited Company prepares its separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision at the General Meeting dated 25 June 2005.

The separate financial statements have been audited in accordance with the contract dated 2 August 2010, concluded on the basis of the resolution of Supervisory Board dated 11 June 2010 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the separate financial statements in the Company’s head office during the period from 14 do 25 March 2011.



Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the Report on the Company's activities.

Our responsibility is to express an opinion and to prepare a supplementing report on the financial statements and whether the financial statements are derived from properly maintained accounting records based on our audit.

Management of the Company submitted a statement dated the same date as this report as to the true and fair presentation of the separate financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the separate financial statements.

All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

Key certified auditors and KPMG Audyt Sp. z o.o. fulfill independence requirements as described in Art. 56 points 3 and 4 of the Act on certified auditors and their government, audit firms and public oversight dated 7 May 2009 (Official Journal No. 77, item 649).

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

## 2. Financial analysis of the Company

### 2.1. Summary of the separate financial statements

#### 2.1.1. Statement of financial position

ASSETS	31.12.2010 PLN '000	% of total	31.12.2009 PLN '000 (*)	% of total
<b>Non-current assets</b>				
Property, plant and equipment	3,603	3.4	4,853	4.4
Intangible assets	111	0.1	398	0.4
Shares in subsidiaries and other entities	10,605	10.1	10,430	9.4
Shares in equity-accounted investees	708	0.7	708	0.6
Deferred tax assets	1,538	1.5	281	0.3
Other financial assets	18,120	17.2	21,072	18.9
<b>Total non-current assets</b>	<b>34,685</b>	<b>33.0</b>	<b>37,742</b>	<b>33.9</b>
<b>Current assets</b>				
Inventories	2,925	2.8	3,302	3.0
Trade and other receivables	51,098	48.6	52,430	47.1
Other financial assets	997	1.0	1,783	1.6
Other assets	10,023	9.5	13,181	11.8
Cash and cash equivalents	2,074	1.9	2,940	2.6
Cash and short-term deposits	3,361	3.2	-	-
<b>Total current assets</b>	<b>70,478</b>	<b>67.0</b>	<b>73,636</b>	<b>66.1</b>
<b>TOTAL ASSETS</b>	<b>105,163</b>	<b>100.0</b>	<b>111,378</b>	<b>100.0</b>
<b>EQUITY AND LIABILITIES</b>				
	31.12.2010 PLN '000	% of total	31.12.2009 PLN '000 (*)	% of total
<b>Equity</b>				
Share capital	3,895	3.7	3,900	3.5
Treasury shares	-	-	(5)	-
Retained earnings	59,734	56.8	58,367	52.4
<b>Total equity</b>	<b>63,629</b>	<b>60.5</b>	<b>62,262</b>	<b>55.9</b>
<b>Non-current liabilities</b>				
Provisions for retirement and similar benefits	330	0.3	283	0.3
Other long-term liabilities	-	-	253	0.2
<b>Total non-current liabilities</b>	<b>330</b>	<b>0.3</b>	<b>536</b>	<b>0.5</b>
<b>Current liabilities</b>				
Current bank loans	277	0.3	2,620	2.4
Trade payables	37,596	35.8	41,724	37.5
Other liabilities	3,211	3.1	4,011	3.6
Future income	120	0.1	225	0.2
<b>Total current liabilities</b>	<b>41,204</b>	<b>39.2</b>	<b>48,580</b>	<b>43.6</b>
<b>Total liabilities</b>	<b>41,534</b>	<b>39.5</b>	<b>49,116</b>	<b>44.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>105,163</b>	<b>100.0</b>	<b>111,378</b>	<b>100.0</b>

(\*) restated data

## 2.1.2. Statement of comprehensive income

	1.01.2010 - 31.12.2010 PLN '000	% of total sales	1.01.2009 - 31.12.2009 PLN '000 (*)	% of total sales
Revenue from sales	47,594	100.0	105,708	100.0
Cost of sales	(41,876)	88.0	(102,292)	96.8
<b>Gross profit on sales</b>	<b>5,718</b>	<b>12.0</b>	<b>3,416</b>	<b>3.2</b>
Administrative expenses	(6,961)	14.6	(6,448)	6.1
Other income	1,812	3.8	1,915	1.8
Other expenses	(1,505)	3.2	(4,574)	4.3
<b>Results from operating activities</b>	<b>(936)</b>	<b>2.0</b>	<b>(5,691)</b>	<b>5.4</b>
Financial income	1,720	3.6	3,395	3.2
Financial expenses	(778)	1.6	(853)	0.8
<b>Profit/(loss) before income tax</b>	<b>6</b>	<b>0.0</b>	<b>(3,149)</b>	<b>3.0</b>
Income tax expense	1,259	2.7	223	0.3
current	40	0.1	3	0.1
deferred	(1,299)	2.7	(226)	0.3
<b>Profit/(loss) for the period</b>	<b>1,265</b>	<b>2.7</b>	<b>(2,926)</b>	<b>2.8</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Revaluation of property, plant and equipment	228	0.5	-	-
Income tax on other comprehensive income	(44)	0.1	-	-
<b>Other comprehensive income for the period, net of income tax</b>	<b>184</b>	<b>0.4</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period</b>	<b>1,449</b>	<b>3.0</b>	<b>(2,926)</b>	<b>2.8</b>
<b>Profit/(loss) for the period</b>				
Basic/Diluted earnings per share (PLN)	1,265		(2,926)	
Basic/Diluted earnings per share (PLN)	0.3		(0.8)	

(\*) restated data

## 2.2. Selected financial ratios

	<b>2010</b>	<b>2009 (*)</b>
<b>1. Return on sales</b>		
<u>profit for the period x 100%</u> revenue	2,7%	negative
<b>2. Return on equity</b>		
<u>profit for the period x 100%</u> equity - profit for the period	2,0%	negative
<b>3. Debtors' days</b>		
<u>average trade receivables (gross) x 365 days</u> revenue	415 days	298 days
<b>4. Debt ratio</b>		
<u>liabilities x 100%</u> equity and liabilities	39,5%	44,1%
<b>5. Current ratio</b>		
<u>current assets</u> current liabilities	2,4	1,7

- Net revenues are comprised of the sale of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, excluding allowances for receivables.

(\*) restated data

The above financial ratios do not indicate the existence of conditions which may have a significant negative impact on the financial position and financial performance of the Company and its ability to continue as a going concern in a foreseeable future.



### **3. Detailed report**

#### **3.1. Proper operation of the accounting system**

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act.

During the audit of the financial statements, we tested, on a sample basis, the operation of the accounting system.

On the basis of the work performed, we have not identified material irregularities in the accounting system which have not been corrected and that could have a material impact on the separate financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

The Company performed a physical verification of assets in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act.

#### **3.2. Notes to the separate financial statements**

All information included in the notes to the separate financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the separate financial statements.

#### **3.3. Report on the Company's activities**

The Report on the Company's activities includes, in all material respects, information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the separate financial statements.

### **3.4. Information on the opinion of the independent auditor**

Based on our audit of the separate financial statements as at and for the year ended 31 December 2010, we have issued an unqualified opinion with the following emphasis of matter.

Without qualifying our opinion, we draw attention to the fact that:

“As described in notes no. 8 and 37 to the attached condensed interim unconsolidated financial statements, Prochem S.A. has recognised receivables with respect to guarantee deposits from PERN S.A. with a carrying value of PLN 17,364 thousand that, according to the decision of the Regional Court in Warsaw dated 12 August 2010, will be a subject to final settlement of the “Rurociąg w relacji ST-1 Adamowo-Baza Surowcowa Plebanka” construction contract as determined by a court appointed on 7 January 2011 expert. The final result of the settlement is not yet known.”

On behalf of KPMG Audyt Sp. z o.o. registration  
number 458  
ul. Chłodna 51, 00-867 Warsaw

*Signed on the Polish original*

.....  
Certified Auditor No. 12044  
Alicja Opara

29 April 2011  
Warsaw

*Signed on the Polish original*

.....  
Certified Auditor No. 10268  
Director  
Monika Bartoszewicz