



Prochem S.A.

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

Financial Year ended

31 December 2016



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The report on the audit of the separate 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. General information about the Company

1.1.1. Company name

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1.1.2. Registered office

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 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 the reporting period:	PLN 3,895,000.00

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

As at 31 December 2016, 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 – 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 financial statements

The separate financial statements as at and 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 separate financial statements were approved at the General Meeting on 11 June 2016 where it was resolved to distribute the net profit for the prior financial year of PLN 6,213,046.33 as follows:

- PLN 6,193,050.00 to be paid as a dividend,
- PLN 19,996.33 to reserve capital.

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

1.4. Audit scope and responsibilities

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 of the General Meeting dated 25 June 2005.

The separate 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 separate financial statements at the Company during the period from 13 to 24 March 2017 and from 3 to 14 April 2017.

Management of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of separate 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 Company is also responsible for the Report on the Company's activities.

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

Management of the Company submitted a statement, dated as at the same date as this report, as to the preparation of the separate 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 separate financial statements.

All required statements, explanations and information were provided to us by Management of the Company 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 Company 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 Company

2.1. Summary analysis of the separate financial statements

2.1.1. Separate statement of financial position

ASSETS	31.12.2016	% of total	31.12.2015	% of total
	PLN '000		PLN '000	
Non-current assets				
Property, plant and equipment	1 249	1,2	1 542	1,0
Intangible assets	310	0,3	414	0,2
Investment properties	246	0,2	-	-
Shares in subsidiaries	9 642	9,4	10 162	6,4
Shares in jointly controlled entities and associates	4 502	4,4	4 810	3,1
Deferred tax assets	5 054	4,9	1 834	1,2
Other financial assets	36 738	35,8	36 326	23,1
Total non-current assets	57 741	56,2	55 088	35,0
Current assets				
Inventories	1 698	1,7	5 247	3,3
Trade and other receivables	38 042	37,0	68 856	43,8
Other financial assets	198	0,2	3 569	2,3
Other assets	4 757	4,6	7 671	4,9
Cash and cash equivalents	245	0,2	16 769	10,7
Total current assets	44 940	43,8	102 112	65,0
TOTAL ASSETS	102 681	100,0	157 200	100,0
EQUITY AND LIABILITIES				
	31.12.2016	% of total	31.12.2015	% of total
	PLN '000		PLN '000	
Equity				
Share capital	3 895	3,8	3 895	2,5
Revaluation reserve	837	0,8	859	0,5
Retained earnings	48 727	47,5	78 521	50,0
Total equity	53 459	52,1	83 275	53,0
Non-current liabilities				
Provisions for retirement and similar benefits	539	0,5	715	0,5
Long-term borrowings	7 002	6,8	-	-
Other liabilities	14	-	14	-
Total non-current liabilities	7 555	7,3	729	0,5
Current liabilities				
Short-term bank loans	7 303	7,1	9 024	5,7
Short-term borrowings	-	-	950	0,6
Trade payables	27 139	26,4	47 154	30,0
Current income tax liabilities	-	-	1 361	0,9
Other liabilities	5 182	5,0	3 670	2,3
Deferred income	2 043	2,0	11 037	7,0
Total current liabilities	41 667	40,6	73 196	46,5
Total liabilities	49 222	47,9	73 925	47,0
TOTAL EQUITY AND LIABILITIES	102 681	100,0	157 200	100,0



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2.1.2. Separate statement of profit and loss

	1.01.2016 - 31.12.2016 PLN '000	% of total sales	1.01.2015 - 31.12.2015 PLN '000	% of total sales
Revenues from sales	109 682	100,0	220 954	100,0
Revenues from the sale of services	108 914	99,3	217 631	98,5
Revenues from the sale of merchandise and raw materials	768	0,7	3 323	1,5
Cost of sales	(126 107)	115,0	(202 796)	91,8
Cost of services sold	(125 348)	114,3	(199 537)	90,3
Cost of merchandise and raw materials sold	(759)	0,7	(3 259)	1,5
Gross profit/(loss) on sales	(16 425)	15,0	18 158	8,2
General and administrative expenses	(9 303)	8,5	(9 274)	4,2
Other operating income	1 370	1,3	1 478	0,7
Other operating expenses	(1 895)	1,7	(1 210)	0,5
Profit/(loss) from operating activities	(26 253)	23,9	9 152	4,2
Finance income	1 085	1,0	2 121	0,9
Profit on the disposal of financial assets	492	0,5	-	-
Finance expenses	(2 137)	2,0	(2 927)	1,3
Profit/(loss) before income tax	(26 813)	24,4	8 346	3,8
Income tax expense	(3 212)	2,9	2 133	1,0
current tax	1	-	2 800	1,3
deferred tax	(3 213)	2,9	(667)	0,3
Net profit/(loss)	(23 601)	21,5	6 213	2,8
Weighted average number of ordinary shares	3 895 000		3 895 000	
Basic and diluted earnings per share (PLN per share)	(6,06)		1,60	

2.1.3. Separate statement of comprehensive income

	1.01.2016 - 31.12.2016 PLN '000	% of profit	1.01.2015 - 31.12.2015 PLN '000	% of profit
Net profit/(loss)	(23 601)	100,0	6 213	100,0
Other comprehensive income, net	(22)	0,1	(402)	6,5
Other comprehensive income that may be reclassified to profit or loss:	12	0,1	(385)	6,2
Exchange differences arising on translation of foreign entity	12	-	(473)	7,6
Income tax on other comprehensive income	-	-	88	1,4
Other comprehensive income that will never be reclassified to profit or loss:	(34)	0,1	(17)	0,2
Revaluation of property, plant and equipment	10	0,0	-	-
Actuarial losses arising from valuation of employee benefits provision	(52)	0,2	(21)	0,3
Income tax on other comprehensive income	8	-	4	0,1
Total comprehensive income	(23 623)	100,1	5 811	93,5
Weighted average number of ordinary shares	3 895 000		3 895 000	



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2.2. Selected financial ratios

	2016	2015	2014
1. Return on sales			
<u>profit for the period x 100%</u> revenue	negative value	2,8%	3,9%
2. Return on equity			
<u>profit for the period x 100%</u> equity - profit for the period	negative value	8,1%	6,8%
3. Debtors' days			
<u>average trade receivables (gross) x 365 days</u> revenue	184 days	108 days	156 days
4. Debt ratio			
<u>liabilities x 100%</u> equity and liabilities	47,9%	47,0%	43,6%
5. Current ratio			
<u>current assets</u> current liabilities	1,2	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.



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3. Detailed report

3.1. 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.

On the basis of the work performed, we have not identified any material irregularities in the accounting system which have not been corrected and that could have a material effect 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.

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

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

28 April 2017