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**The Capital Group**  
which the holding company is Prochem S.A.  
95 Lopuszanska Street, Warsaw 02-457

**Audit report**  
of the consolidated financial statement  
for the period from 1 January 2017 to 31 December 2017

BDO Sp. z o.o. Sąd Rejonowy dla M. St. Warszawy, XIII Wydział Gospodarczy, KRS: 0000293339, Kapitał zakładowy: 1.000.000 PLN, NIP: 108-000-42-12. Biura regionalne BDO: Katowice 40-007, ul. Uniwersytecka 13, tel.: +48 32 661 06 00, katowice@bdo.pl; Kraków 31-548, al. Pokoju 1, tel.: +48 12 378 69 00, krakow@bdo.pl; Poznań 60-650, ul. Piątkowska 165, tel.: +48 61 622 57 00, poznan@bdo.pl; Wrocław 53-332, ul. Powstańców Śląskich 7a, tel.: +48 71 734 28 00, wroclaw@bdo.pl

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**INDEPENDENT AUDITOR'S REPORT**  
**ON THE YEAR-END CONSOLIDATED FINANCIAL STATEMENTS**  
**for the Shareholders Meeting and Supervisory Board of Prochem S.A.**

We have audited the accompanying year-end consolidated financial statements of the Prochem Group ("the Group"), where the holding company is Prochem S.A. ("the Company", "the Holding Company") with its registered office at ul. Lopuszańska 95 in Warsaw, consisting of:

- the consolidated profit and loss account for the period from 1 January to 31 December 2017,
- the consolidated statement of comprehensive income for the period from 1 January to 31 December 2017,
- the consolidated statement of financial position prepared as at 31 December 2017,
- the consolidated statement of cash flows for the period from 1 January to 31 December 2017,
- the consolidated statement of changes in equity for the period from 1 January to 31 December 2017,
- additional information on significant accounting policies and notes to the consolidated financial statements.

***Responsibilities of the Holding Company's Management Board and Supervisory Board for the Consolidated Financial Statements***

The Holding Company's Management Board is responsible for the preparation of the year-end consolidated financial statements and for their fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as other binding legal regulations and the Holding Company's Statute. The Holding Company's Management Board is also responsible for such internal controls as it considers necessary to ensure that the year-end consolidated financial statements are free from material misstatements resulting from fraud or error.

In accordance with the Accounting Act, the Holding Company's Management Board and members of its Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act (2018 Journal of Laws, item 395 with subsequent amendments).

***Responsibilities of the Auditor***

Our responsibility was to express an opinion whether the consolidated financial statements present truly and fairly the Group's financial position and financial result in accordance with the applicable International Accounting Standards, International Financial Reporting Standards and the related

interpretations announced in the form of European Commission regulations, as well as with the adopted accounting methods (policies).

We performed the audit of the consolidated financial statements in accordance with the provisions of:

- 1) the Act of 11 May 2017 on certified auditors, audit firms and on public supervision (2017 Journal of Laws, item 1089 with subsequent amendments) ("the Certified Auditors Act"),
- 2) National Standards on Auditing in the wording of International Standards on Auditing, adopted in Resolution No. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015 with subsequent amendments, further to Resolution No. 2041/37a/2018 of 5 March 2018 on the national professional standards
- 3) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Official Journal of the EU L 158 of 27 May 2014, page 77 and Official Journal of the EU L 170 of 11 June 2014, page 66) ("Regulation 537/2014").

These regulations require us to comply with ethical requirements and to plan and perform the audit in a manner that allows us to obtain sufficient assurance that the financial statements are free from material misstatements.

The objective of an audit is to obtain sufficient assurance about whether the consolidated financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor's report that includes our opinion. Sufficient assurance is a high level of assurance, but it is not a guarantee that an audit performed in accordance with the above standards will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in aggregate, could influence the economic decisions of users made on the basis of these consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or circumvention of internal controls, and may pertain to every area of law and regulations, not just those that have a direct impact on the consolidated financial statements.

The audit consisted of performing procedures aimed at obtaining audit evidence on the amounts and information disclosed in the consolidated financial statements. We choose the procedures based on our judgement, including an assessment of the risk of material misstatements in the financial statements due to fraud or error. In assessing this risk we consider the internal controls related to the preparation and fair presentation of the consolidated financial statements in order to plan our audit procedures, and not to express an opinion on the effectiveness of internal controls. An audit also includes assessing the appropriateness of the accounting policies used and the reasonableness of the estimates made by the Holding Company's Management, as well as evaluating the overall presentation of the year-end consolidated financial statements.





The scope of the audit does not include an assurance regarding the Group's future profitability, or regarding the Holding Company Management's effectiveness in the handling of the Group's affairs now or in the future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our opinion is consistent with the additional report for the Audit Committee issued on the date of the present audit report.

#### *Independence*

During the audit, the auditor in charge and the audit firm remained independent of the entities comprising the Group in accordance with the provisions of the Certified Auditors Act, Regulation 537/2014 and the ethical standards adopted by the National Council of Certified Auditors.

To the best of our knowledge and belief we declare that we have provided no non-audit services forbidden by the provisions of Article 136 of the Certified Auditors Act and Article 5 point 1 of Regulation 537/2014 to the entities comprising the Group.

#### *Selection of Auditor*

We were selected as the auditor of the Group's consolidated financial statements in a resolution passed by the Holding Company's Supervisory Board on 31 May 2017. We have audited the Holding Company's financial statements since the financial year ended 31 December 2017, i.e. for one financial year.

#### *Most Significant Types of Risk*

In the course of the audit we identified the below described most significant types of risk of material misstatement, including from fraud, and have designed audit procedures appropriate for those types of risk.

Risk of material misstatement	Audit procedures performed in response to the risk
<i>Correctness of accounting for construction contracts</i>	
<p>As a result of the balance sheet date valuation of unfinished contracts, in its financial statements as at 31 December 2017 the Group recognized assets resulting from an excess of revenue accrued over revenue invoiced in the amount of 8.415 thousand zł (Note 11).</p> <p>The Group estimates revenue accrued on its construction contracts using the percentage of completion method in accordance with the requirements of IAS 11 "Construction Contracts" and the description presented in point 4 of the financial statements.</p> <p>The matter was classified as a key risk area due to</p>	<p>We obtained an understanding and performed an evaluation of the system of controls on ongoing construction contracts and the settlement of their performance.</p> <p>We performed the following audit procedures at the Holding Company and a key subsidiary:</p> <ul style="list-style-type: none"><li>- Correctness analysis of the model used to value unfinished contracts, including a verification of the mathematical correctness and recognition of the valuation results in the books of account,</li><li>- Analysis of the portfolio of the performed contracts to identify significant or unusual contracts, which were then included in the</li></ul>

<p>the materiality of the revenue from the sale of construction services and the fact that the valuation of unfinished contracts is based on estimates.</p>	<p>sample selected for further detailed procedures,</p>
<p>The key estimates pertain to the accuracy and completeness of the contract budgets underlying the accrued revenue estimates. Correctness of contract settlement to a great extent depends on a current assessment of the scale of changes in the contracts and on the reliability of future cost estimates. Due to the volume of the contracts performed by the entity and the variability of work, there is a significant risk of the valuation results being misstated.</p>	<ul style="list-style-type: none"> <li>- Analysis of changes made in the concluded agreements and updates to contract budgets in the audited period, with reconciliation to source documents,</li> <li>- Discussion of the stage of completion of the analyzed contracts with those in charge and the Management Board,</li> <li>- Confirmation of the up-to-date nature of the budgets used in the balance sheet date valuation with those in charge of contract performance,</li> <li>- Completeness analysis of the recognition of the losses planned on unfinished contracts.</li> </ul>

Risk of material misstatement	Audit procedures performed in response to the risk
<i>Recognition of a court dispute outcome</i>	
<p>A long-standing court dispute ended in the audited period in favor of the Holding Company, resulting in the recognition in the consolidated profit and loss account of a one-off profit in the amount of 26.773 thousand zł (Note 27).</p> <p>The matter was classified as a key risk area due to the materiality of the amount of compensation received.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>- Analysis of the court ruling and of the earlier arrangements made between members of the consortium to which the Holding Company had belonged,</li> <li>- Analysis of the split of the received compensation between consortium members,</li> <li>- Reconciliation of the funds received and transferred with bank transfer confirmations,</li> <li>- Analysis of the recognition of the various types of revenue and costs in the books of account and of their presentation in the financial statements,</li> <li>- Obtaining a confirmation of the balance of mutual settlements from the Company's consortium member.</li> </ul>

Risk of material misstatement	Audit procedures performed in response to the risk
<i>Valuation of shares by equity accounting</i>	
<p>The statement of financial position shows 26.139 thousand zł worth of shares of entities valued by equity accounting, described in Note 5 to the consolidated financial statements.</p> <p>The principles of valuation by equity accounting are presented in point 5 of the consolidated financial statements.</p>	<p>We obtained an understanding of the Company's business strategy with regard to investment properties.</p> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>- Analysis of the substantive and mathematical correctness of the valuation of shares by equity accounting,</li> <li>- Analysis of the assets and liabilities in the</li> </ul>



The risk of material misstatement of this item arises out of its materiality. In addition, it is based on estimates, as the Management of a jointly controlled entity estimates the value of the investment properties constituting a key component of its assets based on valuations performed by real estate appraisers.

financial statements of a jointly controlled company,

- Analysis of the valuation of investment properties by comparing the values recognized in the financial statements with the valuations prepared by property appraisers,
- With the support of an independent property valuation specialist, we assessed the accuracy of the selected valuation method, the scope of the transactions used to determine future rental prices and other key assumptions used in the valuation.

### *Opinion*

In our opinion, the accompanying year-end consolidated financial statements:

- a) give a true and fair view of the Group's financial position as at 31 December 2017, as well as of its financial result for the period from 1 January to 31 December 2017, in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as the adopted accounting methods (policies),
- b) are consistent, in content and in form, with the requirements of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information provided by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments), as well as with other applicable laws and regulations and with the Holding Company's Statute.

### **Report on Other Legal and Regulatory Requirements**

#### *Opinion on the Directors' Report on the Group's Activities*

Our opinion on the consolidated financial statements does not cover the Directors' Report on the Group's activities.

The Holding Company's Management Board and members of its Supervisory Board are responsible for the preparation of the Directors' Report on the Group's activities in accordance with binding regulations.

In connection with our audit of the year-end consolidated financial statements our responsibility was to read the Directors' Report on the Group's activities and to report whether it complies with the applicable binding regulations and is consistent with the information presented in the year-end consolidated financial statements. It was also our responsibility to report whether, based on our knowledge obtained during the audit about the Group and its environment, we have identified any





material misstatements in the Directors' Report on the Group's activities, as well as to indicate the nature of each such misstatement.

In our opinion, the Directors' Report on the Group's activities has been prepared in accordance with the applicable binding regulations and is consistent with the information presented in the year-end consolidated financial statements. Furthermore, based on our knowledge obtained during the audit about the Group and its environment we have identified no material misstatements in the Directors' Report on the Group's activities.

*Opinion on the Declaration on the Application of Corporate Governance*

The Holding Company's Management Board and members of its Supervisory Board are responsible for the preparation of a declaration on the application of corporate governance in accordance with binding regulations.

In connection with our audit of the consolidated financial statements it was our responsibility to read the declaration on the application of corporate governance, which constitutes a separate section of the Directors' Report on the Group's activities.

In our opinion, the Holding Company's declaration on the application of corporate governance contains the information specified in paragraph 91 section 5 point 4 letters a, b, g, j, k and l of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information provided by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments) ("the Decree"). The information indicated in paragraph 91 section 5 point 4 letters c-f, h and i of the Decree contained in the declaration on the application of corporate governance is consistent with the applicable regulations and with the information contained in the year-end consolidated financial statements.



**Artur Staniszewski**  
Auditor in charge  
Certified Auditor No. 9841



**Dr. André Helin**  
Managing Partner  
Certified Auditor No. 90004

Acting on behalf of:

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**entered on the list of audit firms in number 3355**

**Warsaw, 27 April 2018**