

**Prochem S.A. Group**

**Supplementary report  
on the audit of the  
consolidated financial  
statements**

**Financial Year ended  
31 December 2015**

The supplementary report contains 12 pages  
The supplementary report on the audit of the  
consolidated financial statements  
for the financial year ended  
31 December 2015

*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 Identification of the Group**

#### **1.1.1 Name of the Group**

Prochem S.A. Group

#### **1.1.2 Registered office of the Parent Company of the Group**

ul. Powązkowska 44C  
 01-797 Warsaw

#### **1.1.3 Registration of the Parent Company in the register of entrepreneurs of the National Court Register**

Registration court:	District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Department of the National Court Register
Date:	13 June 2001
Registration number:	KRS 0000019753
Share capital as at the end of reporting period:	PLN 3,895,000.00

#### **1.1.4 Management of the Parent Company**

The Management Board is responsible for management of the Parent Company.

As at 31 December 2015, the Management Board of the Parent Company was comprised of the following members:

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

### **1.2 Information about companies comprising the Group**

#### **1.2.1 Companies included in the consolidated financial statements**

As at 31 December 2015, the following companies were consolidated by the Group:

Parent Company:

- Prochem S.A.

Subsidiaries consolidated on the full consolidation basis:

- Prochem Inwestycje Sp. z o.o.,
- PRO-INHUT Sp. z o.o.,
- Pro-Organika Sp. z o.o.,
- Przedsiębiorstwo Konsultingowo-Inżynieryjne PREDOM Sp. z o.o.,
- Prochem Zachód Sp. z o.o.,
- ELPRO Sp. z o.o.,



## **1.4 Prior period consolidated financial statements**

The consolidated financial statements for the financial year ended 31 December 2014 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 13 June 2015.

The consolidated financial statements were submitted to the Registry Court on 24 June 2015.

## **1.5 Audit scope and responsibilities**

This report was prepared for the General Meeting of Prochem S.A. with its registered office in Warsaw, ul. Powązkowska 44C and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2015, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

The consolidated financial statements were audited in accordance with the contract dated 3 July 2015, concluded on the basis of the resolution of the Supervisory Board dated 12 June 2015 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”) and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from 14 March 2016 to 24 March 2016.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated 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 Group’s activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements.

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

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

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 the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2015, item 1011 with amendments).

## 1.6 Information on audits of the financial statements of the consolidated companies

### 1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unmodified opinion.

### 1.6.2 Other consolidated entities

<b>Entity's name</b>	<b>Authorised auditor</b>	<b>Financial year end</b>	<b>Type of auditor's opinion</b>
Prochem Inwestycje Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k.	31 December 2015	unmodified opinion
Grupa Kapitałowa Elektromontaż Kraków S.A.	Centrum Badania Bilansów i Usług Księgowych -"OMEGA - W" Krystyna Walczyk	31 December 2015	unmodified opinion
Elmont Inwestycje Sp. z o.o.	Centrum Badania Bilansów i Usług Księgowych -"OMEGA - W" Krystyna Walczyk	31 December 2015	unmodified opinion
ELPRO Sp. z o.o.	Centrum Badania Bilansów i Usług Księgowych -"OMEGA - W" Krystyna Walczyk	31 December 2015	unmodified opinion
Przedsiębiorstwo Konsultingowo-Inżynieryjne PREDOM Sp. z o.o.	"Accord'ab" Biegli Rewidenci Sp. z o.o.	31 December 2015	unmodified opinion
Pro-Organika Sp. z o.o.	CONSORT - FIN Sp. z o.o.	31 December 2015	unmodified opinion
PRO-INHUT Sp. z o.o.	-	31 December 2015	not subject to audit
Prochem Zachód Sp. z o.o.	-	31 December 2015	not subject to audit
IRYD Sp. z o.o.	-	31 December 2015	not subject to audit
ATUTOR Integracja Cyfrowa Sp. z o.o.	-	31 December 2015	not subject to audit
Prochem RPI Sp. z o.o.	-	31 December 2015	not subject to audit

## 2 Financial analysis of the Group

### 2.1 Summary analysis of the consolidated financial statements

#### 2.1.1 Consolidated statement of financial position

ASSETS	31.12.2015		31.12.2014	
	PLN '000	% of total	PLN '000	% of total
<b>Non-current assets</b>				
Property, plant and equipment	23,814	11.1	25,238	12.5
Intangible assets	508	0.2	190	0.1
Investment properties	11,960	5.6	32,960	16.3
Shares	830	0.4	830	0.4
Shares in equity - accounted investees	24,000	11.2	25,136	12.4
Deferred tax assets	2,716	1.3	1,998	1.0
Other financial assets	17,955	8.3	13,609	6.7
<b>Total non-current assets</b>	<b>81,783</b>	<b>38.1</b>	<b>99,961</b>	<b>49.4</b>
<b>Current assets</b>				
Inventories	7,071	3.3	4,483	2.2
Trade and other receivables	83,991	39.2	66,534	32.9
Other financial assets	2,799	1.3	11,209	5.5
Other assets	15,197	7.1	13,544	6.7
Cash and cash equivalents	23,595	11.0	6,606	3.3
<b>Total current assets</b>	<b>132,653</b>	<b>61.9</b>	<b>102,376</b>	<b>50.6</b>
<b>TOTAL ASSETS</b>	<b>214,436</b>	<b>100.0</b>	<b>202,337</b>	<b>100.0</b>
<b>EQUITY AND LIABILITIES</b>	<b>31.12.2015</b>	<b>% of total</b>	<b>31.12.2014</b>	<b>% of total</b>
	<b>PLN '000</b>		<b>PLN '000</b>	
<b>Equity</b>				
Share capital	3,895	1.9	3,895	2.0
Revaluation reserve	11,584	5.4	11,973	5.9
Retained earnings	100,878	47.0	97,568	48.2
<b>Total equity attributable to equity holders of the parent</b>	<b>116,357</b>	<b>54.3</b>	<b>113,436</b>	<b>56.1</b>
<b>Non-controlling interest</b>	<b>8,738</b>	<b>4.0</b>	<b>9,243</b>	<b>4.5</b>
<b>Total equity</b>	<b>125,095</b>	<b>58.3</b>	<b>122,679</b>	<b>60.6</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	2,883	1.3	2,656	1.3
Provision for retirement and similar benefits	1,854	0.9	1,985	1.0
Deferred income	-	-	1,867	0.9
Other liabilities	416	0.2	376	0.2
<b>Total non-current liabilities</b>	<b>5,153</b>	<b>2.4</b>	<b>6,884</b>	<b>3.4</b>
<b>Current liabilities</b>				
Bank loans	11,772	5.5	14,050	7.0
Borrowings	-	-	60	-
Trade payables	51,451	24.0	31,229	15.4
Current income tax liabilities	1,447	0.7	407	0.2
Other payables	8,142	3.8	7,809	3.9
Deferred income	11,376	5.3	19,219	9.5
<b>Total current liabilities</b>	<b>84,188</b>	<b>39.3</b>	<b>72,774</b>	<b>36.0</b>
<b>Total liabilities</b>	<b>89,341</b>	<b>41.7</b>	<b>79,658</b>	<b>39.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>214,436</b>	<b>100.0</b>	<b>202,337</b>	<b>100.0</b>

## 2.1.2 Consolidated profit and loss account

	<b>1.01.2015 - 31.12.2015 PLN '000</b>	<b>% of total sales</b>	<b>1.01.2014 - 31.12.2014 PLN '000</b>	<b>% of total sales</b>
Revenues from sale	266,443	100.0	176,048	100.0
Revenues from sale of services	257,799	96.8	166,370	94.5
Revenues from sale of merchandise and raw materials	8,644	3.2	9,678	5.5
Cost of sale	(241,214)	90.6	(153,158)	87.0
Cost of services sold	(233,573)	87.7	(144,309)	82.0
Cost of merchandise and raw materials sold	(7,641)	2.9	(8,849)	5.0
<b>Gross profit on sales</b>	<b>25,229</b>	<b>9.4</b>	<b>22,890</b>	<b>13.0</b>
General and administrative expenses	(15,574)	5.8	(16,209)	9.2
Other operating income	1,533	0.6	1,496	0.8
Other operating expenses	(1,636)	0.6	(2,305)	1.3
<b>Profit from operating activities</b>	<b>9,552</b>	<b>3.6</b>	<b>5,872</b>	<b>3.3</b>
Finance income	961	0.4	582	0.3
Profit on the disposal of shares	190	0.1	-	-
Finance expenses	(2,860)	1.1	(2,657)	1.5
Share in profit of equity - accounted investees	(1,136)	0.4	1,166	0.7
<b>Profit before income tax</b>	<b>6,707</b>	<b>2.6</b>	<b>4,963</b>	<b>2.8</b>
Income tax expense	2,553	0.9	1,685	0.9
- current tax	2,954	1.1	1,879	1.1
- deferred tax	(401)	0.2	(194)	0.1
<b>Net profit</b>	<b>4,154</b>	<b>1.7</b>	<b>3,278</b>	<b>1.9</b>
Net profit (loss) attributable to:				
Shareholders of the Parent Company	4,432		3,751	
Non-controlling interests	(278)		(473)	
Weighted average number of ordinary shares	3,895,000		3,895,000	
Earnings per share (PLN per share) attributable to shareholders of the Parent Company	1.14		0.96	



### 2.1.3 Consolidated statement of comprehensive income

	1.01.2015 - 31.12.2015		1.01.2014 - 31.12.2014	
	PLN '000	% of profit	PLN '000	% of profit
<b><i>Net profit</i></b>	<b>4,154</b>	<b>100.0</b>	<b>3,278</b>	<b>100.0</b>
<b><i>Other comprehensive income, net</i></b>	<b>(411)</b>	<b>9.9</b>	<b>603</b>	<b>18.4</b>
<b><i>Other comprehensive income that may be reclassified to profit or loss:</i></b>	<b>(376)</b>	<b>9.1</b>	<b>744</b>	<b>22.7</b>
Revaluation of property, plant and equipment	9	0.2	623	19.0
Deferred tax revaluation on property, plant and equipment	-	-	(108)	3.3
Exchange differences arising on translation of foreign entity				
<b><i>Other comprehensive income that will never be reclassified to profit or loss:</i></b>	<b>(35)</b>	<b>0.8</b>	<b>(141)</b>	<b>4.3</b>
Actuarial losses arising from valuation of employee benefits provision	(39)	0.9	(174)	5.3
Income tax on other comprehensive income	4	0.1	33	1.0
<b><i>Total comprehensive income</i></b>	<b>3,743</b>	<b>90.1</b>	<b>3,881</b>	<b>118.4</b>
<b>Total comprehensive income attributable to:</b>				
Shareholders of the Parent Company	4,023		4,292	
Non-controlling interests	(280)		(411)	
Wiegthed average number of ordinary shares	3,895,000		3,895,000	
Total comprehensive income per share (PLN per share) attributable to shareholders of the Parent Company	1.03		1.10	

## 2.2 Selected financial ratios

	2015	2014	2013
<b>1. Return on sales</b>			
<u>profit for the period x 100%</u> revenue	1.7%	1.9%	negative value
<b>2. Return on equity</b>			
<u>profit for the period x 100%</u> equity - profit for the period	3.4%	2.7%	negative value
<b>3. Debtors' days</b>			
<u>average trade receivables (gross) x 365 days</u> revenue	108 days	131 days	147 days
<b>4. Debt ratio</b>			
<u>liabilities x 100%</u> equity and liabilities	41.7%	39.4%	36.8%
<b>5. Current ratio</b>			
<u>current assets</u> current liabilities	1.6	1.4	1.5

- Revenue includes revenue from sales 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, with no deduction made for allowances.

### **3 Detailed report**

#### **3.1 Accounting principles**

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

#### **3.2 Basis of preparation of the consolidated financial statements**

The consolidated financial statements of the Prochem S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009 No. 169, item 1327 with amendments).

#### **3.3 Method of consolidation**

The method of consolidation is described in note 4 of the notes to the consolidated financial statements.

#### **3.4 Consolidation of equity and calculation of non-controlling interest**

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

### **3.5 Consolidation eliminations**

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Prochem S.A. and agreed with information received from the subsidiaries.

### **3.6 Notes to the consolidated financial statements**

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

### **3.7 Report of the Management Board of the Parent Company on the Group's activities**

The report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the 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 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.  
Registration No. 3546  
ul. Inflancka 4A  
00-189 Warsaw

*Signed on the Polish original*

.....  
Mirosław Matusik  
Key Certified Auditor  
Registration No. 90048  
Limited Liability Partner with power of attorney

28 April 2016