



Prochem S.A. Group

**Report supplementing
the auditor's opinion
on the consolidated financial
statements
Financial Year ended
31 December 2010**

The report supplementing the auditor's opinion
contains 13 pages
Report supplementing the auditor's opinion
on the consolidated 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*

Contents

1.	General	3
1.1	Identification of the Group	3
1.1.1	Name of the Group	3
1.1.2	Registered office of the Parent Company of the Group	3
1.1.3	Registration of the Parent Company in the National Court Register	3
1.1.4.	Management of the Company	3
1.2	Information about companies comprising the Group	3
1.2.1	Companies included in the consolidated financial statements	3
1.2.2	Entities excluded from consolidation	4
1.3	Auditor information	4
1.3.1	Key certified auditor information	4
1.3.2	Audit firm information	4
1.4	Prior period consolidated financial statements	4
1.5	Audit scope and responsibilities	5
1.6	Information on audits of the financial statements of the consolidated companies	6
1.6.1	Parent Company	6
1.6.2	Other consolidated entities	7
2	Financial analysis of the Group	8
2.1	Summary of the consolidated financial statements	8
2.1.1	Consolidated statement of financial position	8
2.1.2	Consolidated statement of comprehensive income	9
2.2	Selected financial ratios	10
2.3	Interpretation of selected financial ratios	10
3	Detailed report	11
3.1	Accounting principles	11
3.2	Basis of preparation of the consolidated financial statements	11
3.3	Method of consolidation	11
3.4	Goodwill arising on consolidation	11
3.5	Consolidation of equity and calculation of non-controlling interest	11
3.6	Consolidation eliminations	12
3.7	Notes to the consolidated financial statements	12
3.8	Report of the Management Board of the Parent Company on the Group's activities	12
3.9	Information on the opinion of the independent auditor	13

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 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

Share 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 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2010, 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.,
- Irydion Sp. z o.o.,
- PRO-INHUT Sp. z o.o.,
- Pro-Organika Sp. z o.o.,
- Prochem Serwis Sp. z o.o.,
- PREDOM Sp. z o.o.,

- ASI Polska Sp. z o.o.,
- Prochem Zachód Sp. z o.o.,
- PROTRADE Sp. z o.o.,
- ELPRO Sp. z o.o.,
- Elmont Inwestycje Sp. z o.o.,
- Elektromontaż Kraków S.A. Group:
 - Elektromontaż Kraków S.A. (Parent Company),
 - Elmont Pomiary Sp. z o.o. (full consolidation),
- IRYD Sp. z o.o.,
- ATUTOR Integracja Cyfrowa Sp. z o.o.

1.2.2 Entities excluded from consolidation

As at 31 December 2010, the following subsidiaries of the Group were not consolidated:

- Predom Projektowanie Sp. z o.o.,
- Pasterex Sp. z o.o.

Above mentioned entities are dormant, and their financial data does not distort information of financial results of Prochem S.A. Group.

1.3 Auditor information

1.3.1 Key certified auditor information

Name and surname: Monika Bartoszewicz
Registration number: 10268

Name and surname: Alicja Opara
Registration number: 12044

1.3.2 Audit firm 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 audit firms under number 458.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2009 were audited by Misters Audytor Sp. z o.o. and received a qualified opinion as follows:

- “1. The parent Company in assets of the statement of financial position prepared as at balance sheet date has presented 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.
2. IRYDION Sp. z o.o. – the entity controlled by the parent Company, according to its accounting policy, presents investment property at fair value. As at 31 December 2009 independent valuer has set the value of the land for PLN 26,350 thousand. The Board of Directors has accounted for 90% of the valuation of the land, and presented in the statement of financial position the value of investment property in the amount of PLN 25,348.2 thousand.”

The consolidated financial statements were approved at the General Meeting on 12 June 2010.

The consolidated 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 of the consolidated financial statement as at 31 December 2009 and in the statement of comprehensive income of the consolidated financial statement for the year ended on that date were properly presented in the current consolidated financial statement, taking into consideration corrections, that resulted from changes of accounting policy, error and other restatement which were described in the point 6 in the Supplementary information, concerning applied accounting policy and other explanatory information to the consolidated financial statement.

1.5 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 consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2010, 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 to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The consolidated financial statements have been audited in accordance with the contract dated 2 August 2010, concluded on the basis of the resolution of the 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 consolidated financial statements in the Parent Company’s head office during the period from 13 to 22 April 2011.

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 Company's activities.

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

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, 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 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 from the companies included in the Group 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 from 2009, 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.

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

1.6.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2010 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion with the following emphasis of matter:

“As described in notes no. 6 and 18 to the attached condensed interim unconsolidated financial statement, 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.”

1.6.2 Other consolidated entities

<u>Entity's name</u>	<u>Authorised auditor</u>	<u>Type of auditor's opinion</u>
ASI Polska Sp. z o.o.	Kancelarii Usług Finansowo-Księgowych "Kufiks" Sp. z o.o.	unqualified
ATUTOR Integracja Cyfrowa Sp. z o.o.	CONSORT FIN Sp. z o.o.	unqualified
Elektromontaż Kraków S.A. Group	Misters Audytor Sp. z o.o.	unqualified
Elmont Inwestycje Sp. z o.o.	Krystyna Walczyk Centrum badania bilansów i usług księgowych OMEGA-W	unqualified
ELPRO Sp. z o.o.	Krystyna Walczyk Centrum badania bilansów i usług księgowych OMEGA-W	unqualified
IRYD Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	opinion not yet issued
Irydion Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	opinion not yet issued
ITEL Sp. z o.o.	"AUXILIUM AUDYT" Krystyna Adamus, Jadwiga Faron Spółka Komandytowa	unqualified, with the emphasis of matter
PREDOM Sp. z o.o.	"Accord'ab" Biegli Rewidenci Spółka z o.o.	unqualified
PRO PLM Sp. z o.o.		<i>not subject to audit</i>
Prochem Inwestycje Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	opinion not yet issued
Prochem RPI Sp. z o.o.		<i>not subject to audit</i>
Prochem Serwis Sp. z o.o.	Biuro Biegłego Rewidenta "Bilans" Wanda Kurzela	unqualified
Prochem Zachód Sp. z o.o.		<i>not subject to audit</i>
PRO-INHUT Sp. z o.o.		<i>not subject to audit</i>
Promis Sp. z o.o.		<i>not subject to audit</i>
Pro-Organika Sp. z o.o.	CONSORT FIN Sp. z o.o.	unqualified
PROTRADE Sp. z o.o.		<i>not subject to audit</i>
TEOMA Sp. z o.o.	KTB Biuro Usług Audytorskich i Rachunkowych	opinion not yet issued

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2010		31.12.2009	
	PLN '000	% of total	PLN '000 (*)	% of total
Non-current assets				
Property, plant and equipment	32,779	17.5	35,040	18.8
Intangible assets	270	0.1	484	0.2
Investment property	63,377	33.9	58,717	31.4
Shares in subsidiaries and other entities	1,518	0.8	3,386	1.8
Shares in equity - accounted investees	765	0.4	629	0.3
Deffered tax assets	3,042	1.6	1,493	0.8
Total non-current assets	101,751	54.3	99,749	53.3
Current assets				
Inventories	6,261	3.3	6,629	3.5
Trade and other receivables	60,779	32.5	56,567	30.3
Other financial assets	597	0.3	3,432	1.8
Other assets	11,518	6.2	14,415	7.7
Cash and cash equivalents	6,100	3.4	6,042	3.4
Total current assets	85,255	45.7	87,085	46.7
TOTAL ASSETS	187,006	100.0	186,834	100.0
EQUITY AND LIABILITIES				
Equity				
Share capital	3,895	2.1	3,900	2.0
Treasury shares	-	-	(5)	0.0
Retained earnings	101,016	54.0	94,822	50.8
Total equity attributable to equity holders of the parent	104,911	56.1	98,717	52.8
Minority interest	18,736	10.0	17,405	9.4
Total equity	123,647	66.1	116,122	62.2
Non-current liabilities				
Long term bank loans	234	0.1	1,033	0.6
Deffered tax liabilities	5,891	3.2	4,334	2.3
Provision for retirement and simmilar benefits	1,643	0.9	1,829	1.0
Other provisions	208	0.1	12	0.0
Other long term liabilities	396	0.2	695	0.3
Total non-current liabilities	8,372	4.5	7,903	4.2
Current liabilities				
Current bank loans	2,028	1.1	5,088	2.7
Short term borrowings	29	0.0	776	0.4
Trade payables	44,939	24.0	47,019	25.2
Liabilities for current income tax	180	0.1	212	0.1
Other liabilities	7,666	4.1	9,428	5.0
Deffered income	145	0.1	286	0.2
Total current liabilities	54,987	29.4	62,809	33.6
Total liabilities	63,359	33.9	70,712	37.8
TOTAL EQUITY AND LIABILITIES	187,006	100.0	186,834	100.0

(*) restated data

2.1.2 Consolidated statement of comprehensive income

	01.01.2010 - 31.12.2010 PLN '000	% of total sales	01.01.2009 - 31.12.2009 PLN '000 (*)	% of total sales
Revenue from sales	119,041	100.0	170,588	100.0
Costs of sales	(99,201)	83.3	(154,933)	90.8
Gross profit on sales	19,840	16.7	15,655	9.2
Administrative expenses	(17,429)	14.6	(15,586)	9.1
Other income	7,577	6.4	10,554	6.2
Other expenses	(4,827)	4.1	(5,500)	3.2
Results from operating activities	5,161	4.4	5,123	3.1
Financial income	520	0.4	1,551	0.9
Profit on the disposal of shares in controlled entities	58	0.0	-	-
Financial expenses	(1,010)	0.8	(1,895)	1.1
Share of profit of equity - accounted investees	96	0.1	(80)	0.1
Profit before tax	4,825	4.1	4,699	2.8
Income tax expense	120	0.1	(2,060)	1.2
current	(615)	0.5	(411)	0.2
deferred	735	0.6	(1,649)	1.0
Profit for the period	4,945	4.2	2,639	1.6
OTHER COMPREHENSIVE INCOME				
Revaluation of property, plant and equipment	3,436	2.9	-	-
Income tax on other comprehensive income	(653)	0.6	-	-
Other comprehensive income for the period, net of income tax	2,783	2.3	-	-
Total comprehensive income for the period	7,728	6.5	2,639	1.6
Profit attributable to:				
Owners of the Company	4,319		356	
Minority interest	626		2,283	
Profit for the period	4,945		2,639	
Total comprehensive income attributable to:				
Owners of the Company	6,397		356	
Minority interest	1,331		2,283	
Total comprehensive income for the period	7,728		2,639	
Earnings per share attributable to Owners of the Company:				
Basic /Diluted earnings per share (PLN)	1.1		0.1	

(*) restated data

2.2 Selected financial ratios

	2010	2009 (*)
1. Return on sales		
<u>net profit x 100%</u> net revenues	4.2%	1.5%
2. Return on equity		
<u>net profit x 100%</u> equity - net profit	4.2%	2.3%
3. Debtors turnover		
<u>average trade receivables (gross) x 365 days</u> net revenues	191 days	202 days
4. Debt ratio		
<u>liabilities x 100%</u> equity and liabilities	33.9%	38.4%
5. Current ratio		
<u>current assets</u> current liabilities	2.0	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

2.3 Interpretation of selected financial ratios

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 Group and its ability to continue as a going concern in a foreseeable future.

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.

Entities included in the Group apply common accounting principles consistent 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 r., No 169, item 1327).

3.3 Method of consolidation

The method of consolidation is described in note 5 of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 5 of the notes to the consolidated financial statements.

3.5 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 interest' share in the subsidiaries' equity as at the end of the reporting period.

3.6 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. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.7 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.

3.8 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 2009, No 33, item 259 with amendments) and the information is consistent with the consolidated financial statements.

3.9 Information on the opinion of the independent auditor

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

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

As described in notes no. 8 and 40 to the attached consolidated financial statement, the parent company 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

Signed on the Polish original

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

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

29 April 2011
Warsaw