



# Prochem S.A. Group

**Report on the audit  
of the consolidated financial statements**

**Financial Year ended**

**31 December 2016**



## **Prochem S.A. Group**

The report on the audit of the consolidated financial statements  
for the financial year ended 31 December 2016

*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. Łopuszańska 95  
02-457 Warsaw

In the financial year ended 31 December 2016, the Company changed its registered office. Previous address: ul. Powązkowska 44C, 01-797 Warsaw. The change was registered in the National Court Register on 31 May 2016.

### **1.1.3. Registration of the Parent Entity 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 Entity**

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

As at 31 December 2016, the Management Board of the Parent Entity 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. Key Certified Auditor and Audit Firm Information**

### **1.2.1. Key Certified Auditor information**

Name and surname:	Mirosław Matusik
Registration number:	90048

### **1.2.2. Audit Firm information**

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	ul. Inflancka 4A, 00-189 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.



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

The consolidated financial statements for the financial year ended 31 December 2015 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 11 June 2016.

The consolidated financial statements were submitted to the Registration Court on 22 June 2016.

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

The consolidated financial statements were audited in accordance with the contract dated 26 July 2016, concluded on the basis of the resolution of the Supervisory Board dated 10 June 2016 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 2016, item 1047 with amendments) (“the Accounting Act”) and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from 13 to 24 March 2017 and from 3 to 14 April 2017.

Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for the report on the Group’s activities.

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

The Management Board of the Parent Entity submitted a statement, dated as at the same date as this report, as to the preparation of the consolidated financial statements that give a true and fair view, 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.



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The Key Certified Auditor and the Audit Firm are independent of the entities within the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and 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 2016, item 1000 with amendments) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.



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## 2. Financial analysis of the Group

### 2.1. Summary analysis of the consolidated financial statements

#### 2.1.1. Consolidated statement of financial position

ASSETS	31.12.2016		31.12.2015	
	PLN '000	% of total	PLN '000	% of total
<b>Non-current assets</b>				
Property, plant and equipment	22 713	14,2	23 814	11,1
Intangible assets	391	0,2	508	0,2
Investment properties	12 750	8,0	11 960	5,6
Shares	830	0,5	830	0,4
Shares in equity - accounted investees	22 678	14,2	24 000	11,2
Deffered tax assets	5 879	3,7	2 716	1,3
Other financial assets	18 334	11,4	17 955	8,3
<b>Total non-current assets</b>	<b>83 575</b>	<b>52,2</b>	<b>81 783</b>	<b>38,1</b>
<b>Current assets</b>				
Inventories	4 865	3,0	7 071	3,3
Trade and other receivables	56 652	35,4	83 991	39,2
Other financial assets	198	0,1	2 799	1,3
Other assets	11 135	7,0	15 197	7,1
Cash and cash equivalents	3 783	2,4	23 595	11,0
<b>Total current assets</b>	<b>76 633</b>	<b>47,8</b>	<b>132 653</b>	<b>61,9</b>
<b>TOTAL ASSETS</b>	<b>160 208</b>	<b>100,0</b>	<b>214 436</b>	<b>100,0</b>
<b>EQUITY AND LIABILITIES</b>				
	<b>31.12.2016</b>	<b>% of total</b>	<b>31.12.2015</b>	<b>% of total</b>
	<b>PLN '000</b>		<b>PLN '000</b>	
<b>Equity</b>				
Share capital	3 895	2,5	3 895	1,9
Revaluation reserve	12 146	7,6	11 584	5,4
Retained earnings	72 542	45,3	100 878	47,0
<b>Total equity attributable to equity holders of the parent</b>	<b>88 583</b>	<b>55,4</b>	<b>116 357</b>	<b>54,3</b>
<b>Non-controlling interest</b>	<b>6 448</b>	<b>4,0</b>	<b>8 738</b>	<b>4,0</b>
<b>Total equity</b>	<b>95 031</b>	<b>59,4</b>	<b>125 095</b>	<b>58,3</b>
<b>Non-current liabilities</b>				
Long term bank loans	299	0,2	-	-
Deffered tax liabilities	2 348	1,5	2 883	1,3
Provision for retirement and similar benefits	1 755	1,1	1 854	0,9
Other liabilities	324	0,2	416	0,2
<b>Total non-current liabilities</b>	<b>4 726</b>	<b>2,9</b>	<b>5 153</b>	<b>2,4</b>
<b>Current liabilities</b>				
Short-term bank loans	10 400	6,5	11 772	5,5
Trade payables	39 525	24,7	51 451	24,0
Current income tax liabilities	55	0,0	1 447	0,7
Other payables	8 086	5,0	8 142	3,8
Deffered income	2 385	1,5	11 376	5,4
<b>Total current liabilities</b>	<b>60 451</b>	<b>37,7</b>	<b>84 188</b>	<b>39,4</b>
<b>Total liabilities</b>	<b>65 177</b>	<b>40,7</b>	<b>89 341</b>	<b>41,7</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>160 208</b>	<b>59,3</b>	<b>214 436</b>	<b>100,0</b>



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**2.1.2. Consolidated profit and loss account**

	1.01.2016 - 31.12.2016 PLN '000	% of total sales	1.01.2015 - 31.12.2015 PLN '000	% of total sales
Revenues from sale	169 214	100,0	266 443	100,0
Revenues from sale of services	162 927	96,3	257 799	96,8
Revenues from sale of merchandise and raw materials	6 287	3,7	8 644	3,2
Cost of sale	(177 707)	105,0	(241 214)	90,6
Cost of services sold	(172 593)	102,0	(233 573)	87,7
Cost of merchandise and raw materials sold	(5 114)	3,0	(7 641)	2,9
<b>Gross profit/(loss) on sales</b>	<b>(8 493)</b>	<b>5,0</b>	<b>25 229</b>	<b>9,4</b>
General and administrative expenses	(15 194)	9,0	(15 574)	5,8
Other operating income	2 022	1,2	1 533	0,6
Other operating expenses	(2 068)	1,2	(1 636)	0,6
<b>Profit/(loss) from operating activities</b>	<b>(23 733)</b>	<b>(14,0)</b>	<b>9 552</b>	<b>3,6</b>
Finance income	921	0,5	961	0,4
Profit on the disposal of shares	(154)	0,1	190	0,1
Finance expenses	(1 883)	1,1	(2 860)	1,1
Share in profit of equity-accounted investees	(1 110)	0,6	(1 136)	0,4
<b>Profit/(loss) before income tax</b>	<b>(25 959)</b>	<b>15,3</b>	<b>6 707</b>	<b>2,6</b>
Income tax expense	(2 815)	1,7	2 553	0,9
current tax	878	0,5	2 954	1,1
deferred tax	(3 693)	2,2	(401)	0,2
<b>Net profit/(loss)</b>	<b>(23 144)</b>	<b>13,7</b>	<b>4 154</b>	<b>1,7</b>
Net profit (loss) attributable to:				
Shareholders of the Parent Company	(23 332)		4 432	
Non-controlling interests	188		(278)	
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	(5,99)		1,14	



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**2.1.3. Consolidated statement of comprehensive income**

	1.01.2016 - 31.12.2016	% of profit	1.01.2015 - 31.12.2015	% of profit
	PLN '000		PLN '000	
<b><i>Net profit/(loss)</i></b>	<b>(23 144)</b>	<b>100,0</b>	<b>4 154</b>	<b>100,0</b>
<i>Other comprehensive income, net</i>	<i>(46)</i>	<i>0,2</i>	<i>(411)</i>	<i>9,9</i>
<i>Other comprehensive income that may be reclassified to profit or loss:</i>	<b>12</b>	-	<b>(385)</b>	<b>9,3</b>
Exchange differences arising on translation of foreign entity	12	0,1	(385)	9,3
<i>Other comprehensive income that will never be reclassified to profit or loss:</i>	<b>(58)</b>	<b>0,2</b>	<b>(26)</b>	<b>0,6</b>
Revaluation of property, plant and equipment	10	-	9	0,2
Actuarial losses arising from valuation of employee benefits provision	(76)	0,3	(39)	0,9
Income tax on other comprehensive income	8	0,0	4	0,1
<b><i>Total comprehensive income</i></b>	<b>(23 190)</b>	<b>100,2</b>	<b>3 743</b>	<b>90,1</b>
<b>Total comprehensive income attributable to:</b>				
Shareholders of the Parent Company	(23 380)		4 023	
Non-controlling interests	190		(280)	
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	(6,00)		1,03	





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**2.2. Selected financial ratios**

	2016	2015	2014
<b>1. Return on sales</b>			
<u>profit for the period x 100%</u> revenue	negative value	1,7%	1,9%
<b>2. Return on equity</b>			
<u>profit for the period x 100%</u> equity - profit for the period	negative value	3,4%	2,7%
<b>3. Debtors' days</b>			
<u>average trade receivables (gross) x 365 days</u> revenue	156 days	108 days	131 days
<b>4. Debt ratio</b>			
<u>liabilities x 100%</u> equity and liabilities	40,7%	41,7%	39,4%
<b>5. Current ratio</b>			
<u>current assets</u> current liabilities	1,3	1,6	1,4

- 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.



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## **3. Detailed report**

### **3.1. Accounting principles**

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

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 Entity, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Entity.

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 Entity.

### **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 2017, item 676).

### **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 Entity.

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 Entity's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Entity.

Only equity of subsidiaries arising after the Parent Entity 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.



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### **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.

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*

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

28 April 2017