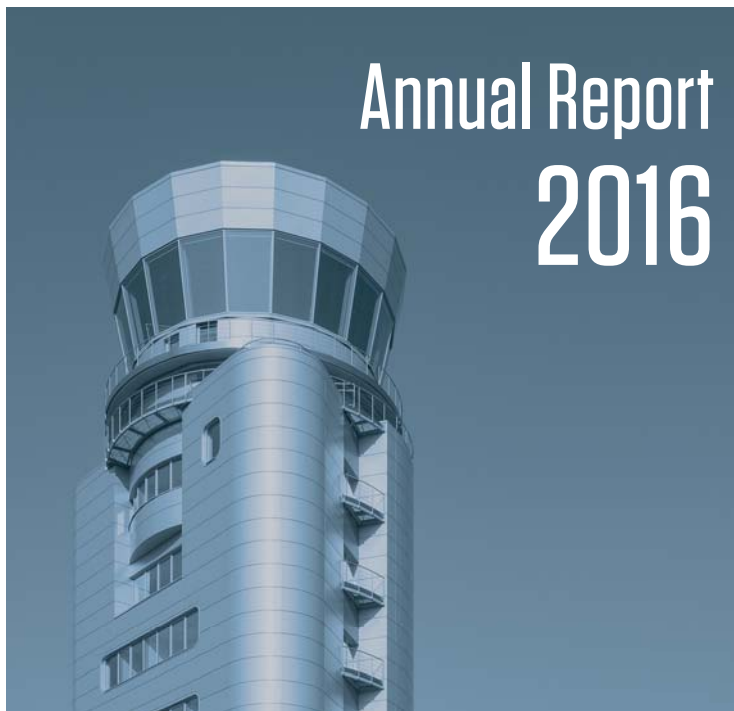


Annual Report 2016



 PROCHEM 70 YEARS

During the 70 years of its activity, PROCHEM S.A. has become a leading Polish engineering company, designing and completing complex investment projects in different construction sectors.

Using its vast experience, it consistently improves modern methods and introduces innovative working tools. The use of specialised solutions and new technologies guarantees high quality services. This makes PROCHEM one of the leading and most modern engineering companies.

The expertise and experience gained over 70 years are a potential which the Company harnesses to deliver the best solutions to its Clients.



Annual Report 2016

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The 2016 Annual Report is available in the form of a PDF file on the Company's website:
www.prochem.com.pl.
Photo on page 8: Maciej Lulko, other photos: PROCHEM S.A. archives
Design: Studio ANCOM, phone: +48 501 025 235

Mission

PROCHEM's mission is to guarantee its Clients a real competitive advantage through supplying them with top-quality services at reasonable prices and attractive completion deadlines while ensuring high standards of safety and environmental protection.



Letter of the President of the Management Board



Dear Sirs,
Our Shareholders, Clients and Partners

On behalf of the Management Board of the Joint Stock Company PROCHEM, I am pleased to present a summary of the major achievements of the previous year, 2016, as well as to provide you with an insight into the tasks we have set to accomplish in the coming year, a particularly important milestone for the Company – the 70th anniversary of its activity.

2016 proved to be a difficult period for the construction sector in Poland. We saw a dramatic decrease in investment outlays. Entrepreneurs, including our Clients, delayed their decisions on the start-up of new investment projects, fearing economic slowdown and instability of legal regulations. This resulted in increased competition and a drop in prices of engineering services.

Unfortunately, trends associated with the slowdown in the construction sector also affected the situation of PROCHEM. Although we obtained significant revenues from sales, both generated by the Company (PLN 109.7 million), and by the entire Capital Group (PLN 169.2 million), a loss of PLN 23.1 million was also noted (PROCHEM S.A. Capital Group).

These results do not meet our expectations and ambitions. The loss was mainly the result of excessively optimistic estimations from previous years with respect to the profitability of the Belorussian project, and the related need to adjust the profit margin in 2016.

Ultimately, the Belorussian project is profitable; however, the unforeseen costs associated with the extended period of implementation and the need to deal with formal and legal obstacles had a direct impact on the financial result of the Company. The loss in question was also due to a Client's withdrawal from a large project.

However, 2016 also brought good things for PROCHEM. We finished the design and construction of the first stage of the Astrum Business Park office building, which became the new seat of the Company.

New offices will allow us to work in significantly more comfortable conditions and enjoy their functionality and modern technical infrastructure. The Astrum office building was also appreciated and recognised by the jurors of the Polish Association of Construction Engineers and Technicians (PZiTB). Our Company, for the implementation of the ASTRUM Business Park, was awarded the prestigious title in the "Construction of the Year 2015" competition, most valued in the industry, a second degree award in the category of office and commercial buildings.

PROCHEM architects also received a unique award for the "Thermal Waste Processing Plant in Cracow". The plant, designed by the Company, was recognised in the Association of Polish Architects 2015 Award of the Year competition. The team deserves special congratulations as historically it was very rare for an industrial design to be recognised in this competition.

Undoubtedly, the greatest challenge in 2016 was the completion of the turnkey construction and start-up of the chemical complex in Belarussian Svisloch. This was the largest export construction in PROCHEM's history, which opened up possibilities for further activities on that market using technical and organisational experience as well as authorisations and certifications.

Last year, we successfully completed the design and construction of yet another facility for our "returning Client" – Goodrich Aerospace Poland in Tajęcina. We also continued design and construction for military purposes, e.g. a fuel base in Porazyn. For Petrol, we are participating in the design and implementation of an innovative demonstration plant for pyrolysis of used tyres.

The innovative polystyrene material production plant of Synthos in Oświęcim played a very significant role in design and construction activities in 2016. This is also a demonstration plant, the first of its kind, made for a very important and demanding Client.

The design activity was dominated by energy projects. While continuing our cooperation with Alstom Power (now GE Power), we executed documentation for the construction of power units No 5 and No 6 at the Opole Power Plant, as well as designs for the flue gas cleaning system for Dalkia in Łódź. We are also designing water processing systems for the Opole Power Plant, commissioned by Seen Technologie.

In designs for the energy industry, we make particular use of 3D integrated modelling, introduced by PROCHEM several years ago; this method combines building designs created

with the Revita platform with models of technological facilities created in PDMS. In the case of the water processing system, for the first time PROCHEM integrated a 3D model with a schedule of execution works, which is the first implementation of BIM 4D technology. We hope that more new projects will soon be introduced to BIM.

Another important area of operations for PROCHEM S.A. in 2016 were developer activities. Together with our financial partner – LFI 1 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych – we are working on the Astrum Business Park project in Warsaw, an office complex with a total area of 30 thousand m² in stages I and II. We are currently in the process of acquiring tenants, which is painstaking due to the high supply of office space in Warsaw.

We are now looking forward to 2017 – a special year and the 70th anniversary of PROCHEM's establishment. At the same time, it is another year of new and difficult investment tasks. Unfortunately, the consequences of slower economic growth and the slowdown in the construction sector are particularly noticeable. Engineering companies such as PROCHEM may enjoy more opportunities due to the strengthening of the economy with new investment projects, both private and public, implemented with the use of European funds.

In the nearest future, the Company's most important task will be to fill its portfolio of orders and to maintain its potential in this difficult period of poor investor sentiment. Another priority will be the continuation of operations in Belarus using the experience we have acquired and the export support programme. We will focus on using our competitive advantage, which stems from the integrated approach to 3D design combined with the BIM concept. In the coming months, we also aim to acquire other tenants for the 1st stage of the Astrum Business Park complex.

I am convinced that the operations of PROCHEM S.A., the implementation of planned projects and the Company's financial results generated over the subsequent months will bring satisfaction to our Shareholders, Clients and Partners.

Warsaw, April 2017

Company Authorities

MANAGEMENT BOARD



Jarosław Stępniewski
President
General Director



Marek Kiersznicki
Vice President
Sales and Marketing
Director



Krzysztof Marczak
Vice President
Financial Director

DIRECTORS

Grzegorz Kobyłecki
PROCHEM PROJEKT
Division Director

Maciej Kalita
Project and Construction
Management Director

**Barbara
Auguścińska-Sawicka**
Chief Accountant

SUPERVISORY BOARD

Karol Zbikowski
Chairman

Members
Andrzej Karczykowski

Krzysztof Oblój

Marcin Pędziński

Michał Suflida

Area of operation

PROCHEM S.A. provides comprehensive engineering services, covering all stages of the investment process, as well as services related to the selected stages of the works in accordance with individual requirements of Clients.

Using its engineering potential, the Company assists the Client at each stage of investment preparation, to optimise the adopted technical, cost and quality solutions.

At the design stage, we prepare documentation for all disciplines, arrange the required consultations, and obtain the required approvals and permits. Based on the prepared documentation, we execute the investment project as a general contractor (in the "design-build" formula) or manage contractors on behalf of the investor. We coordinate the construction and installation works, as well as the purchase of machinery and equipment for the purposes of the investment – until the facility is handed over to the investor.

The comprehensive management of the investment process, as well as the completion of varied and complex tasks to assist one organisation, are undeniable advantages of the services provided by PROCHEM. In this way, we are able to meet the expectations of even the most demanding Clients, in terms of timeliness, costs, and quality of the entire investment project.

THE COMPREHENSIVE PROJECT SERVICES OF PROCHEM S.A.:

Advisory services:

- technical advice
- multi-discipline concepts
- expert studies and technical recommendations
- investment project budgeting
- feasibility studies

Multi-discipline desing:

design services in all disciplines and all stages, including obtaining the relevant required agreements, approvals and permits

Project execution or project execution management:

- engineering, procurement and construction (EPC)
- management contracting
- general contracting
- engineering, procurement and construction management (EPCM)
- project management
- construction management (CM)
- investment project supervision

Consulting:

- concerning granted loans
- in the scope of co-financing of projects in environmental protection

For many years, the Company has participated in complex and complicated projects, executing investments for the largest domestic and foreign companies.

Since it began operations, PROCHEM has specialised in services for the chemical industry. We actively participate in investment projects related to process installations and the energy industry. We design and build new production plants, as well as large-scale buildings and environmental protection facilities. We provide comprehensive support to Clients in all areas of industry.

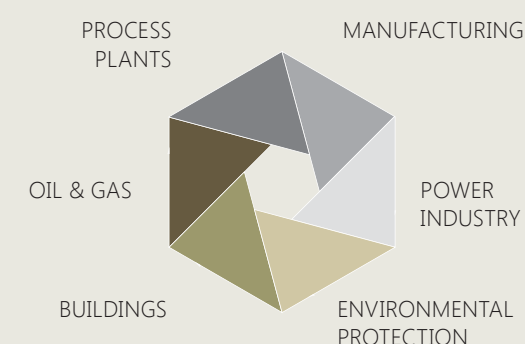
MANAGEMENT SYSTEM

The underlying principle which for years has determined the direction of development of PROCHEM S.A., is to achieve Client satisfaction by meeting their requirements and performing the service within the agreed budget and specified schedule, while ensuring high quality, safety and environmental protection standards.

In accordance with this principle of diligent adherence to quality standards and rules, the Company consistently applies its Quality Policy.

PROCHEM holds Integrated Management System certificates which also cover environmental management, as well as occupational health and safety management, in accordance with PN-EN ISO 9001:2009, PN-N 18001:2004 and PN-EN ISO 14001:2005, as well as the AQAP 2110:2009 requirements.

In particular, we offer our engineering support in relation to the execution of investment projects in the following sectors:



RECOMMENDATIONS

PROCHEM S.A. holds recommendations of organisations and industry associations, proving the continuously high quality of services offered by our company and constituting an evidence of the Company's substantive value in terms of operations in the construction services market:

- Technological Credibility Certificate issued by the Chamber of Construction Designing (IPB),
- References from the Polish Association of Construction Engineers and Technicians (PZiTB).



The most important achievements of the Company in 2016

The balance for 2016 was not the best for companies in the construction industry. Despite the economic downturn, a significant decrease in the number of new investments, and the need to implement a comprehensive programme to maintain the Company's potential, PROCHEM successfully completed extensive, technically complicated investment tasks.

In 2016, PROCHEM was challenged with projects which required specialist knowledge, for instance in areas such as the commercial power industry or process installations. We participated in projects associated with the design and execution of innovative, demonstration chemical installations for important Clients. We continued our collaboration

with the largest companies in the fuel and oil sector and in the environmental protection segment.

The high quality of the investments completed by PROCHEM is confirmed by prizes and awards. In 2016, we were awarded several important and prestigious construction industry titles.

The most important projects completed in 2016, and projects to be continued by PROCHEM S.A. in 2017:

GENERAL CONTRACTING, MANAGEMENT CONTRACTING

- Installations for the production of hydrotreating wax, oils, lubricants and refrigerants, as well as extension of the power plant complex for the Belarusian Mineral Wax Factory
- Astrum Business Park office center for Irydion in Warsaw
- Extension of the manufacturing plant producing components for passenger aircrafts for Goodrich Aerospace Poland in Tajęcina
- Technological part of modernisation and extension of the MPS storage facility for Skanska in Porążyn

CONSTRUCTION MANAGEMENT, PROJECT MANAGEMENT

- Innovative polystyrene material production plant for Synthos Dwory 7 in Oświęcim – construction management

ENGINEERING AND DESIGN

- Installations for the production of hydrotreating wax, oils, lubricants and refrigerants, as well as extension of the power plant complex for the Belarusian Mineral Wax Factory
- Astrum Business Park office center for Irydion in Warsaw
- Innovative polystyrene material production plant for Synthos Dwory 7 in Oświęcim

- Extension of the manufacturing plant producing components for passenger aircrafts for Goodrich Aerospace Poland in Tajęcina
- Construction of power units 5 and 6 in the Opole Power Plant for Alstom Power (GE Power) in Opole
- Installations for rubber waste pyrolysis for Petrol in Szczecin
- Water treatment plant at the Opole Power Plant for Seen Technologie in Opole
- Desulphurisation plant for steam boilers at a CHP plant for Alstom Power (GE Power) in Łódź
- Technological part of modernisation and extension of the MPS storage facility for Skanska in Porążyn
- Adaptation of railway ports at the fuel depot for PKN Orlen in Sokółka
- Flue gas cleaning systems at ZW Nowa for Alstom Power (GE Power) in Dąbrowa Górnicza

CONSULTING SERVICES

PROCHEM S.A. has a long-standing practice in the provision of consulting services. Acting as a technical consultant with regard to incurred costs related to executed projects, it offers its services primarily to financial institutions – (mainly banks) that control the disbursement of credits granted for investment purposes. In 2016, we provided consulting services to Clients such as: Alior Bank S.A., PKO BP S.A., Bank Pekao S.A., Plus Bank S.A., Bank Gospodarstwa Krajowego S.A., and PZU TFI S.A.

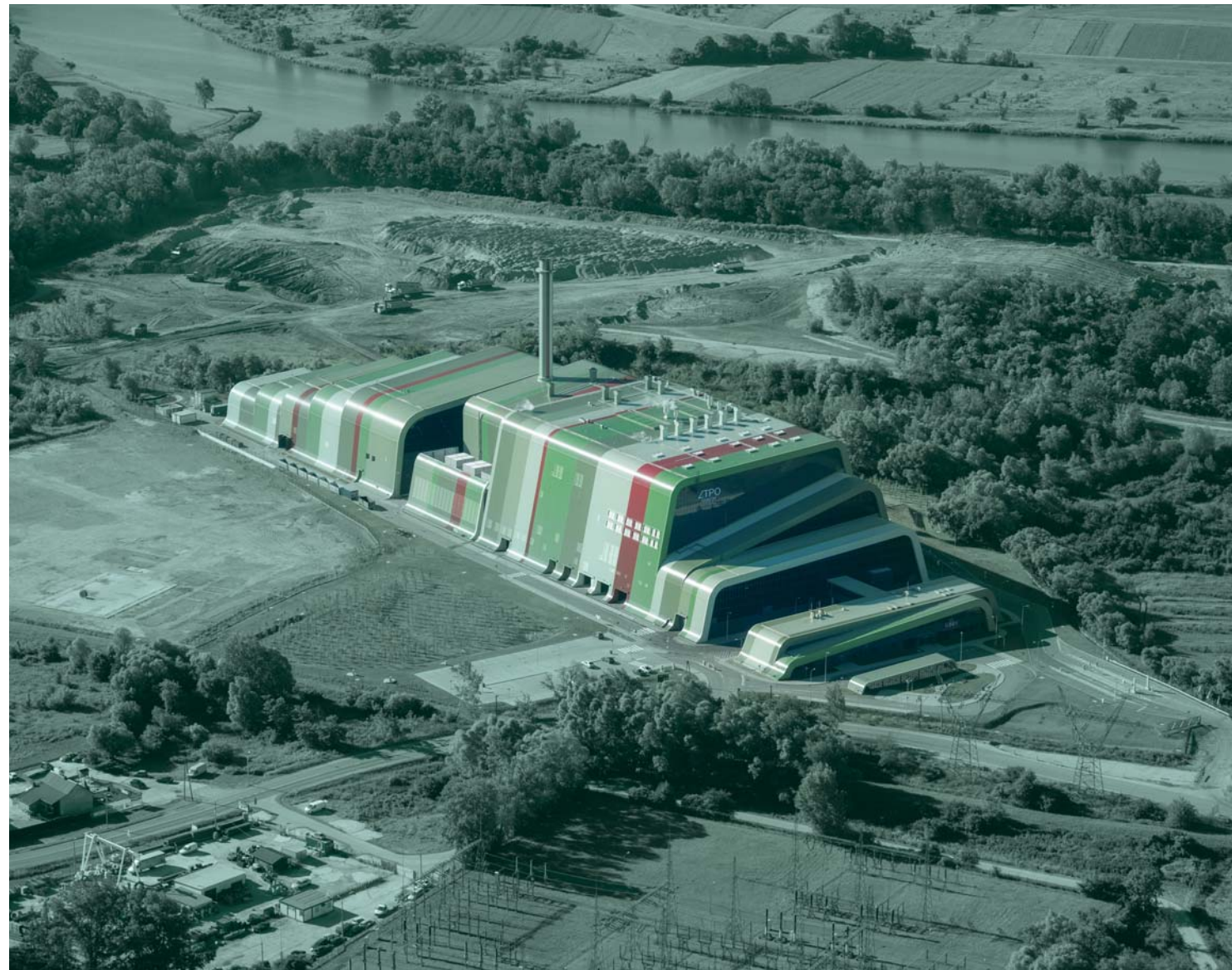
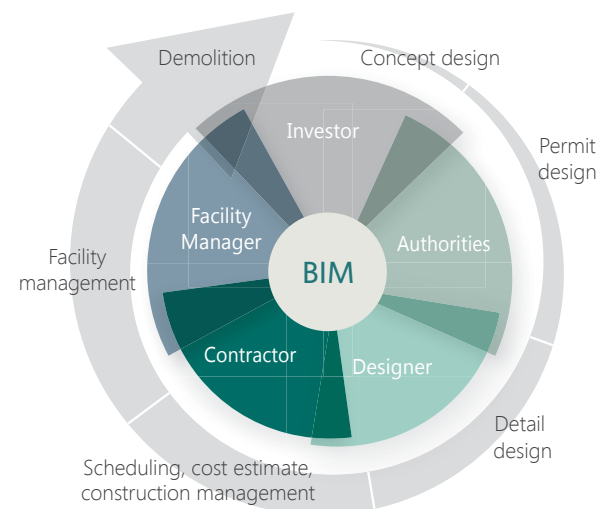
The most important achievements of the Company in 2016

ADVANCED TECHNOLOGIES IN THE DESIGN AND EXECUTION OF INVESTMENTS

Since it began operations, PROCHEM S.A. has set new trends in development of design tools in Poland. As one of the first engineering firms, the Company completed design documentation using specialist software, entering the 3D design era in 2002. Aiming to meet the continually high quality standards of our services, we consistently strive to refine our working methods and tools. An achievement that puts PROCHEM at the forefront of state-of-the-art engineering companies is a project implementing the BIM concept in our design and construction practice.

BIM is an innovative concept, aimed at presenting all construction facility information in one digital model, accessible at the same time to all specialists involved in the investment project. Our integrated approach also makes it possible for the construction process participants – designers, contractors and the investor – to fully share information during the entire process: from the conceptual design through design and execution to operation and demolition of a facility. Thanks to the comprehensive approach corresponding to the idea of an integrated investment process, it is possible to optimise the entire undertaking by improving cross-industry coordination, shortening the execution time, and reducing the costs.

Scheme of the application of the BIM concept



AWARDS

PROCHEM S.A. has won many awards for its outstanding achievements in the construction business. Recently, several new, prestigious and important titles have been added to the long list of the Company's awards.

In 2016, for the second time – after the previous year's triumph in connection with the completion of the silica production plant in Włocławek, PROCHEM again won an award in the most important competition of the construction industry, organised by the Polish Association of Construction Engineers and Technicians. The Company was awarded the title and 2nd prize in the prestigious "Construction of the Year 2015" competition, for the completion of the Astrum Business Park office complex. The Warsaw Astrum office building, which is the new headquarters of the Company, was distinguished as one of the best ranked projects in Poland in the category of office and commercial buildings. Again, experience, specialist knowledge and high quality of the services provided by PROCHEM were recognised and praised.

Another important honour was the receipt by PROCHEM architects of a unique award for the "Thermal Waste Processing Plant in Cracow". The green incineration plant designed by the Company was recognised in the Association of Polish Architects Award of the Year competition as the best architectural structure built with public funds in 2015. The competition was organised under the honorary auspices of the Deputy Prime Minister and the Minister of Culture and National Heritage and the Minister for Infrastructure and Construction.

The green incineration plant in Cracow was also recognised and nominated for the prestigious Mies van der Rohe Award 2017 – it was counted among the best architectural designs in Europe. The special circumstances, i.e. the nomination in this important competition itself, and the fact that an industrial facility was considered as one of the most interesting and distinguished, in terms of architecture, buildings in 260 European cities, are a cause for great pride and honour for our Company.

"Each prize awarded to PROCHEM gives us great joy, but the fact that our investment project was honoured in a competition where major domestic buildings are evaluated makes us even happier. Thanks to the excellent qualifications of our personnel, the Company consistently provides its services at the highest level. PROCHEM is very proud and honoured that its new headquarters – ASTRUM Business Park – is counted among the winners of the Construction Industry Oscars."

Jarosław Stępniewski,
President of PROCHEM S.A.



"We are particularly happy that the results of our hard work were recognised not only in Poland, but also abroad. It is a wonderful feeling to know that we create good architecture."

Jakub Baczyński – lead designer

Employees and work tools

Since PROCHEM began operations, people have been the most important source of its achievements and successes — it is the potential stemming from their professionalism and expertise that determines the consistently high position of the Company on the construction market. Some of the constant and greatest advantages of PROCHEM are its experienced personnel, the use of cutting-edge tools, and the flexibility of operations.

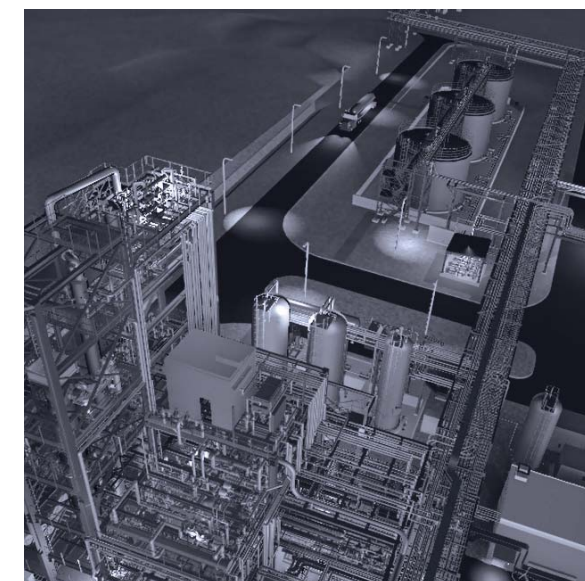
PROCHEM employs experienced and highly qualified engineering personnel specialising in different areas of design. We also employ a professional team of project engineers, supervision inspectors and other technical staff – necessary for the comprehensive handling of the entire investment execution process.

As a result of the downturn on the Polish investment market in 2016, companies operating on the construction market experienced problems with maintaining personnel stability. These difficulties also affected PROCHEM. The number of employees was adjusted to the current circumstances of the Company and reached 226 persons (average annual headcount).

EMPLOYMENT IN THE ENGINEERING DIVISION

The engineering division employs highly qualified professionals representing the following specialists:

- technological process,
- architecture,
- structure,
- mechanical systems (equipment),
- industrial piping systems,
- electrical systems,
- low voltage facilities,
- cost estimate preparation,
- instrumentation,
- roads,
- heating, ventilation and air-conditioning installations,
- gas systems,
- water supply, sewer and fire protection installation.



has developed a unique 3D modelling environment which combines the best features of standard spatial designing tools, such as PDMS, Revit or Bocad. Spatial models developed by PROCHEM are fully active in all sectors, and the integrated approach allows each specialist involved in the design process to have active access to information. Models designed by the Company also make it possible to apply the BIM concept at any stage of project execution, for instance cost control. Also, 3D model integration with scheduling of execution works is implemented more and more often.

EMPLOYMENT IN THE CONSTRUCTION OPERATIONS

As regards the construction operations, PROCHEM employs its own experienced engineering staff with relevant building

licenses to perform independent technical functions in the scope of management, supervision and control of construction works. It also has professional engineering personnel specialising in work related to the commissioning of industrial plants. Owing to the ongoing process of subcontractor and supplier assessment, the Company is able to meet the highest requirements of our Clients with regard to quality.

SPECIALIZED DESIGN TOOLS

The design documentation is developed by the Company using specialised software and professional design support systems.

Owing to the experience gained during the execution of many complicated and complex design projects, PROCHEM

PROCHEM S.A. Capital Group

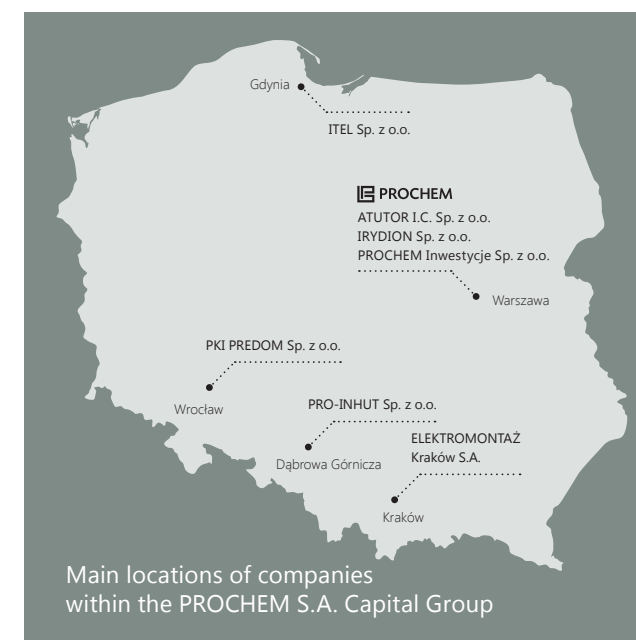
In 1996, PROCHEM began to build the Capital Group. Initially, it was assumed that the Group would be composed of several design companies. While striving to offer comprehensive services to its Clients and to provide more and more complex services that required significant input at the organisational level, the structure of the holding company was gradually modified and extended over 20 years. Currently, the Capital Group of PROCHEM S.A. comprises companies representing specialties and areas crucial for the full management of investment projects.

In 2016, there were no significant modifications in the Capital Group's structure which would have had an impact on its market position. The only change in that period was the sale by PROCHEM S.A. of all shares in Pro-Organika Sp. z o.o. The average number of employees in the companies of the PROCHEM Capital Group in 2016 was 447 persons.

SCOPE OF SERVICES PROVIDED BY COMPANIES BELONGING TO THE CAPITAL GROUP

Currently, the Capital Group of PROCHEM S.A. comprises 13 companies. The Capital Group includes companies responsible for property development projects, as well as companies specialising in other areas, to ensure comprehensive management of investment projects:

- engineering services and installations contracting,
- developer's services,
- other services (e.g. IT).



STRUCTURE OF COMPANIES WITHIN THE CAPITAL GROUP

Utilising the potential of the companies belonging to the same capital structure, PROCHEM S.A. is able to undertake large and the most complex investment projects.

The holding structure consistent with thematic groups of services provided by these companies and a brief descriptions of the companies belonging to the PROCHEM S.A. Capital Group are as follows:

- ELEKTROMONTAŻ KRAKÓW S.A. – assembly of electrical installations,
- Przedsiębiorstwo Konsultingowo-Inżynieryjne PREDOM Sp. z o.o. – design of industrial and public utility facilities, investment project supervision

- PRO-INHUT Sp. z o.o. – project management and investment project supervision,
- IRYDION Sp. z o.o. – developer's services,
- PROCHEM INWESTYCJE Sp. z o.o. – capital investments,
- PROCHEM RPI Sp. z o.o. – developer's services,
- ELPRO Sp. z o.o. – developer's services,
- ELMONT INWESTYCJE Sp. z o.o. – developer's services,
- IRYD Sp. z o.o. – developer's services,
- PROCHEM-ZACHÓD Sp. z o.o. – investment services,
- ATUTOR I.C. Sp. z o.o. – information systems management,
- ITEL Sp. z o.o. – design and implementation of relay stations and radio installations for telecommunication purpose,
- ELMONT-POMIARY Sp. z o.o. – assembly of electrical installations, start-up operations, performance of measurement works.

PROCHEM S.A. shares on the Warsaw Stock Exchange

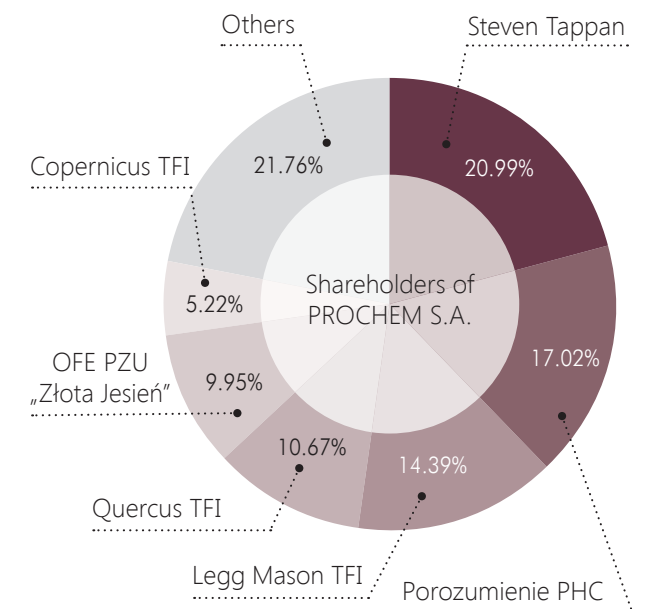
PROCHEM was the first engineering company and the 25th whose shares were publicly traded. The first public listing of PROCHEM's shares on the Warsaw Stock Exchange took place in June 1994. During subsequent years, the situation on the securities market as well as the Company's shareholders changed, as did the value of its shares. Consequently, more than 20 years in the trading game enabled the consistent building of a stable position of PROCHEM, as a credible and reliable company, on the engineering market.

Initially, the share capital of PROCHEM S.A. amounted to PLN 5,000,000. As a result of programmes of repurchase and redemption of own shares executed over subsequent years, the Company's share capital currently amounts to PLN 3,895,000. This represents 3,896,660 votes at the General Meeting of Shareholders and is divided into 3,895,000 shares with the nominal value of PLN 1 each.

SHAREHOLDERS

According to the information in the possession of PROCHEM S.A., some of the largest shareholders (holding significant blocks of Company shares, amounting to more than 5%), as at 21.04.2017, are:

- **Steven Tappan** – 817,500 shares, which represents 20.99% of the capital
- **Participants of "Porozumienie PHC"** – 662,849 shares, which represents 17.02% of the capital
- Funds managed by **Legg Mason Towarzystwo Funduszy Inwestycyjnych S.A.** – 560,549 shares, which represents 14.39% of the capital (of which: Legg Mason Parasol Fundusz Inwestycyjny Otwarty – 284,054 shares, which represents 7.29% and Legg Mason Akcji Skoncentrowany – 261,773 shares which represents 6.72% of the capital)
- Funds managed by **Quercus Towarzystwo Funduszy Inwestycyjnych S.A.** – 415,532 shares, which represents 10.67% of the capital (of which: Quercus Parasolowy SFIO – 221,266 shares, which represents 5.68% of the capital),
- **OFE PZU S.A. „Złota Jesień"** – 387,521 shares, which represents 9.95% of the capital
- Funds managed by **Copernicus Towarzystwo Funduszy Inwestycyjnych S.A.** – 203,455 shares, which represents 5.22% of the capital (of which: Value Fund Poland Activist FIZ – 203,455 shares, which represents 5.22% of the capital).



PROCHEM S.A. STOCK QUOTES

2016 was a year of economic slowdown in Poland. That time was especially difficult for the construction market. Most construction companies listed on the Warsaw Stock Exchange noted a downward trend. The lack of increase in public investment, an insufficient amount of private investment, with growing costs of operation and an emerging human resources crisis, resulted in a decrease in value of the WIG-Construction index of more than 2%. PROCHEM, with its 3% increase in share value, stood out against these downward trends.

Despite the slowdown in construction output, and the excessively slow deployment of large investments in 2016, the situation of listed companies at the start of the new year gives grounds for optimism. In the first months of 2017, the WIG-Construction index proved to be the growth leader at the WSE, with an increase in value of more than 25%. The companies hope that the coming months will stabilise the market situation and boost investments. This would give opportunities and prospects for engineering companies such as PROCHEM S.A. to use their full potential.



The change in the PROCHEM S.A. share price and WIG-Construction Industry index and WIG in 2016. The chart is based on the assumption that PROCHEM, WIG-Construction Index and WIG had the same value on 4th January 2016.

Financial statements

Opinion of the independent auditor



To the General Meeting of PROCHEM S.A.

Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of PROCHEM S.A., with its registered office in Warsaw, ul. Łopuszańska 95 ("the Company"), which comprise the separate statement of financial position as at 31 December 2016, the separate statement of profit and loss, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Separate Financial Statements

Management of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of 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 such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act"), Management of the Company and members of the Supervisory Board are required to ensure that the financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with section 7 of 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Company, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Opinion

In our opinion, the accompanying separate financial statements of PROCHEM S.A.:

- give a true and fair view of the separate financial position of the Company as at 31 December 2016 and of its separate financial performance and its separate cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;
- comply, in all material respects, with the applicable regulations and the provisions of the Company's separate articles of association that apply to the Company's separate financial statements; and
- have been prepared from accounting records, that, in all material respects, have been properly maintained.

Emphasis of Matter

Without qualifying our opinion, we draw attention to matters described in notes 9 and 40 to the attached separate financial statements. The PROCHEM S.A. has recognized receivables with respect to guarantee deposits from PERN S.A. with a carrying value of PLN 17.364 thousand, that are subject to court dispute related to final settlement of the construction contract "Rurociąg w relacji ST-1 Adamowo-Baza Surowca Plebanka". The ultimate outcome of dispute cannot presently be determined.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Company's Activities

Management of the Company is responsible for the report on the Company's activities.

Our opinion on the separate financial statements does not cover the report on the Company's activities.

As required by the Accounting Act, and 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 of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the accompanying report on the PROCHEM S.A.'s activities includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respects, with the separate financial statements. Furthermore, based on our knowledge about the Company and its environment obtained in the audit, we have not identified material misstatements in the report on the Company's activities.

As required by the Accounting Act and the Decree we report that the statement of corporate governance, which is a separate part of the report on the PROCHEM S.A.'s activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, g, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree, included in the statement of corporate governance, in all material respects:

- has been prepared in accordance with the applicable regulations; and
- is consistent with the information contained in the separate financial statements.

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

PROCHEM S.A. FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
ASSETS		
Non-current assets		
Property, plant and equipment	1 249	1 542
Intangible assets	310	414
Investment properties	246	-
Shares in subsidiaries	9 642	10 162
Shares in jointly controlled and associated entities	4 502	4 810
Deferred tax assets	5 054	1 834
Other financial assets	36 738	36 326
Total non-current assets	57 741	55 088
Current Assets		
Inventories	1 698	5 247
Trade and other receivables	38 042	68 856
Other financial assets	198	3 569
Other assets	4 757	7 671
Cash and cash equivalents	245	16 769
Total current assets	44 940	102 112
TOTAL ASSETS	102 681	157 200
EQUITY AND LIABILITIES		
Equity		
Share capital	3 895	3 895
Revaluation reserve	837	859
Retained earnings	48 727	78 521
Total equity	53 459	83 275
Non-current liabilities		
Provisions for retirement and similar benefits	539	715
Liabilities for non-current borrowings	7 002	-
Other non-current liabilities	14	14
Total non-current liabilities	7 555	729

PROCHEM S.A.

The full version of the separate financial statements together with explanatory notes, prepared as at and for the financial year ended 31 December 2016 is available on the Company's website www.prochem.com.pl

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
Current liabilities		
Current bank loans	7 303	9 024
Current borrowings	0	950
Trade payables	27 139	47 154
Liabilities for current income tax	0	1 361
Other liabilities	5 182	3 670
Deferred income	2 043	11 037
Total current liabilities	41 667	73 196
Total liabilities	49 222	73 925
TOTAL EQUITY AND LIABILITIES	102 681	157 200
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Book value per share (in PLN)	13.73	21.38

STATEMENT OF PROFIT AND LOSS

For the period from 1 January 2016 to 31 December 2016

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
Revenues from sales, including:	109 682	220 954
Revenues from sale of services	108 914	217 631
Revenues from sale of goods and materials	768	3 323
Cost of sales, including:	-126 107	-202 796
Cost of services sold	-125 348	-199 537
Cost of merchandise and raw materials	-759	-3 259
Gross profit (loss) on sales:	-16 425	18 158
General and administrative expenses	-9 303	-9 274
Other operating income	1 370	1 478
Other operating expenses	-1 895	-1 210
Results from operating activities	-26 253	9 152
Financial income	1 085	2 121
Profit on disposal of financial assets	492	-
Finance expenses	-2 137	-2 927
Profit (loss) before tax	-26 813	8 346
Income tax expense:	-3 212	2 133
– current tax	1	2 800
– deferred tax	-3 213	-667
Profit (loss) for the period	-23 601	6 213
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Profit (loss) per share (in PLN)	-6.06	1.60

STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January 2016 to 31 December 2016

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
Profit (loss) for the period	-23 601	6 213
Other comprehensive income, net	-22	-402
Other comprehensive income that will be reclassified to profit and loss under certain conditions	12	-385
Exchange differences from the conversion of the entity that operates abroad	12	-473
Income tax on other comprehensive income	0	88
Other comprehensive income that will not be reclassified to profit and loss	-34	-17
Revaluation of property, plant and equipment	10	-
Actuarial losses on valuation of provisions for employee benefits	-52	-21
Income tax on other comprehensive income	8	4
Total comprehensive income	-23 623	5 811
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Total comprehensive income per ordinary share (in PLN)	-6.06	1.49

STATEMENT OF CASH FLOWS

For the period from 1 January 2016 to 31 December 2016

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
Cash flows – operating activities		
Profit (loss) before tax	-26 813	8 346
Total adjustments :	14 149	2 138
Amortization and depreciation	876	1 015
Interest and profit sharing (dividends)	-321	-1 305
Profit on disposal of property, plant and equipment	-57	-14
Loss on investment activities	823	-
Profit on disposal of financial assets	-492	-
Change in provisions	134	94
Change in inventories	3 549	-2 760
Change in receivables	33 913	-12 185
Change in current liabilities, except for loans and borrowings	-17 920	21 171
Other adjustments	-6 356	-3 878
Cash provided by (used in) operating activities	-12 664	10 484
Income tax paid	-1 360	-2 333
Net cash provided by (used in) operating activities	-14 024	8 151

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
Cash flows – investing activities		
Inflows	730	8 884
Disposal of intangible assets and property, plant and equipment	105	17
Inflows from financial assets in related entities including:	625	8 867
– inflows from sale of financial assets	285	-
– dividend received	65	1 003
– repayment of loans granted	-	6 558
– repayment of interest on loans granted	275	1 306
Outflows	-937	-911
Acquisition of intangible assets and property, plant and equipment	-937	-871
For financial assets in related entities, including:	-	-120
– loans granted	-	-120
Net cash provided by (used in) investing activities	-207	7 893
Cash flows – financing activities		
Inflows	6 000	9 018
Proceeds from credits received	-	9 000
Proceeds from borrowings received	6 000	-
Other financial proceeds	-	18
Outflows	-8 293	-11 255
Dividend paid	-6 187	-1 363
Repayments of bank loans	-1 721	-9 423
Interest	-385	-469
Net cash provided by (used in) financing activities	-2 293	-2 237
Total cash flow, net	-16 524	13 807
Net increase/(decrease) in cash and cash equivalents	-16 524	13 807
Cash and cash equivalents at the beginning of the period	16 769	2 962
Cash and cash equivalents at the end of the period	245	16 769

PROCHEM S.A. CAPITAL GROUP FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
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ASSETS

Non-current assets

Property, plant and equipment	22 713	23 814
Intangible assets	391	508
Investment properties	12 750	11 960
Shares and stocks	830	830
Shares valued using equity method	22 678	24 000
Deferred tax assets	5 879	2 716
Other financial assets	18 334	17 955
Total non-current assets	83 575	81 783

Current Assets

Inventories	4 865	7 071
Trade and other receivables	56 652	83 991
Other financial assets	198	2 799
Other assets	11 135	15 197
Cash and cash equivalents	3 783	23 595
Total current assets	76 633	132 653
TOTAL ASSETS	160 208	214 436

EQUITY AND LIABILITIES

Equity

Share capital	3 895	3 895
Revaluation reserve	12 146	11 584
Retained earnings	72 542	100 878
Parent entity's equity	88 583	116 357
Minority interest	6 448	8 738
Total equity	95 031	125 095

Non-current liabilities

Non-current bank loans	299	-
Provision for deferred income tax	2 348	2 883
Provisions for retirement and similar benefits	1 755	1 854
Other non-current liabilities	324	416
Total non-current liabilities	4 726	5 153

PROCHEM S.A. Capital Group

The full version of the consolidated financial statements together with explanatory notes, prepared as at and for the financial year ended 31 December 2016 is available on the Company's website www.prochem.com.pl

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
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Current liabilities

Current bank loans	10 400	11 772
Trade payables	39 525	51 451
Liabilities under current income tax	55	1 447
Other liabilities	8 086	8 142
Deferred income	2 385	11 376
Total current liabilities	60 451	84 188
Total liabilities	65 177	89 341
TOTAL EQUITY AND LIABILITIES	160 208	214 436

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the period from 1 January 2016 to 31 December 2016

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
Revenues from sales, including:	169 214	266 443
Revenues from sale of services	162 927	257 799
Revenue from sale of goods and materials	6 287	8 644
Cost of sales, including:	-177 707	-241 214
Cost of services sold	-172 593	-233 573
Cost of merchandise and raw materials	-5 114	-7 641
Gross profit (loss) on sales	-8 493	25 229
General and administrative expenses	-15 194	-15 574
Other operating income	2 022	1 533
Other operating expenses	-2 068	-1 636
Results from operating activities	-23 733	9 552
Financial income	921	961
Profit on disposal of shares in subsidiaries	-154	190
Finance expenses	-1 883	-2 860
Profit sharing in entities valued using equity method	-1 110	-1 136
Profit (loss) before tax	-25 959	6 707
Income tax expense:	-2 815	2 553
– current tax	878	2 954
– deferred tax	-3 693	-401
Profit (loss) for the period	-23 144	4 154
Profit (loss) for the period assigned to:		
Shareholders of parent entities	-23 332	4 432
Non controlling interest	188	-278
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Profit (loss) per one share assigned to shareholders of parent entity (in PLN)	-5.99	1.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January 2016 to 31 December 2016

	2016 current year in PLN thousands	2015 preceding year in PLN thousands
Profit (loss) for the period	-23 144	4 154
Other comprehensive income, net	-46	-411
Other comprehensive income that will be reclassified to profit and loss under certain conditions	12	-385
Exchange differences from the conversion of the entity that operates abroad	12	-385
Other comprehensive income, that will not be reclassified to profit and loss	-58	-26
Revaluation of property, plant and equipment	10	9
Actuarial losses on valuation of provisions for employee benefits	-76	-39
Income tax on other comprehensive income	8	4
Total comprehensive income	-23 190	3 743
Total comprehensive income attributable to:		
Shareholders of parent entity	-23 380	4 023
Minority interest	190	-280
Weighted average number of ordinary shares (units)	3 895 000	3 895 000
Total comprehensive income per ordinary share assigned to shareholders of parent entity (in PLN)	-6.00	1.03