

2017

FINANCIAL STATEMENTS
AND REPORT OF THE
BOARD OF DIRECTORS

 **forchem**
RESPOL GROUP



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*Official audited financial statements and report of the Board of Directors are only in Finnish, this is a translation based on the official financial statements and the official report of the Board of Directors

REPORT OF THE BOARD OF DIRECTORS OF FORCHEM PLC 2017

Forchem is one of the leading bio-refineries in Europe. Forchem produces high quality chemical products of tall oil, collected as the by-product of kraft pulping process. Products, such as bio-distillates, tall oil rosin and other special chemicals are commonly used in chemical- and feed industries. Forchem's refinery started operations in Rauma in 2002, and the current capacity after the completion of the investments in autumn 2016 is 200 000 tonnes of CTO feed.

All shares in the company are held by Respol Lux S.A. domiciled in Luxembourg and that is part of Respol Group (Portugal).

Due to the merger in 2016, 2017 figures of the parent company are not comparable to 2016 figures.

NET SALES AND RESULT 1000 Eur	2017	2016	2015
Net sales in parent company (FAS)	126 582	69 269	0
Result in parent company (FAS)	8 602	5 263	1 652
Net sales in Group (IFRS)	126 582	109 395	132 669
Result in Group (IFRS)	12 850	10 851	14 033
Operating profit in Group (IFRS)	19 713	17 568	22 341

KEY RATIOS	2017	2016	2015
Group			
Equity ratio %	43,7	38,1	40,6
ROI %	12,4	11,0	16,7
ROE %	19,6	17,0	22,9
Net gearing %	39,1	102,0	79,7
Gearing %	86,9	121,8	106,6
Parent			
Equity ratio %	35,1	29,9	42,9

CAPITAL EXPENDITURE 1000 Eur	2017	2016	2015
In Parent company	1 503	1 950	0
In Group	1 503	2 509	3 445

Research and development (R&D)

Group's R&D activities focus on development of production processes, new products and intermediate products. Own resources have been reinforced by networking in the area of specialty chemicals, and through recruiting. 279 k€ research and development expenditures are treated as expenses during the accounting period.

EMPLOYEES AND WAGES AND SALARIES PAID	2017	2016	2015
Employees in parent company at 31 Dec	44	40	0
Employees in parent company, average	42	26	0
Employees in Group, at 31 Dec	50	46	45
Employees in Group, average	48	48	45
Wages and salaries, parent company, k€	3 022	2 050	0
Wages and salaries, Group, k€	3 732	3 696	3 464

GROUP STRUCTURE AS AT 31 DECEMBER 2017

Forchem Plc (parent company)	Finland	
Forchem SARL	France	100 %
Forchem Ltd	the UK	100 %
Forchem GmbH	Germany	100 %

CORPORATE GOVERNANCE STATEMENT

The information regarding the corporate governance statement as referred to in the Decree of the Ministry of Finance on the obligation of securities issuers to disclose periodic information (20.12.2012/1020) is given herein as a part of the report of the Board of Directors.

Description of Internal Control Procedures and the Main Features of Risk Management Systems

Internal control

Forchem Plc seeks to mitigate any potential conflicts arising from the concentrated ownership of the company through transparent operations and internal control. The aim of the internal risk management system of Forchem Plc is to efficiently secure the operations and objectives of the company.

Financial reporting

The objective of internal control and risk management systems regarding financial reporting is to ensure that financial reports issued by the company present a true and fair view of the financial situation of Forchem Plc. Changes in the global economy significantly affects the business environment and operations of the company. Risk identification and assessment is continuous and seeks to take into account the challenges in the developing business environment. The bond issued in 2015 includes a financial covenant, the breach of which might lead to acceleration of the bond, thereby endangering the financing of the company. The financial covenant is calculated based on the ratio of the company's net debt to EBITDA. The management of the company continuously evaluates and monitors the company's funding position in order to take the

actions necessary to minimize any uncertainty or risk in respect of the company's financial performance or operation without delay. Forchem Plc's financial risks are presented in more detail in note 27 to the financial statements.

Descriptions Concerning Management of the Company

In its decision making and administration, the company complies with the Finnish Limited Liability Companies Act and other provisions governing public limited companies, the articles of association of Forchem Plc, and the insider guidelines of Nasdaq Helsinki Ltd. In accordance with the Finnish Limited Liability Companies Act, the Board of Directors appointed by the shareholder(s) at a shareholders' meeting, are responsible for the administration of the company and the appropriate organization of its operations. The Board of Directors shall appoint the Chief Executive Officer, whom the Management Team shall assist. The company has no appointed committees.

The Board of Directors

In accordance with the articles of association, the Company's Board of Directors shall consist of 1 to 6 regular members. The Board of Directors shall appoint a chairperson and a vice-chairperson amongst themselves. During the financial year 2017, the Board of Directors of Forchem Plc consisted of the following persons:

Manuel Costa (born 1937), Chairman and a member of the Board of Directors of Forchem Plc

Rui Brogueira (born 1976), member of the Board of Directors of Forchem Plc

João Reis (born 1969), member of the Board of Directors of Forchem Plc

Pedro Carvalho (born 1976), member of the Board of Directors of Forchem Plc

The Board of Directors shall see to the administration of the company and the appropriate organization of its operations, and shall be responsible for the appropriate arrangement of the control of the company's accounts and finances, guide and supervise the operative management, appoint and dismiss the Chief Executive Officer, approve the strategic objectives of the company and the principles for internal risk management and revise the feasibility of the management system.

The Board of Directors shall see to the operations of the company to fulfill the values in accordance to which the company has committed to conduct its business. The Chairperson shall direct the work of the Board of Directors for the most efficient and effective management of the duties of the Board of Directors. The Board of Directors reviews its operational functions annually.

The meeting shall constitute a quorum when the majority of the members of the Board of Directors are present. The opinion of the majority shall constitute the decision of the Board of Directors. In the event of a tie, the Chairperson shall have the casting vote.

Chief Executive Officer

During the financial year 2017, **Risto Näsi** has been the Chief Executive Officer.

The Chief Executive Officer shall see to the executive management of the company in accordance with the instructions and orders given by the Board of Directors and that the accounts of the company are in compliance with applicable law and the finances have been arranged in a reliable manner.

The Management Team

Risto Näsi (born 1957), Chief Executive Officer

Henrik Lindegren (born 1988), Finance and Accounting

Olli Mähönen (born 1961), Sales

Timo Saarenko (born 1967), Production

Jukka Ravaska (born 1966), Supply Chain and Sourcing

The Management Team is responsible for the day-to-day business, sets operative objectives and monitors the realization thereof. The Management Team reports to the Board of Directors on any detected risks and on the development of the business. The Management Team has no formal position as per the Finnish Limited Liability Companies Act.

Insider Guidelines

The insider guidelines of Forchem Plc are established in adherence to applicable Finnish and EU legislation (in particular the Market Abuse Regulation 596/2014, "MAR"), on the orders and guidelines given by the authorities and the insider guidelines of Nasdaq Helsinki Ltd. Persons acting in the administration and management of the company and their closely associated persons shall report to the company and the Financial Supervisory Authority any business transactions regarding any financial instrument of the company. The members of the Board of Directors, the Chief Executive Officer and the members of the Management Team are considered as persons acting in the administration and management of the company. Forchem Plc maintains a list of persons with access to insider information in accordance with applicable law.

Auditors

KPMG Oy Ab, Authorized Public Accountants is the company's auditor, and the responsible auditor is Juha-Pekka Mylén, Authorized Public Accountant (APA).

Shares and acquisition of own shares

The share capital of the company comprises 1,000 shares. There are no share-related provisions in the company's Articles of Association. The company has not acquired its own shares.

Environment

The company takes systematically care about the environment and aims to use solutions that reduce the burden on the environment.

The company has a valid environmental permit.

Material events during the financial year

Demand for all the products has been robust during the financial year and group's revenue has increased mainly due to the increase in sales quantities. Instead, the price of raw-materials has slightly depressed the refining margin. Compared to the previous financial year group's revenue has increased 16 % and operating profit 12 %, but relative EBITDA-margin has decreased from 21 % to 20 %.

Events after the end of the financial year

There are no other such events (between the end of the financial year and the date when the financial statements and the report of the Board of Directors have been signed) that would affect the company's profitability or financial position.

Future outlook

Crude oil price has trended upwards during past two years. The dynamics of crude oil price affects both raw material prices and a relevant portion of end products price, providing a base for a steady margin. The company has been able to manage these cycles with a satisfactory stability and believes that will be capable to maintain that performance in the future.

In the past the European Union had classified the use of CTO as a waste and enabled it with a taxation which favored other uses for this raw material. This regulation is now under review and a reclassification would in fact improve the outlook for the industry of CTO fractionation.

The demand for Forchem's products is expected to continue robust. Company continues to develop the business by means of new innovations, new products and co-operation in sales and sourcing. The net sales are expected to remain at current level and no major changes are anticipated for relative profitability and EBITDA.

Risks and uncertainties

The company's business environment is significantly affected by the development of the global economy. Main parameters are price of mineral oil, dollar/euro exchange rate, and price development of substitute Gum Rosins and vegetable oils.

The raw material used by the company, CTO, is sourced from the forest (pulp) industry, which has pressure to develop new sources of income from side products, and residual biomass from logging. There is some uncertainty, as the recent classifications and changes in tax treatment may affect the pricing and availability of raw material, if the use of CTO in biofuels increases drastically.

The bond that Forchem issued in 2015 includes a covenant that may lead to premature acceleration of the bond, if breached. The covenant is related to the ratio of net interest bearing debt to EBITDA (earnings before interests, taxes, depreciation and amortization).

Concerning certain product groups, dependence on single customers has increased. This naturally increases the business risk because losing a key customer may lead to decrease in sales and profitability.

The company has insurances for damages for property, operations and personal injury.

Board of Directors' proposal for profit distribution

The parent company's result for the financial year amounted to 8.602.459,76 euro. The Board of Directors is proposing that entire result for the financial year be allocated to retained earnings and no dividend be paid.

CONSOLIDATED FINANCIAL STATEMENT (IFRS)

CONSOLIDATED STATEMENT OF INCOME, IFRS 1000 EUR	Note	2017	2016
REVENUE	5	126 582	109 395
Other operating income	6	49	117
Materials and services	18	-93 867	-78 742
Employee benefits expenses	7	-4 723	-4 641
Depreciation, amortization and impairment losses	8	-5 237	-5 539
Other operating expenses	9, 10	-3 092	-3 021
OPERATING PROFIT (LOSS)		19 713	17 568
Financial income	11	73	122
Financial expenses	11	-3 715	-4 275
PROFIT (LOSS) BEFORE TAX		16 070	13 415
Income tax expense	12	-3 220	-2 564
PROFIT (LOSS) FOR THE FINANCIAL YEAR		12 850	10 851
Profit attributable to:			
Owners of the company		12 850	10 851
		12 850	10 851

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 000 EUR		Note	2017	2016
PROFIT (LOSS) FOR THE FINANCIAL YEAR			12 850	10 851
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit liability	24		-95	-97
Related tax	12		19	19
Items that are or may be reclassified subsequently to profit or loss				
Translation differences			0	0
Related tax			0	0
Other comprehensive income after tax			-76	-78
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR			12 774	10 774
Total comprehensive income attributable to:				
Owners of the company			12 774	10 774
			12 774	10 774
Earnings per share based on profit attributable to owners of the company				
Basic earnings per share (EUR)	13		12 850	10 851
Diluted earnings per share (EUR)	13		12 850	10 851

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, IFRS		1 000 EUR	Note	31 Dec 2017	31 Dec 2016
ASSETS					
Property, plant and equipment	14			42 318	45 476
Goodwill	15, 16			48 522	48 522
Other intangible assets	15			669	856
Deferred tax assets	17			479	1 982
Non-current assets				91 987	96 836
Inventories	18			11 325	18 577
Trade and other receivables	19, 22			34 046	28 803
Cash and cash equivalents	20			26 938	10 664
Current assets				72 309	58 044
TOTAL ASSETS				164 296	154 880
EQUITY					
Share capital	21			80	80
Reserve for invested non-restricted equity	21			30 853	30 853
Translation differences				0	2
Retained earnings				40 925	28 150
Equity attributable to owners of the company				71 858	59 084
TOTAL EQUITY				71 858	59 084
LIABILITIES					
Bond loan	22, 23			53 949	58 501
Pension liability	24			522	305
Finance lease liability	23			2 061	2 986
Other non-current liabilities	23			28	4 061
Provisions	25			1 307	1 295
Deferred tax liabilities	17			5 289	5 393
Non-current liabilities				63 156	72 541
Bond loan	22, 23			5 000	5 000
Finance lease liability	23			1 385	1 406
Trade and other payables	26, 22			22 734	16 849
Current tax liabilities	10			164	0
CURRENT LIABILITIES				29 283	23 255
Total liabilities				92 438	95 796
Total equity and liabilities				164 296	154 880

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, IFRS 1 000 EUR	Note	Share capital	Reserve for invested non-restricted equity	Translation differences	Retained earnings	Total equity
Attributable to owners of the company						
EQUITY AT 1 JAN 2016	21	3	50 930	-1	17 379	68 311
Total comprehensive income						
Profit (loss) for the financial year		0	0	0	10 851	10 851
Other comprehensive income (adjusted with tax impact)				0	-78	-78
		0	0	0	10 774	10 774
Transactions with owners of the company						
Dividends		0	0	0	0	0
Change in share capital		78	0	0	0	78
Change in reserve for invested non-restricted equity		0	-20 078	0	0	-20 078
		78	-20 078	0	0	-20 000
EQUITY AT 31 DEC 2016		80	30 853	2	28 150	59 084
EQUITY AT 1 JAN 2017						
EQUITY AT 1 JAN 2017	21	80	30 853	2	28 150	59 084
Total comprehensive income						
Profit (loss) for the financial year		0	0	0	12 850	12 850
Other comprehensive income (adjusted with tax impact)				0	-76	-76
		0	0	0	12 774	12 774
Transactions with owners of the company						
Dividends		0	0	0	0	0
Change in share capital		0	0	0	0	0
Change in reserve for invested non-restricted equity		0	0	0	0	0
		0	0	0	0	0
EQUITY AT 31 DEC 2017		80	30 853	2	40 924	71 858

CONSOLIDATED STATEMENT OF CASH FLOW, IFRS 1 000 EUR	Note	2017	2016
Cash flows from operating activities			
Profit (loss) for the financial year		12 850	10 851
Adjustments for			
<i>Non-cash transactions</i>			
Depreciations, amortization and impairment losses		5 237	5 539
Employee benefits		118	-5
Change in provisions		13	12
Other		-7	-4
Interests and other financial expenses		3 715	4 275
Interest income		-73	-122
Tax expense		3 220	2 564
		12 223	12 259
Changes in working capital			
Increase (-) / decrease (+) of trade and other receivables		1 197	-3 230
Increase (-) / decrease (+) of inventories		7 312	941
Increase (+) / decrease (-) of trade and other payables		7 373	-2 951
		15 882	-5 239
Interest paid		-3 763	-3 430
Interest received		32	98
Income taxes paid		-1 638	-1 670
Net cash from operating activities		35 586	12 868
Cash flows from investing activities			
Acquisition of property, plant and equipment		-1 493	-2 162
Acquisition of intangible assets		-10	-346
Repayment of loan receivables from group companies		5 000	8 000
Loans granted to group companies		-11 400	-1 000
Net cash used in investing activities		-7 903	4 492
Cash flows from financing activities			
	23		
Repayments of bond loan		-4 999	-4 999
Repayments of I-G loans		-5 015	-7 000
Repayments of finance lease liabilities		-1 395	-1 479
Net cash from financing activities		-11 409	-13 478
Net increase (+) / decrease (-) in cash and cash equivalents			
		16 274	3 882
Cash and cash equivalents at the beginning of the financial year	20	10 664	6 782
Cash and cash equivalents at the end of the financial year	20	26 938	10 664

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Forchem is one of the leading bio-refineries in Europe. Forchem produces high quality chemical products of tall oil, collected as the co-product of kraft pulping process. Products, such as bio-distillates, tall oil rosin and other special chemicals are commonly used in chemical- and feed industries. Forchem's refinery started operations in Rauma in 2002, and the current capacity is 200 000 tonnes of CTO feed.

Forchem Plc is a Finnish limited company whose registered office is in Rauma, Finland. The financial statements are available at the company's Head Office. Company's registered address is Maanpääntie 3, 26820 Rauma, Finland. Forchem Plc is part of Respol Group (Portugal).

In a meeting held at 26.4.2018 Forchem Plc's Board of Directors has approved the financial statements to be published. According to Finnish Limited Liability Companies Act the next annual general meeting may approve or dismiss the financial statements. The annual general meeting may also decide to change the financial statements.

2. BASIS OF ACCOUNTING

The consolidated financial statements of Forchem Plc are prepared in accordance with the International Financial Reporting Standards (IFRS).

During the financial year 2016 Forchem Oy (business id: 2084385-7) merged into Respol

Finland Oy (business id 2512058-6), which assumed all the assets and liabilities as well as obligations and rights of the merging company. The registration of the implementation of the merger was completed on 30 April 2016. At the same time, the company name of Respol Finland Oy changed to Forchem Oy and on 6 May 2016 the company name changed to Forchem Plc. Because it is a merger inside the group, it has no effect on the figures of the consolidated financial statements of the group but the 2017 figures of the parent company are not comparable to 2016 figures.

The financial statements are prepared in accordance with all the IAS and IFRS standards and the SIC and IFRIC interpretations related to Forchem Plc's Group business activities that were valid on 31 December 2016. International Financial Reporting Standards refer to the standards and their interpretations that are adopted to be applied in the EU in accordance with the procedure prescribed in the EU's regulation (EC) No 1606/2002 of the European Parliament and the Council of Europe and embodied in the Finnish accounting legislation and the statutes enacted under it.

The notes to the consolidated financial statements are also in accordance with the Finnish accounting and company legislation.

The consolidated financial statements are presented in thousands of euros unless otherwise

stated. Due to rounding the sum of individual figures may differ from the totals.

The consolidated financial statements are prepared under the historical cost convention unless stated otherwise.

3. USE OF JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTIES

The preparation of the consolidated financial statements in conformity with IFRS requires estimates and assumptions from management and judgement related to the application of the accounting principles. Even though these estimates are based on the management's best understanding of the present business and other events, the actual results may differ from the estimates. The Group reviews on an ongoing basis the realization of estimates and assumptions and changes within underlying assumptions.

Those future assumptions and uncertainties related to estimates at the balance sheet date that have a significant risk of resulting in a material adjustment in the reported amounts of assets and liabilities are included below. Management of the Group has considered these financial statement areas to be most significant as they require using most estimates and assumptions, in addition effect of possible changes are considered to be the significant.

Judgement in selection and applying accounting policies

Most significant area where management has used judgement relates to classification of lease agreements. Tank agreements have been classified as finance leases as those lease arrangements transfer significant risks and rewards to the Group. Book value of leased property, plant and equipment amount to 3.2 million euros in

2017 (4.2 million euros in 2016). Further details are presented in the note 23.

Estimates of future business development and other questions related to the impairment testing

Goodwill is tested annually for possible impairment, in addition to assessment for indicators that indicate impairment as later in accounting policies described. The Group forms one cash generating unit. The recoverable amounts are defined by calculations based on value in use. These calculations require using of estimates. Goodwill amounts to 48.5 million euros in 2017 (48.5 million in 2016). No impairment has been recorded during financial year or comparative year.

Further details are presented in the note 16.

Assumptions made when estimating provisions

Provisions for present obligations require management to assess the best estimate of the expenditure needed to settle the present obligations at the end of reporting period. The actual amount and timing of the expenditure might differ from estimates made. Restoration provision for the factory area amounted to 1.3 million euros in 2017 (1.3 million euros in 2016).

Further details are presented in the note 25.

Amortisation / depreciation periods of intangible assets and property, plant and equipment

Useful life for an asset and selected depreciation method are based on best estimate of the management. Estimates are changed when needed.

Further details are presented later in the accounting policies.

4. CONSOLIDATION PRINCIPLES

The consolidated financial statements include the parent company Forchem Plc and all subsidiaries that are either directly or indirectly subject to control of the Group's parent company. Control exists when the Group, as a result of its involvement with a company, is exposed to the company's variable return or is entitled to its variable return, and the Group has the ability to affect the amount of the returns through its power over the company. The Group's control is based on voting rights. The Group's share of ownership in all the subsidiaries is 100 percent. The consolidated financial statements are prepared using the acquisition method, under which the company's assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. A subsidiary is consolidated from the acquisition date until the date when control of the parent company over the subsidiary ceases.

The Group's internal transactions, receivables and liabilities and internal margins and the Group's internal distribution of dividends are eliminated. Internal losses are not eliminated if they are due to impairment.

New and amended standards applied in financial year ended

Forchem Group has applied as from 1 January 2017 the following new and amended standards that have come into effect.

- ***Amendments to IAS 7 Disclosure Initiative (effective for financial years beginning on or after 1 January 2017):*** The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Due to the amendment a reconciliation of liabilities from financing activities has been added into the note 23.

- ***Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (effective for financial years beginning on or after 1 January 2017):*** The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments have had no impact on Forchem's consolidated financial statements.

- ***Amendments to IFRS 12*, Annual Improvements to IFRSs (2014-2016 cycle) (effective for financial years beginning on or after 1 January 2017):*** The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments have had no impact on Forchem's consolidated financial statements.

FOREIGN CURRENCY TRANSACTIONS

The consolidated financial statements are presented in euro, which is Forchem Plc's functional currency.

The foreign currency transactions are translated to euros at the exchange rates at the transaction date. The foreign currency receivables and liabilities are translated to euros at the exchange rates at the balance sheet date. The exchange rate gains and losses due to the translation of the foreign currency assets and liabilities are presented as items affecting the operating profit of the consolidated financial statements for the part of the items related to the business activities and for the financial items in the financial income and expenses of the consolidated financial statements.

The statements of comprehensive income of those Group's subsidiaries that use other currency than the euro as their functional currency are translated to euros at the average exchange rate of the financial year. The balance sheets of these companies are translated to euros at the exchange rate at the balance sheet date. The difference of the profits of the financial year between consolidated profit or loss and balance sheet arising in consolidation is recognised in other comprehensive income. Translation differences that arise from elimination of the assets of the acquired foreign subsidiaries are also recognised in other comprehensive income.

REVENUE RECOGNITION

Revenue from the sale of goods is recognised to the buyer according to the delivery terms, the amount of revenue can be measured reliably and it is probable that the economic benefits will flow to the Group. Revenue of the Group consist only of the sale of goods. The fair value of the consideration received or receivable is presented as net sales, stated net of discounts given, indirect taxes and other taxes determined directly on the basis of sales. The Group applies as delivery terms following Incoterms 2010: DAP (Delivered at place), FCA (Free Carrier) and CIF (Cost, Insurance and Freight).

SEGMENT REPORTING

The operative segments have been defined based on internal reports that are used by the highest operative decision maker of the Group. The highest decision maker of the Group is Managing Director and the Board of the Directors that are responsible for allocating the resources and evaluation of effectiveness. Forchem has one reportable segment.

EMPLOYEE BENEFITS

Employee benefits include short-term employee benefits, termination benefits, post-employment benefits and other long-term benefits.

Short-term employee benefits

Short-term employee benefits include following: wages and fringe benefits, paid annual leave and bonuses.

Pension liabilities

The Group companies have covered their pension liabilities in accordance with the local circumstances and practices. The Group's pension arrangements are defined contribution plans except for one defined benefit plan in Finland. The payments to the defined contribution plans are recognised in profit or loss as the expense of the financial year that they relate to.

The defined benefit pension liabilities are recognised in the balance sheet based on the actuarial calculations. These actuarial calculations are prepared based on the projected unit credit method. The costs of the defined benefit pension plans are recognised in profit or loss over the expected term of service of the related employees. Actuarial gains and losses are recognised in other comprehensive income.

BORROWING COSTS

Borrowing costs that are directly attributable to the construction of a qualifying asset (an asset that necessarily takes a substantial period of time to get ready) are capitalised as a part of the cost of that asset. Other interests and other costs related to interest-bearing liabilities are recognised in profit or loss on an accrual basis. The directly attributable financial charges of the loans drawn down from financial institutions that are allocable to individual loans, are deducted from the original loan amount and amortised as financing costs using the effective interest method.

OPERATING PROFIT

Operating profit consists of net sales and other operating income, from which the costs of materials and services, employee benefits, other operating expenses, as well as depreciation, amortisation and impairment losses are deducted. The exchange rate differences relating to the working capital items are included in operating profit.

INCOME TAXES

Income taxes consist of taxes based on the taxable income of the financial year (current tax), adjustments related to the previous financial years and deferred taxes. The income tax based on the taxable income of the financial year, recognised in profit or loss of the financial year, is the sum of all the Group companies' income taxes, which are calculated according to the enacted tax rate of each Group company's country of operation.

A deferred tax liability is recognized for all taxable temporary differences, except for the initial recognition of goodwill. Deferred tax liabilities are neither recognised for the subsidiaries' retained earnings unless it is probable that the temporary differences will realize in the foreseeable future.

Deferred tax assets are recognised, if it is probable that there will be taxable income in future, against which the temporary differences can be utilised.

Deferred taxes are determined on the basis of the enacted local tax rates on the balance sheet date. The income tax and changes in deferred taxes related to the items recognised in other comprehensive income are recognised in other comprehensive income.

GOODWILL AND OTHER INTANGIBLE ASSETS**Goodwill**

Goodwill is the excess of the cost of an acquisition

over the fair value of the Group's share of net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill represents the payment made by the acquirer to obtain future economic benefits that cannot be identified and recognised as separate assets. Group has only one cash generating unit.

Goodwill is not amortised but the recoverable amount and potential impairment are estimated annually or more often if indications exist. Goodwill is measured at original cost less amortisations. Goodwill impairment testing is further described in paragraph "Impairment and impairment testing".

Other intangible assets

An intangible asset is recognised only if it is probable that the company will receive future economic benefit from it and its cost can be reliably determined.

Other intangible assets consist of IT software licences which are carried at historical cost less accumulated amortisation. The historical cost includes the direct costs incurred from the purchase of the asset.

Development expenditures meeting the criteria set under IAS 38 are capitalised, other research and development costs are recognised in profit or loss as incurred.

Other intangible assets, with finite useful lives, are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

- IT software licenses and interfaces between IT systems 3 - 5 years

The useful lives and amortisation methods are reviewed at the end of each financial year and they are adjusted, if necessary. Group has no intangible assets with unlimited useful life.

Gains on sale of intangible assets are recognised as other operating income and losses are recognised as other operating expenses.

PROPERTY, PLANT AND EQUIPMENT

An item of property, plant and equipment is recognised only when it is probable that the Group will receive future economic benefits from it and its cost can be reliably determined.

Property, plant and equipment purchased by the Group companies are measured at historical cost less accumulated depreciation and impairment losses. Cost includes all expenditure that relate to preparing an asset for its intended use. In addition to the direct costs, the historical cost also includes other costs, for example transport and installation costs. Borrowing costs related to building of the factory have been capitalized as a part of the acquisition cost of the investment and are depreciated during the useful life of the property.

Spare parts are accounted for as property, plant and equipment, in the case they are intended to be used over more than one period.

Subsequent costs are capitalised to the book value of an asset only if it is probable that they will generate more future economic benefits compared with the situation prevailing previously. In another case they are expensed.

Property, plant and equipment are depreciated using the straight-line method over their useful lives. Land areas are not depreciated. The used depreciation methods and useful lives by asset categories are as follows:

Buildings, constructions, distillation columns	35-40 years
Tanks	30 years
Boiler plants	20 years
Cooling towers, process equipment	15 years
Machinery, equipment and devices	3-20 years

The useful lives and depreciation methods are reviewed at the end of each financial year and they are adjusted, if necessary. Depreciation continues until an asset is classified as held for sale according to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Gains and losses on sale of property, plant and equipment are recognised in profit or loss; gains as other operating income and losses as other operating expenses.

IMPAIRMENT AND IMPAIRMENT TESTING

Goodwill is tested for impairment annually. Impairment testing of goodwill is performed on the lowest level of cash-generating units, to which assets and liabilities can reasonably be allocated and which produces identifiable cash flows. Group constitutes of one cash generating unit.

In addition to annual impairment testing the company follows internal and external indications that may indicate impairment of assets or goodwill. If internal or external indications of impairment are identified, company performs impairment testing by estimating the recoverable amount of an asset or cash generating unit.

The recoverable amount of a non-current asset is the higher of its fair value less costs of disposal and its value in use. The value in use is determined by discounting the expected future cash flows generated by the asset.

If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised. Impairment losses are recognised in profit or loss. The recognised impairment loss is

reversed only, if the circumstances change so that the impairment loss is not justified any more. The impairment losses cannot be reversed over the value that the asset would have had if no impairment loss had been recognized. An impairment loss on goodwill cannot be reversed.

LEASES

Leases of non-current tangible assets are classified as financial leases, if the risks and rewards of ownership are substantially transferred to a lessee. Tank agreements have been classified to be finance lease agreements.

Assets acquired under finance leases are recognised in the balance sheet at the commencement of the lease term at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The paid rents are apportioned between the reduction of the outstanding finance lease liability and the interest costs.

The finance lease liability is included in the interest-bearing liabilities. Assets acquired under finance leases are depreciated over their useful lives in accordance with the depreciation principles applied to similar assets.

Leases in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Costs of operating leases are recognised evenly in profit or loss during the rent period.

INVENTORIES

The measurement of raw materials and consumables as well as finished products/goods is based on standard cost. The standard cost of raw materials is adjusted to equal the weighted average price of the latest purchases regarding

the amounts remaining in inventory, through the so-called FIFO adjustment.

Finished products/goods are carried at the lower of standard cost and expected net realizable value. The net realizable value is an estimated selling price of which sales costs have been deducted in ordinary course of business. The standard cost of finished products includes the standard cost of raw materials and other direct costs that are incurred in processing the goods into the current form and location. The standard cost of finished products includes also a portion of the fixed production overheads.

Because in the production process there are manufactured several products related to each other at same time, the production costs have been allocated to main products based on the method of relative sales value and by-products are valued at net realizable value, which is deducted from the standard cost of the main products.

Materials and services in the consolidated statement of income includes external services related to production.

FINANCIAL ASSETS AND LIABILITIES

Classification of financial assets and liabilities

The financial assets and liabilities of Forchem are classified in accordance with IAS 39 at the time of initial recognition. The classification of a financial asset or liability is determined by the purpose of the asset or liability. Financial assets and liabilities are initially recognised at fair value less transaction costs. Transaction costs of financial assets and liabilities measured initially at fair value through profit or loss are recognised in profit or loss at the time of initial recognition.

Financial assets are classified into the following four categories: financial assets at fair value through profit or loss, investments held to maturity, loans and receivables, and available-for-sale financial assets.

Financial liabilities are classified into the following two categories: loans and other liabilities (at amortised cost), and financial liabilities at fair value through profit or loss.

Forchem has only financial assets classified as loan and receivables and financial liabilities classified as loan and other liabilities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment date that are not quoted in an active markets and that the company does not hold for trading. These include financial assets that the company has acquired by submitting money, goods or services.

Loans and receivables are recognised on the settlement date of the transaction, except for derivatives, and measured at amortized cost using the effective interest method. They are included in the non-current assets, if their maturity is greater than 12 months after the balance sheet date.

Trade receivables are recognised at fair value that corresponds to the original amount, less estimated credit losses. Impairment is based on the recoverable amount of the receivables past due.

Financial liabilities

Financial liabilities are classified in loans and other liabilities that are recognised on the settlement

date of the transaction and measured at amortised cost using the effective interest method.

The transaction costs for the financial liabilities that relate to the individual loans are deducted from the loan amount in the balance sheet and are subsequently amortised as financial expenses using the effective interest method. Financial liabilities are included in the non-current and current liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and in bank, withdrawable bank deposits and other short-term, highly liquid investments with maturities less than six months. Accounts with a credit balance are presented as current interest-bearing liabilities.

Impairment of financial assets

All financial assets, except those measured at fair value through profit or loss, are subject to review for impairment at the end of each reporting period.

Value of financial asset is impaired only if there is objective evidence of impairment that has been aroused due to an event or events after the recognition of the financial asset. If amount of impairment loss decreases in a following year and the decrease can be objectively linked to an event after the impairment loss, the loss is reversed to the profit.

PROVISIONS

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required and the amount can be reliably estimated. Provisions relate to e.g.

environmental restorations, asset retirement obligations, restructuring costs and legal claims.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions for present obligations require management to assess the best estimate of the expenditure needed to settle the present obligation at the end of the reporting period. The actual amount and timing of the expenditure might differ from estimates made.

In every reporting date the provision amounts are estimated and changed to describe the best estimate at the moment.

Restoration provision

Obligating event is when a plant is built on a leased land with an obligation to dismantle and remove the asset in the future or when a legal obligation towards Forchem changes. The asset retirement obligation is recognized as part of the cost of an item of property and plant when the asset is put in service. The costs will be depreciated over the remainder of the asset's useful life.

GOVERNMENT GRANTS

Government grants are recognised at their fair value, when it is reasonably certain that the company will comply with the related conditions and the grants will be received. Grants are recognised in other operating income, except for the grants related to purchase of assets, which are recorded as a deduction of the cost.

DIVIDENDS

The dividend proposed by the Board of Directors of Forchem Plc is included in retained earnings of the consolidated balance sheet. The dividend to be paid is deducted from retained earnings, when the Annual General Meeting has made the decision on the payment of dividend.

APPLICATION OF THE NEW AND REVISED IAS AND IFRS STANDARDS AND THE SIC AND IFRIC INTERPRETATIONS

IASB has published the following new or revised standards and interpretations that the Group has not yet adopted. The Group will adopt these standards as of the effective date of each of the standards, or if the effective date is not the first day of the financial year, as of the beginning of the next financial year following the effective date.

* = *not yet endorsed for use by the European Union as of 31 December 2017.*

- **IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018):** The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognize revenue, and at what amount. Revenue is recognized when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements.

The impacts of IFRS 15 on Forchem's consolidated financial statements have been assessed as follows: Key concepts of IFRS 15 have been analyzed for different revenue streams. Forchem's revenue is currently recognized when the risks and rewards regarding the ownership of the goods are transferred to the buyer. In other words

performance obligation occurs when goods have been delivered to the customer in accordance with the agreed delivery terms. Revenue will be recognized by performance obligations at a point in time also in future. The significant impacts on revenue recognition amounts or time are not expected. The potential impacts will be implemented fully retroactive.

• **New IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2019):**

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The impacts of IFRS 9 on Forchem's consolidated financial statements have been assessed with reviewing all group's financial instruments and the booking process for credit losses. The expected impacts are minor.

• **IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019):** The new standard replaces the current IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognize the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contracts in which the lease term is 12 months or less, or to low value items i.e. assets of value USD 5 000 or less. The lessor accounting remains mostly similar to current

IAS 17 accounting. The Group is assessing the impact of the change.

• **IFRS 17 Insurance Contracts* (effective for financial years beginning on or after 1 January 2021):** The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4-standard. The Group is assessing the impact of the change.

• **Amendments to IFRS 2 - Clarification and Measurement of Share-based Payment Transactions* (effective for financial years beginning on or after 1 January 2018):**

The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled. The Group is assessing the impact of the change.

• **Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018):**

The amendments respond to industry concerns about the impact of differing effective dates by allowing two optional solutions to alleviate temporary accounting mismatches and volatility. The Group is assessing the impact of the change.

• **IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018):**

When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange

Rates -standard is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The Group is assessing the impact of the change.

- **Amendments to IAS 40 - Transfers of Investment Property* (effective for financial years beginning on or after 1 January 2018):** When making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The Group is assessing the impact of the change.

- **Annual Improvements to IFRSs (2014-2016 cycle)* (effective for financial years beginning on or after 1 January 2018):** The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28. The Group is assessing the impact of the change.

- **IFRIC 23 Uncertainty over Income Tax Treatments* (effective for financial years beginning on or after 1 January 2019):** The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant

information in assessing a proposed tax treatment. The Group is assessing the impact of the change.

- **Amendments to IFRS 9: Prepayment Features with Negative Compensation* (effective for financial years beginning on or after 1 January 2019):** The amendments enable entities to measure at amortized cost some pre-payable financial assets with so-called negative compensation. The Group is assessing the impact of the change.

- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2019):** The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The Group is assessing the impact of the change.

- **Annual Improvements to IFRSs (2015-2017 cycle)* (effective for financial years beginning on or after 1 January 2019):** The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The Group is assessing the impact of the change.

5. REVENUE 1 000 EUR	2017	2016
Sale of goods	126 582	109 395
TOTAL	126 582	109 395

Forchem manufactures and sells products distilled from Crude Tall Oil (CTO) mainly to European chemical companies for intermediate and finished manufacture, and to energy company as biofuel.

Breakdown of revenue by geographical areas	2017	2016
Finland	35 013	33 075
Other EU countries	76 749	66 790
Other European countries	4 202	3 763
Other countries	10 618	5 767
TOTAL	126 582	109 395

Major customers

In 2017 revenues from the largest customer of the Group represented approximately 22 million euros (2016: 23 million euros) that is 18% (21%) of the total revenue.

6. OTHER OPERATING INCOME 1 000 EUR	2017	2016
Government grants	0	104
Other items	49	13
TOTAL	49	117

7. EMPLOYEE BENEFIT EXPENSES 1 000 EUR	2017	2016
Wages and salaries	3 732	3 696
Pension costs – defined contribution plans	722	702
Pension costs – defined benefit plans	97	113
Other social security expenses	173	130
TOTAL	4 723	4 641

Management's employee benefits are presented in the note 30. Related party transactions.

Average Group personnel in the financial year

Whitecollar	38	38
Bluecollar	10	10
TOTAL	48	48

Group personnel at the end of the financial year

Whitecollar	40	36
Bluecollar	10	9
TOTAL	50	45

In both tables the number of part-time employees has been converted to full-time.

8. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES 1 000 EUR	2017	2016
DEPRECIATION BY ASSET CATEGORY		
<i>Intangible assets</i>		
Software licenses	197	94
TOTAL	197	94
<i>Property, plant and equipment</i>		
Buildings	518	512
Machinery and equipment	4 522	4 932
TOTAL	5 040	5 445
DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES TOTAL	5 237	5 539
9. OTHER OPERATING EXPENSES 1 000 EUR		
Office and IT	304	322
Travel	337	269
Marketing	229	287
Administrative services	1 803	1 779
Insurance	156	106
Sales offices	1 203	259
TOTAL	4 032	3 021
<i>Auditor's fees</i>		
Audit	99	111
Tax services	22	29
Other services	0	56
TOTAL	121	196

10. RESEARCH AND DEVELOPMENT EXPENSES

The research and development costs recognized as an expense amounted to 279 thousand euros in 2017 (204 thousand euros in 2016).

11. FINANCE INCOME AND COSTS 1 000 EUR	2017	2016
FINANCE INCOME		
Interest income on loans and receivables	73	122
Other finance income	0	0
TOTAL	73	122

Financial costs

Interest expense of financial liabilities measured at amortised cost	3 660	4 241
Interest expense of defined benefit liabilities	4	3
Provisions: unwinding of discount	13	12
Other finance expense of financial liabilities measured at amortised cost	0	0
Other finance expenses	39	18
TOTAL	3 715	4 275

Translation differences have been recognized to revenue and material & services in the statement of income.

Translation differences recognized to profit or loss amounted to -333 thousand euros in 2017 (-513 thousand euros in 2016).

12. INCOME TAXES 1 000 EUR	2017	2016
AMOUNTS RECOGNISED IN PROFIT (LOSS)		
Current tax expense	1 802	760
Deferred tax expense	1 418	1 804
TOTAL	3 220	2 564

Tax related to other comprehensive income

Remeasurements of defined benefit liability	19	19
TOTAL	19	19

Reconciliation of tax expenses and taxes according to the current tax rate (20%) of the parent company

Profit (loss) before taxes	16 070	13 415
Taxes according to current tax rate for parent company	3 214	2 683
Non-deductible expenses	8	2
Recognition of tax assets based on earlier unrecognised tax losses		-134
Other items	-2	13
TAX EXPENSES IN INCOME STATEMENT	3 220	2 564

Deferred taxes have been further described in the note 17. Deferred tax assets and liabilities.

13. EARNINGS PER SHARE**2017****2016**

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

Profit (loss) for the financial year attributable to the owners of the company (1 000 EUR)	12 850	10 851
Weighted-average number of ordinary shares outstanding (1 000)	1	1
BASIC EARNINGS PER SHARE (EUR / SHARE)	12 850	10 851

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

The Group has no instruments that dilute ordinary shares.

Profit (loss) for the financial year attributable to the owners of the company (1 000 EUR)	12 850	10 851
Weighted-average number of ordinary shares outstanding (1 000)	1	1
DILUTED EARNINGS PER SHARE (EUR / SHARE)	12 850	10 851

14. PROPERTY, PLANT AND EQUIPMENT, 1 000 EUR	Land	Buildings	Machinery and equipment	Under construction	Total
2017					
Acquisition cost 1 Jan	21	18 035	70 932	2 387	91 375
Increases		0	730	1 439	2 169
Decreases					0
Transfers				-736	-736
Acquisitions 31 Dec	21	18 035	71 663	3 090	92 808
Accumulated depreciation and impairment losses 1 Jan	0	-5 332	-40 153	-414	-45 899
Adjustment to accumulated depreciation of the assets acquired under finance leases*			448		448
Depreciation of the financial year		-518	-4 522	0	-5 040
Accumulated depreciation and impairment losses 31 Dec	0	-5 850	-44 227	-414	-50 491
Carrying amount 1 Jan 2017	21	12 703	30 780	1 973	45 476
Carrying amount 31 Dec 2017	21	12 185	27 436	2 676	42 318

* The durations of the lease agreements have been reviewed during 2017 and this has caused some adjustments to the accumulated depreciations.

Continues on next page

2016

Acquisition cost 1 Jan	21	17 598	67 995	2 536	88 150
Increases		437	2 938	2 116	5 491
Decreases				0	0
Transfers				-2 266	-2 266
Acquisitions 31 Dec	21	18 035	70 932	2 387	91 375
Accumulated depreciation and impairment losses 1 Jan	0	-4 820	-35 221	-414	-40 454
Depreciation of the financial year		-512	-4 932		-5 445
Impairment					0
Accumulated depreciation from decreases and transfers					0
Accumulated depreciation and impairment losses 31 Dec	0	-5 332	-40 153	-414	-45 899
Carrying amount 1 Jan 2016	21	12 779	32 774	2 122	47 696
Carrying amount 31 Dec 2016	21	12 703	30 780	1 973	45 476

PROPERTY, PLANT AND EQUIPMENT INCLUDE ASSETS ACQUIRED UNDER FINANCE LEASES AS FOLLOWS,
1 000 EUR

			Machinery and equipment	Total
2107				
Acquisition cost			8 161	8 161
Accumulated depreciation and impairment losses			-4 949	-4 949
Carrying amount			3 211	3 211

2016

Acquisition cost			9 308	9 308
Accumulated depreciation and impairment losses			-5 140	-5 140
Carrying amount			4 168	4 168

Property, plant and equipment increases include assets acquired under finance leases of 448 thousand euros in 2017 (1 062 thousand euros in 2016).

15. INTANGIBLE ASSETS 1 000 EUR	Goodwill	Software licenses	Under construction	Total
2017				
Acquisitions 1 Jan	48 522	1 980	13	50 515
Increases		10		10
Transfers				0
Acquisitions 31 Dec	48 522	1 989	13	50 525
Accumulated amortisation and impairment losses 1 Jan	0	-1 137	0	-1 137
Depreciation for the financial year		-197		-197
Accumulated amortisation and impairment losses 31 Dec	0	-1 334	0	-1 334
Carrying amount 1 Jan 2017	48 522	842	13	49 378
Carrying amount 31 Dec 2017	48 522	655	13	49 191
2016				
Acquisitions 1 Jan	48 522	1 175	472	50 169
Increases		805	346	1 151
Transfers			-805	-805
Acquisitions 31 Dec	48 522	1 980	13	50 515
Accumulated amortisation and impairment losses 1 Jan	0	-1 043	0	-1 043
Depreciation for the financial year		-94		-94
Accumulated amortisation and impairment losses 31 Dec	0	-1 137	0	-1 137
Carrying amount 1 Jan 2016	48 522	132	472	49 126
Carrying amount 31 Dec 2016	48 522	842	13	49 378

16. GOODWILL IMPAIRMENT TEST

Forchem Group forms a single cash generating unit for impairment testing purposes. In goodwill impairment test the recoverable amount of the cash generating unit is based on value-in-use. Cash flow projections are based on budgets / forecasts that management has approved for the following five years. Terminal growth rate has been used to extrapolate years after management's forecasting period. Significant profit improvement is not presumed in the following financial years.

KEY ASSUMPTIONS USED IN IMPAIRMENT TEST WERE:	2017	2016
Forecast period	5 years	5 years
Growth in terminal period	0,0 %	0,0 %
EBIT in terminal period	14,3 %	14,3 %
EBITDA in terminal period	17,1 %	17,1 %
Pre-tax WACC	9,3 %	8,8 %
Post-tax WACC	8,8 %	8,1 %

The values represent historical data from internal and external sources. The impairment tests carried out did not indicate a need for write-down.

Total amount of goodwill is 48,5 million euros and the carrying amount of cash generating unit is 114 million euros (31.12.2016: 125 million euros). According to impairment test, the carrying amount exceeds the book-value of the cash generating unit by 57 million euros (31.12.2016: 60 million euros).

Change of 8.8% to over 13.0% in post-tax WACC used as a discount rate would cause the unit's carrying amount to exceed its recoverable amount. Impairment testing is based on conservative estimate, where forecast and terminal period EBITDA is less than 23 million euros. Also decrease by 27 % in yearly EBITDA (both in forecast period and terminal period) would cause the unit's carrying amount to exceed its recoverable amount.

17. DEFERRED TAX ASSETS AND LIABILITIES	1 000 EUR	1 Jan 2017	Recognise in profit (loss)	Recognized in other comprehensive income	31 Dec 2017
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CHANGES IN DEFERRED TAXES IN 2017:**DEFERRED TAX ASSETS**

Tax losses (carried forward)	1 563	-1 563	0	0
Property, plant and equipment	128	35	0	163
Goodwill	50	0	0	50
Provisions	127	8	0	135
Finance leases	52	-5	0	46
Employee benefits	61	3	19	84
TOTAL	1 982	-1 523	19	479

DEFERRED TAX LIABILITIES

Goodwill	1 454	0	0	1 454
Property, plant and equipment	3 540	29	0	3 569
Inventories	100	-44	0	56
Other items	300	-89	0	210
TOTAL	5 393	-104	0	5 289

CHANGES IN DEFERRED TAXES IN 2016:	1 Jan 2016	Recognise in profit (loss)	Recognized in other comprehensive income	31 Dec 2017
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DEFERRED TAX ASSETS

Tax losses (carried forward)	3 359	-1 796	0	1 563
Property, plant and equipment	84	44	0	128
Goodwill	50	0	0	50
Provisions	120	8	0	127
Finance leases	57	-5	0	52
Employee benefits	42	0	19	61
TOTAL	3 712	-1 749	19	1 982

DEFERRED TAX LIABILITIES

Goodwill	1 454	0	0	1 454
Property, plant and equipment	3 401	139	0	3 540
Inventories	90	10	0	100
Other items	394	-95	0	300
TOTAL	5 339	54	0	5 393

18. INVENTORIES	1 000 EUR	31 Dec 2017	31 Dec 2016
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Materials and consumables	8 173	13 668
Finished products	2 727	4 427
Work in progress	424	482
TOTAL	11 325	18 577

In 2017 change of inventories was recognized as an expense amounting to -7,3 million euros (2016: -0,9 million euros) that is presented in materials and services.

19. TRADE AND OTHER RECEIVABLES 1 000 EUR	31 Dec 2017	31 Dec 2016
Trade receivables	22 139	26 436
Loan receivables	7 449	1 009
Accrued income	4 456	1 356
Other receivables	2	2
TOTAL	34 046	28 803

SPECIFICATION FOR CURRENT PREPAYMENTS AND ACCRUED INCOME

VAT receivables	4 427	1 334
Other accruals	29	22
TOTAL	4 456	1 356

The carrying amounts of the trade receivables and other current receivables are regarded to correspond to their fair values.

AGEING ANALYSIS OF TRADE RECEIVABLES AND ITEMS RECOGNISED AS IMPAIRMENT LOSSES 1 000 EUR

	Gross	Net
2017		
Not past due	16 807	16 807
<i>Past due</i>		
No more than 30 days	5 080	5 080
31-60 days	252	252
61-90 days	0	0
Over 90 days	0	0
TOTAL	22 139	22 139

	Gross	Net
2016		
Not past due	16 228	16 228
<i>Past due</i>		
No more than 30 days	4 544	4 544
31-60 days	840	840
61-90 days	1 385	1 385
OVER 90 DAYS	3 439	3 439
TOTAL	26 436	26 436

Over 90 days overdue receivables are from the group company (Respol Resinas S.A.)

TRADE RECEIVABLES ARE BROKEN DOWN PER CURRENCY AS FOLLOWS, 1 000 EUR

	31 Dec 201	31 Dec 2016
EUR	21 323	25 186
USD	341	984
GPB	475	266
Other	0	0
TOTAL	22 139	26 436

20. CASH AND CASH EQUIVALENTS 1 000 EUR	31 Dec 2017	31 Dec 2016
Cash and bank accounts	26 938	10 664
TOTAL	26 938	10 664

The cash and cash equivalents of the cash flow statement correspond to the cash and cash equivalents in the balance sheet.

21. NOTES RELATED TO EQUITY AND CAPITAL MANAGEMENT 1 000 EUR	Number of shares (pieces)	Share capital	Reserve for invested non-restricted equity	Total
Changes in number of shares and corresponding changes in equity				
2017				
1.1.	1 000	80	30 853	30 933
Change during the financial year		0	0	0
31.12.	1 000	80	30 853	30 933
2016				
1.1.	1 000	3	50 930	50 933
Change during the financial year		78	-20 078	-20 000
31.12.	1 000	80	30 853	30 933

SHARES

Forchem Plc has one class of shares, and each share has one vote. Shares have no nominal value. All issued shares have been fully paid.

RESERVE FOR INVESTED NON-RESTRICTED EQUITY

Reserve for invested non-restricted equity includes other investments of equity nature and the subscription price of the shares for the part that is not, according to a specific decision, subscribed to the share capital.

TRANSLATION RESERVE

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

DIVIDENDS

In 2017 no dividend has been paid. The Board proposes that no dividend to be distributed and that the profit of 2017 to be transferred to the retained earnings in the balance sheet.

CAPITAL MANAGEMENT

The aim of capital management of the Group is to guarantee an optimal capital structure to support operating activities by securing operational preconditions and to increase the shareholder value in order to achieve the best possible return. Capital structure is mainly affected by dividend policy and reserve for invested non-restricted equity. Capital managed is equity from consolidated statement of financial position. The loan arrangements of Forchem Plc include covenants.

The covenants at the bond relate to the ratio of net interest bearing debts to EBITDA (earnings before interests, taxes, depreciation and amortization) and interest cover ratio (ratio of EBITDA to Net Finance Charges). Interest cover ratio is tested only when funds are allocated to the group companies or the shareholder. Covenants have not been breached during the reporting period. Significant decrease in EBITDA could cause the breach.

22. CARRYING AMOUNTS OF THE FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORIES, 1 000 EUR	Loans and receivables at amortized cost	Other loans at amortized cost	Fair value	Fair value hierarchy level
2017				
	Carrying amounts			
<i>Current financial assets</i>				
Trade receivables	22 139		22 139	
Loan receivables	7 400		7 400	
Cash and cash equivalents	26 938		26 938	
TOTAL FINANCIAL ASSETS	56 477	0	56 477	
<i>Non-current financial liabilities</i>				
Bond loan		53 949	55 726	2
Loans from group companies		0	0	
Finance lease liabilities		2 061	2 061	2
<i>Current financial liabilities</i>				
Bond loan		5 000	5 000	
Loans from group companies		1 565	1 565	
Finance lease liabilities		1 385	1 385	2
Trade payables		17 273	17 273	
TOTAL FINANCIAL LIABILITIES	0	81 233	83 010	
2016				
<i>Current financial assets</i>				
Trade receivables	26 436		26 436	
Loan receivables	1 000		1 000	
Cash and cash equivalents	10 664		10 664	
TOTAL FINANCIAL ASSETS	38 100	0	38 100	
<i>Non-current financial liabilities</i>				
Bond loan		58 501	60 893	2
Loans from group companies		4 026	4 026	
Finance lease liabilities		2 986	2 986	2
<i>Current financial liabilities</i>				
Bond loan		5 000	5 000	
Loans from group companies		2 554	2 554	
Finance lease liabilities		1 406	1 406	2
Trade payables		10 230	10 230	
TOTAL FINANCIAL LIABILITIES	0	84 703	87 095	

LEVEL DEFINITIONS

Level 1 = Fair value is determined by quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 = Fair value is based on other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 = Fair value is not based on observable market data

23. FINANCIAL LIABILITIES 1 000 EUR	31 Dec 2017	31 Dec 2016
NON-CURRENT LIABILITIES		
Bond loan	53 949	58 501
Loans from group companies	0	4 026
Finance lease liabilities	2 061	2 986
TOTAL	56 010	65 513
CURRENT LIABILITIES		
Bond loan	5 000	5 000
Loans from group companies	1 565	2 554
Finance lease liabilities	1 385	1 406
TOTAL	7 950	8 961

TERMS AND REPAYMENT PERIOD OF FINANCIAL LIABILITIES:

	Currency	Interest	Expiration	Nominal value	Book value
31 Dec 2017					
Bond loan	EUR	4,90%	2020	60 001	58 949
Finance lease liabilities	EUR	4,90%	2018-2021		3 446
31 Dec 2016					
Bond loan	EUR	4,90%	2020	65 001	63 501
Finance lease liabilities	EUR	4,90%	2017-2021		4 392

In 2015 Forchem issued a bond for a nominal value of 70 million euros. The bond includes an option for an additional issue of 30 million euros. Forchem's earlier loans from financial institutions were paid in 2015 in connection with the bond issue. Bond loan includes a yearly instalment of 5 million euros during 2016-2019 and the remaining loan maturities in 2020. In calculating finance lease liabilities, interest of Bond loan has been used as an incremental borrowing rate of interest.

COVENANTS

The bond that Forchem issued in 2015 includes covenants relating to the ratio of net interest bearing debt to EBITDA (earnings before interests, taxes, depreciation and amortization) and interest cover ratio (ratio of EBITDA to Net Finance Charges). Interest cover ratio is tested only when funds are allocated to the group companies or the shareholder. Covenants have not been breached during the reporting period. Significant decrease in EBITDA could cause a breach.

MATURITY ANALYSIS OF INTEREST-BEARING**LIABILITIES: 1 000 EUR**

	2018	2019	2020	2021	2022 and later
2017					
Instalments of Bond loan	5 000	5 000	50 000	0	0
Financial expenses of Bond loan	3 000	2 750	2 500	0	0
Finance lease liability instalments and interests	1 484	1 052	685	394	0
TOTAL	9 484	8 802	53 185	394	0
2016					
	2017	2018	2019	20120	2021 and later
Instalments of Bond loan	5 000	5 000	5 000	50 000	0
Financial expenses of Bond loan	3 250	3 000	2 750	2 500	0
Loans from others	0	0	0	0	0
Finance lease liability instalments and interests	1 548	1 484	982	520	140
TOTAL	9 798	9 484	8 732	53 020	140

FINANCE LEASE LIABILITIES

TOTAL AMOUNT OF MINIMUM LEASE PAYMENTS	31 Dec 2017	31 Dec 2016
< 1 year	1 484	1 548
1-5 years	2 131	3 125
> 5 years	0	0
TOTAL	3 615	4 674

PRESENT VALUE OF MINIMUM LEASE PAYMENTS

< 1 year	1 385	1 406
1-5 years	2 061	2 986
> 5 years	0	0
TOTAL	3 446	4 392

Financing expenses in future	169	281
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TOTAL AMOUNT OF FINANCE LEASE LIABILITIES	3 615	4 674
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Finance lease liabilities consists mainly of tank agreements. Agreements are for 5 to 10 years. In 2016 there has signed one new contract that is determined as finance lease. The length of this rental agreement is 5 years.

RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES	1 Jan 2017	Cash flows	Non cash items			31 Dec 2017
			Acquisition time	Exchange rate changes	Transaction cost amortized With effective interest rate	
Bond loan	63 501	-4 999	0	0	447	58 949
Loans from group companies	6 580	-5 015	0	0	0	1 565
Finance lease liabilities	4 392	-1 395	448	0	0	3 446
TOTAL	74 474	-11 409	448	0	447	63 961

24. PENSION LIABILITY

The Group has one defined benefit plan in Finland that entitles to retire at age of 62 and to receive pension equal to 60 % of the annual salary.

PENSION LIABILITIES IN THE BALANCE SHEET, 1 000 EUR	31 Dec 2017	31 Dec 2016
Present value of defined benefit obligations	967	741
Fair value of plan assets	-445	-436
Net defined benefit liability	522	305

MOVEMENT IN NET DEFINED BENEFIT LIABILITY

The following table shows a reconciliation from the opening balances to the closing balances for net defined benefit liability and its components.

2017, 1 000 EUR	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Balance at 1 January	741	436	305
<i>Included in profit or loss</i>			
Current service cost	118	0	118
Interest cost (income)	10	6	4
	128	6	122
INCLUDED IN OCI			
Re-measurements loss (gain):			
Actuarial gain/loss (+/-) arising from:			
- demographic assumptions	0	0	0
- financial assumptions	0	0	0
- experience adjustment	98	0	98
- plan assets	0	3	-3
Return on plan assets excluding interest income/expense (+/-)	0	0	0
	98	3	95
Contributions to defined benefit plan	0	0	0
	0	0	0
Balance at 31 December	967	445	522

continue on next page

2016, 1 000 EUR	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Balance at 1 January	537	327	210
<i>Included in profit or loss</i>			
Current service cost	97	0	97
Interest cost (income)	10	7	3
	107	7	100
INCLUDED IN OCI			
Re-measurements loss (gain):			
Actuarial gain/loss (+/-) arising from:			
- demographic assumptions	0	0	0
- financial assumptions	50	0	50
- experience adjustment	47	0	47
Return on plan assets excluding interest income/expense (+/-)	0	0	0
	97	0	97
Contributions to defined benefit plan	0	102	-102
	0	102	-102
Balance at 31 December	741	436	305

The present value of defined benefit obligation contains uncertainty due to the alternative interpretations of the contract. The present value of defined benefit obligation has been booked in accordance with the principle of prudence.

PLAN ASSETS

The assets of the defined benefit plans are managed by insurance company and are based on approved insurance contracts. Duration of the weighted average defined benefit liability is 15 years. The expected contributions to be paid to the defined benefit plan in 2018 are 194 thousand euros.

The expected contributions consist of two parts: 1) the contributions that are actually related to year 2017 but that are paid in January 2018 (105 thousand euros); 2) expected contributions related to year 2018 (89 thousand euros).

The following were the principal assumptions at the reporting date:

ACTUARIAL ASSUMPTIONS	2017	2016
Discount rate	1,3 %	1,3 %
Salary growth rate	2,9 %	2,9 %
Pension growth rate	0,0 %	0,0 %

SENSITIVITY ANALYSIS OF THE DEFINED BENEFIT PLAN

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

IMPACT ON DEFINED BENEFIT OBLIGATION (%)	2017	2016
Discount rate is changed by +0,5 %	-6,1 %	-6,5 %
Discount rate is changed by -0,5 %	6,8 %	7,2 %
Expected rate of salary increase is changed by +0,5 %	1,0 %	1,4 %
Expected rate of salary increase is changed by -0,5 %	-1,0 %	-1,4 %

Defined benefit plans expose the Group to actuarial risks, such as interest rate risk and inflation risk.

25. PROVISIONS, 1 000 EUR	Restoration provision	Total
2017		
1 Jan	1 295	1 295
Additions to provisions	0	0
Used provisions	0	0
Reversal of unused provisions	0	0
Time value of money	13	13
31 Dec	1 307	1 307
2016		
1 Jan	1 282	1 282
Additions to provisions	0	0
Used provisions	0	0
Reversal of unused provisions	0	0
Time value of money	12	12
31 Dec	1 295	1 295
	31 Dec 2017	31 Dec 2016
Non-current provisions	1 307	1 295
Current provisions	0	0
TOTAL	1 307	1 295

Land lease agreements, signed between Forchem and city of Rauma, include contractual obligations related to termination of the contract. At the termination of lease period, lessee is obligated to remove property, plant and equipment constructed on the site as well as restore land area. Restoration provision is recognized in the opening balance, and is presented as long-term provision according the period of validity of the land lease agreement. Land lease agreement is valid until year 2061.

26. TRADE AND OTHER PAYABLES, 1 000 EUR	31 Dec 2017	31 Dec 2016
Loans from group companies	1 565	2 554
Trade payables	17 273	10 230
Accrued expenses and deferred income	2 662	3 169
Other payable	1 234	896
TOTAL	22 734	16 849
<i>Accrued expenses and deferred income</i>		
Employee benefits	1 205	1 103
Interest liabilities	1 454	1 965
Other items	3	100
TOTAL	2 662	3 169

27. MANAGEMENT OF FINANCIAL RISKS

THE PRINCIPLES AND ORGANISATION OF FINANCIAL RISK MANAGEMENT

The Group and its operating activities are subject to financial risks. Financial risks are caused by fluctuations in the market interest rates, foreign exchange rates and other market prices. The financial risks related to the business are monitored by the company's management. Forchem do not apply hedge accounting according to IAS 39 to any financial risk at the date of financial statement nor comparison years.

Group uses operative cash flows and loans. At the end of the reporting period Forchem's cash and cash equivalents were 26,9 million euros. It is possible for Forchem to issue further 30 million euros with the terms of Bond loan. The maturities of the financial liabilities is presented in the note 23. Financial liabilities. The covenants have not been breached during the reporting period.

LIQUIDITY AND REFINANCING RISKS

Liquidity risk is related to the maintenance of adequate and continual financing for the requirements of the Group's working capital, loan repayment and capital expenditures. The principle of liquidity risk management is to continually maintain adequate liquidity in the Group. As the primary financing sources the

INTEREST RATE RISK

The Group has no open interest rate risk as main part of the interest expenses are based on a fixed rate. In July 2015 Forchem Oy issued a 70 million euro bond with a five year maturity. A 4,9% yearly interest is paid semiannually. The bond includes standard covenants that have been further described in the note 23. Financial liabilities.

CREDIT RISK

The Group's clientele consists of relatively long-term customers and the credit risk is low. During last two years credit risks have realized very little. Payment terms to the clients are normal.

Credit loss of trade receivables is recorded when there is objective evidence that the receivables will not be collected at the primary terms. For certain product groups, dependence on individual customers is high, which naturally increases the business risk, as the loss of key customers may reduce sales and profitability.

The ageing analysis of trade receivables and items recognized as impairment losses is

presented in the note 19. Trade and other receivables.

EXCHANGE RATE RISK

The foreign exchange risk consists of cash flows of foreign currency denominated transactions. The exchange rate risk was not material in the reporting period. The majority of the Group's income and expenses originate in the Euro area, USA dollars and England pounds. The Group does not apply hedge accounting and no exchange rate derivatives are not used. Trade receivables broken by currency are presented in the note 19. Trade and other receivables.

28. OPERATING LEASES, 1 000 EUR**31 Dec 2017 31 Dec 2016**

The Group as a lessee

MINIMUM LEASE PAYMENTS ON NON-CANCELLABLE OPERATING LEASES ARE PAYABLE AS FOLLOWS:

< 1 year	1 139	1 033
1-5 years	166	152
> 5 years	547	561
TOTAL	1 852	1 747

Operating leases contain land lease agreements, car lease agreements and other current lease agreements. Land lease agreements have been renewed in year 2015 and are valid until spring 2061.

In 2017 lease expenses for operating leases recognized in profit or loss amounted to 1 720 thousand euros (2016: 1 781 thousand euros).

29. COMMITMENTS AND CONTINGENCIES, 1 000 EUR	31 Dec 2017	31 Dec 2016
<i>Liabilities for which commitments given</i>		
Bond loan	58 949	63 501
Loans from financial institutions	0	0
<i>Commitments given on own behalf and on behalf of others</i>		
Business mortgage	0	0
Real estate mortgage	148 000	148 000
<i>Other commitments given on own behalf</i>		
Rental commitments	2	2
<i>Other off-balance sheet contingencies</i>		
Commitments from supply contracts	0	0
Commitments from investment contracts	0	0

All shares of Forchem Plc and real estate mortgages are pledged for the Bond loan. In addition, holder of the mortgage is entitled to insurance receivables related to the real estate in accordance with Finnish laws. Deposit of the bank account that the company uses is also committed as a contingency for the Bond loan.

30. RELATED PARTY TRANSACTIONS

Group's ultimate controlling party is Portuguese family owned company Respol SGPS. In addition, the related parties consist of owner Respol Lux (Luxemburg), that has a control to the reporting company, sister companies Respol Group Oy (Finland) and Respol Resinas (Portugal), that is a major client of the reporting company.

The Group's related party includes the parent company Forchem Plc, subsidiaries as well as Group's and subsidiary Forchem Plc's key management personnel such as members of Board of Directors, Managing Director and Management team, and companies that are controlled by persons identified as well as their family members are considered as related parties.

THE GROUP'S PARENT COMPANY AND SUBSIDIARY RELATIONSHIPS

Company	Registered office	Country	Share of ownership of the parent company %	Share of ownership of the Group %
Parent Company Forchem Plc	Rauma	Finland	100	100
Forchem SARL	Nice	France	100	100
Forchem GmbH	Steinfurt	Germany	100	100
Forchem Ltd	Hartlepool	The UK	100	100

Housing company Rauman Savilanketo is accounted for as joint operation in the consolidated financial statements. Forchem Plc.'s share of ownership is 11,55 %

THE TRANSACTIONS, ASSETS AND LIABILITIES WITH THE GROUP'S RELATED PARTIES, 1 000 EUR	Sales	Purchases	Trade receivables	Loan receivables and accrued interest	Open loans and interest liabilities
2017					
Owners			120	7 449	
Others	22 440	20	5 167		1 565
2016					
Owners				1 009	
Others	22 908	112	14 342		6 971

The above mentioned loans from the parent company are loans from such group companies that are not consolidated to the Forchem subgroup. In addition to the above mentioned loans Forchem Plc has granted a loan to Group Respol SGPS, S.A., amounting to 10 M€, where 2,6 M€ is undrawn.

EMPLOYEE BENEFITS TO THE MANAGING DIRECTOR, BOARD OF DIRECTORS AND TO THE MEMBERS OF THE MANAGEMENT TEAM INCLUDING FRINGE BENEFITS ARE: 1 000 EUR

	2017	2016
EMPLOYEE BENEFITS OF THE KEY MANAGEMENT		
Members of the Board of Directors		
Salaries and other short-term employee benefits	365	363
Post-employment benefits	0	0
Other long-term employee benefits	0	0
TOTAL	365	363
Managing Director		
Salaries and other short-term employee benefits	264	264
Post-employment benefits	0	113
Other long-term employee benefits	0	0
TOTAL	264	377
Other members of the Management team		
Salaries and other short-term employee benefits	597	582
Post-employment benefits	0	0
Other long-term employee benefits	0	0
TOTAL	597	582

The Managing Director of Forchem Plc has a supplementary pension benefit through insurance company giving a right to retire at an age of 62. Pension arrangement has been further described in the note 24.

Members of the Board of Directors have been paid for their operational duties, not for their work in the Board.

31. EVENTS AFTER THE BALANCE SHEET DATE

After the reporting period has not been any events that would have affected the assessment of the effectiveness of the company's operations and financial position.

32. KEY FIGURES**Definitions of key figures**

Return on invested capital (ROI), %	= (Profit for the year + Financial expenses) / (Total Equity + Interest-bearing liabilities, average) * 100
Return on equity (ROE), %	= (Profit for the year) / (Total equity, average) * 100
Equity ratio, %	= (Total equity) / (Total Assets - Advances received) * 100
Gearing, %	= (Interest-bearing liabilities) / (Total equity) * 100
Net gearing, %	= (Interest-bearing liabilities, net) / (Total equity) * 100
Dividend per share	= (Dividend for the year) / (Number of ordinary shares outstanding at year end)

PARENT COMPANY FINANCIAL STATEMENT (FAS)

PARENT COMPANY INCOME STATEMENT, FAS, EUR	Note	1 Jan 2017- 31 Dec 2017	1 Jan 2016- 31 Dec 2016
NET SALES	1	126 582 212,69	69 296 545,16
Other operating income		39 643,00	3 435,76
Materials and services	2	95 355 181,29	50 463 079,70
Personnel expenses	3	3 798 440,06	2 534 670,47
Depreciation, amortization and impairment losses	4	10 053 415,61	6 942 251,59
Other operating expenses	5	4 031 835,34	2 842 469,25
OPERATING PROFIT (- LOSS)		13 382 983,39	6 517 509,91
Finance income and expenses (-)	6	-2 840 482,97	-3 283 623,85
PROFIT (LOSS) BEFORE APPROPRIATIONS AND INCOME TAXES		10 542 500,42	3 233 886,06
Change in depreciation difference		-146 687,15	2 028 542,17
Income taxes	7	-1 793 353,51	791,42
PROFIT (LOSS) FOR THE FINANCIAL YEAR		8 602 459,76	5 263 219,65

PARENT COMPANY				
BALANCE SHEET, FAS, EUR		Note	31 Dec 2017	31 Dec 2016
ASSETS				
Non-current assets				
Intangible assets	8		22 093 445,29	28 711 634,65
Property, plant and equipment	8		37 967 871,89	39 900 423,73
Investments	9		316 044,34	316 044,34
Total non-current assets			60 377 361,52	68 928 102,72
Current assets				
Inventories	10		12 091 665,78	19 182 582,94
Current receivables	11		34 014 795,73	28 787 622,87
Cash at hand and in banks			26 713 893,45	10 418 853,87
Total current assets			72 820 354,96	58 389 059,68
TOTAL ASSETS			133 197 716,48	127 317 162,40
EQUITY AND LIABILITIES				
Equity				
Share capital	12		80 000,00	80 000,00
Reserve for invested unrestricted equity			30 852 500,00	30 852 500,00
Retained earnings			-7 027 296,33	-12 290 515,98
Profit for the financial year			8 602 459,76	5 263 219,65
Total equity			32 507 663,43	23 905 203,67
Appropriations			17 845 803,59	17 699 116,44
Liabilities				
Non-current liabilities	13		55 001 200,00	64 026 506,35
Current liabilities	14		27 843 049,46	21 686 335,94
Total liabilities			82 844 249,46	85 712 842,29
TOTAL EQUITY AND LIABILITIES			133 197 716,48	127 317 162,40

PARENT COMPANY		1 Jan 2017-	1 Jan 2016-
CASH FLOW STATEMENT, FAS, EUR		31 Dec 2017	31 Dec 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating result		13 382 983,39	6 517 509,91
Depreciation and amortization according to plan		10 053 415,61	6 942 251,59
Finance income and expenses		-3 392 599,00	-1 617 500,00
Income taxes and levies		-1 629 638,16	-95 000,00
Cash flow before change in working capital		18 414 161,84	11 747 261,50
Change in working capital		15 797 636,29	1 671 910,73
- Current non-interest-bearing operating receivables, increase (-) / decrease (+)		1 212 987,15	7 623 016,66
- Inventories, increase (-) / decrease (+)		7 090 917,16	-2 981 351,67
- Current non-interest-bearing liabilities, increase (+) / decrease (-)		7 493 731,98	-2 969 754,26
Net cash from operating activities		34 211 798,13	13 419 172,23
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		-1 502 674,41	-1 949 600,00
Granted loans		-11 400 000,00	-1 000 000,00
Repayments of loan receivables		5 000 000,00	8 000 000,00
Net cash used in investing activities		-7 902 674,41	5 050 400,00
Cash flows from financing activities			
Repayments of bond loan		-4 999 000,00	-4 999 400,00
Change in other debts		-5 015 084,14	-7 000 000,00
Net cash from (used in) financing activities		-10 014 084,14	-11 999 400,00
Net change in cash at hand and in banks		16 295 039,58	6 470 172,23
Cash at hand and in banks	1 Jan	10 418 853,87	15 388,86
Cash from Forchem Oy in the merger	30 Apr	0,00	3 933 292,78
Cash at hand and in banks	31 Dec	26 713 893,45	10 418 853,87

NOTES TO PARENT COMPANY FINANCIAL STATEMENT (FAS)

ACCOUNTING PRINCIPLES FOR FINANCIAL STATEMENTS

Financial statements are prepared in accordance with the Finnish Accounting Act and the Limited Liability Companies Act, and they are based on the historical cost convention. Due to the merger in 2016, 2017 figures of the parent company are not comparable to 2016 figures.

NET SALES

Net sales is determined by deducting excise taxes and VAT from the gross revenue generated from sales of products and services, as well as deducting rebates and adding / deducting foreign exchange differences.

LEASES

Lease payments are recognized in external services and other operating expenses.

CURRENT ASSETS

The measurement of raw materials and consumables as well as finished products/goods is based on standard cost. The standard cost of raw materials is adjusted to equal the weighted average price of the latest purchases regarding the amounts remaining in inventory, through the so-called FIFO adjustment. Finished products/goods are carried at the lower of standard cost and expected sales price. The standard cost of finished products includes the standard cost of raw materials and other direct costs that are incurred in processing the goods

into the current form and location. No fixed overheads are allocated to the cost of inventories.

Because in the production process there are manufactured several products related to each other at same time, the production costs have been allocated to main products based on the method of relative sales value and by-products are valued at net realizable value, which is deducted from the standard cost of the main products. The net realizable value is an estimated selling price of which sales costs have been deducted in ordinary course of business.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated using the exchange rate quoted on the day before the date of the transaction. At the end of the financial year, the open non-euro denominated receivables and liabilities are translated using the average exchange rate quoted by the European Central Bank on the day before the balance sheet date.

The impact on the income statement is not material when compared to the average exchange rate at the balance sheet date. Finance-related foreign exchange rate gains and losses are recognized net in finance income and expenses.

NON-CURRENT ASSETS

Non-currents assets are carried at cost consisting of related variable expenditures. The carrying amounts are presented based on the difference between the costs and the accumulated depreciation or amortization. Depreciation and amortization according to plan is determined based on the probable useful life of the asset, based on the historical cost or on the cost including revaluation, using the straight-line method. The depreciation and amortization periods are as follows:

Intangible rights and other non-current expenditures	3-5 years
Buildings, constructions, distillation columns	35-40 years
Tanks	30 years
Cooling towers	15 years
Boiler plants	20 years
Process equipment	15 years
Machinery, equipment and devices	3-20 years
Goodwill	5 years

The carrying amounts of machinery and equipment and buildings include finance costs capitalized previously, amounting to 0,51 million euro.

BOND

In 2015 Forchem issued a bond for nominal value of 70 million euros. The bond includes an option for additional 30 million euro.

Forchem's previous loans from financial institutions were repaid in 2015 in connection with the bond issue. Yearly installment is 5 million euros and the

bond matures 2020. The interest rate is fixed 4,9 % p.a. and it is paid semiannually. The bond includes covenants that have not been breached during the reporting period. Transaction cost has been booked as expense.

INCOME TAXES

Income taxes include taxes based on the taxable profit for the financial year, tax adjustments for previous periods (taxes paid or returned), as well as deferred taxes.

PENSIONS

The statutory pension for the company's employees is satisfied through the contract with an external insurance company.

GROUP

Forchem Plc is the parent company of the Group that comprises the subsidiaries Forchem GmbH, Forchem Sarl and Forchem Ltd. Forchem Plc is part of Respol Group (Portugal).

DEFINITIONS OF KEY FINANCIAL RATIOS

Equity Ratio, % = (Equity) / (Balance sheet total - Advance payments received)

Return on investment (ROI), % = (Profit for the financial year + Interest expenses + taxes) / (Interest-bearing liabilities + Equity)

Net Gearing, % = (Interest-bearing liabilities - Liquid funds - Interest-bearing receivables) / Equity

1. BREAKDOWN OF NET SALES BY GEOGRAPHICAL AREAS	2017	2016
Finland	35 012 765	21 273 625
Other EU countries	76 748 829	41 921 766
Other European countries	4 202 372	2 177 438
Other countries	10 618 247	3 923 716
TOTAL	126 582 213	69 296 545

2. MATERIALS AND SERVICES

Change of inventory		
Purchases of materials and consumables	-75 813 947	38 011 564
External services	-19 541 234	12 451 516
Total materials and services	-95 355 181	50 463 080

3. PERSONNEL EXPENSES

Wages and salaries	3 021 541	2 050 111
Pension expenses	669 707	416 068
Other social security expenses	107 192	68 491
Personnel expenses in income statement	3 798 440	2 534 670

Management remuneration

Managing Director and Members of Board of Directors	628 415	337 950
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Average number of employees of Group and parent company in the financial year

	42	26
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4. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

Amortization of goodwill	6 431 262	4 287 508
Amortization of other intangible assets	196 700	71 605
Depreciation of buildings	483 894	321 336
Depreciation of machinery and equipment	2 941 560	2 261 802
	10 053 416	6 942 252

5. AUDITOR FEES

Audit	99 151	88 035
Tax advisory	21 673	16 312
Other services	0	2 415
	120 824	106 762

6. FINANCE INCOME AND EXPENSES

Income from others	23 426	0
Interest income from Group companies	49 263	75 116
Dividends from Group companies	23 172	0
Interest expenses to Group companies	-20 130	-1 077 442
Interest expenses and other expenses to others	-2 916 213	-2 281 298
Total finance income and expenses	-2 840 483	-3 283 624

	2017	2016
Finance costs capitalized in balance sheet at 1 Jan	572 701	0
Finance costs capitalized in balance sheet at 1 May (after the merger)	n/a	612 950
Machinery and equipment, annual depreciation of capitalized costs	51 647	34 431
Machinery and equipment, un-depreciated amount	310 455	362 102
Buildings and constructions, annual depreciation of capitalized costs	8 726	5 817
Buildings and constructions, un-depreciated amount	201 873	210 599
Total undepreciated amount after the depreciation for the financial year	512 328	572 701
Total depreciation for the financial year	60 373	40 249

7. INCOME TAXES

Income taxes arisen from business operations	-1 793 354	791
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There are no tax losses to be carried forward from the years 2013 to 2015 remaining as at 31 December 2017. The parent company did not recognize a deferred tax asset on those tax losses.

8. NON-CURRENT ASSETS

The non-current assets of the group consist mainly of the non-current assets of the parent company. The non-current assets of the Group under IFRS are specified in the notes to the consolidated financial statements. (please see IFRS note 14 and 15).

CHANGES IN THE MERGER LOSS

(merger loss was incurred due to the merger):

Merger loss 1.1.2017	27 868 804
Depreciation	6 431 262
Merger loss 31.12.2017	21 437 541

9. NON-CURRENT ASSETS / INVESTMENTS 2017 OWNERSHIP INTERESTS OF PARENT COMPANY

	Parent company ownership, %	Carrying amount at at 1 Jan 2017, €	Carrying amount at 31 Dec 2017, €	Share capital, €	Share capital, €
Group companies					
Forchem SARL, Nice, France	100,00	7 500	7 500	7 500	6 469
Forchem GmbH, Steinfurt, Germany	100,00	50 000	50 000	50 000	9 040
Forchem Ltd, Hartlepool, the UK	100,00	0	0	0	4 625
TOTAL		57 500	57 500	57 500	20 133

Other shares

Housing company Rauman Savilanketo (890-1103)		232 160	232 160		
Housing company Rauman Savilanketo (1910-1914)		13 192	13 192		
Housing company Rauman Savilanketo (1915-1919)		13 192	13 192		
TOTAL		258 544	258 544		

2016 OWNERSHIP INTERESTS OF PARENT COMPANY

Group companies

Forchem SARL, Nice, France	100,00	7 500	7 500	7 500	6 935
Forchem GmbH, Steinfurt, Germany	100,00	50 000	50 000	50 000	-9 661
Forchem Ltd, Hartlepool, the UK	100,00	0	0	0	15 712
TOTAL		57 500	57 500	57 500	12 986

Other shares

Housing company Rauman Savilanketo (890-1103)		232 160	232 160		
Housing company Rauman Savilanketo (1910-1914)		13 192	13 192		
Housing company Rauman Savilanketo (1915-1919)		13 192	13 192		
TOTAL		258 544	258 544		

10. INVENTORIES	2017	2016
Raw materials and consumables	9 216 922	14 751 300
Finished products/goods	2 450 302	3 949 246
Goods in transit	424 441	482 037
TOTAL	12 091 666	19 182 583

11. CURRENT RECEIVABLES

Trade receivables	16 972 050	12 094 594
Trade receivables from Group companies	5 166 677	14 341 753
Loan receivables from Group companies	7 400 000	1 000 000
Other receivables	4 426 674	1 333 900
Accrued income from Group companies	49 263	8 701
Accrued income from others	132	8 674
TOTAL	34 014 796	28 787 623

12. EQUITY AND SHARES

	2017	2016
Equity		
Share capital at 1 Jan	80 000	2 500
Share capital at 31 Dec	80 000	80 000
Total restricted equity	80 000	80 000
Reserve for invested unrestricted equity at 1 Jan	30 852 500	50 930 000
Reserve for invested unrestricted equity at 31 Dec	30 852 500	30 852 500
Retained earnings at 1 Jan	-12 290 516	-13 942 862
Transfer of profit for the financial year	5 263 220	1 652 346
Retained earnings at 31 Dec	-7 027 296	-12 290 516
Profit / loss for financial year	8 602 460	5 263 220
Total distributable equity	32 427 663	23 825 204
TOTAL EQUITY	32 507 663	23 905 204

Calculation for distributable equity at 31 December

Retained earnings	-7 027 296	-12 290 516
Profit for financial year	8 602 460	5 263 220
Reserve for invested unrestricted equity	30 852 500	30 852 500
TOTAL DISTRIBUTABLE EQUITY	32 427 663	23 825 204

Board of Directors' proposal for profit distribution

The company's result for the financial year amounted to 8 602 459.76 euro. The Board of Directors is proposing that entire result for the financial year be allocated to retained earnings and no dividend be paid. The Board of Directors is also proposing that no assets are distributed from the reserve of invested unrestricted equity.

Company shares

The share capital of the company comprises 1,000 shares. There are no share-related provisions in the company's Articles of Association.

13. NON-CURRENT LIABILITIES	2017	2016
Bond loan	55 001 200	60 000 600
Borrowings from Group companies	0	4 025 906
TOTAL NON-CURRENT LIABILITIES	55 001 200	64 026 506

14. CURRENT LIABILITIES	2017	2016
Liabilities to others		
Bond loan	5 000 000	5 000 000
Trade payables	17 272 972	10 229 870
Other liabilities	1 179 297	733 334
Liabilities to Group companies	1 565 182	2 554 360
Accrued expenses to Group companies	0	390 422
Accrued expenses to others	2 825 599	2 778 351
Advance payments received	0	0
TOTAL	27 843 049	21 686 336

Company's liabilities to Group companies comprise a liability of 1 521 thousand euro to Respol Resinas S.A., 44 thousand euro to Respol Group Oy. Accrued expenses to Group companies consist interest of liabilities mentioned above.

Accrued expenses consist of regular cost accruals related to business operations (interest of bond loan included, 1 454 k€).

15. COLLATERALS GIVEN, COMMITMENTS AND OTHER CONTINGENCIES**2017****2016****Liabilities, for which property mortgages and company mortgages have been given**

Bond	60 001 200	65 000 600
Company mortgage	0	0
Plant mortgages	148 000 000	148 000 000

All shares of Forchem Plc and real estate mortgages are pledged for the bond loan. In addition, holder of the mortgage is entitled to insurance receivables related to the real estate in accordance with Finnish laws. Deposit of the bank account that the company uses is also committed as a contingency for the bond loan.

Lease and rental commitments

Payable in next financial year	2 623 058	2 603 574
Payable later	2 891 318	4 346 374
TOTAL	5 514 376	6 949 948

Other off-balance sheet commitments

Cash at hand and in banks, pledged for other own commitments	1 956	1 956
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Definitions of key financial figures

Equity ratio, %	= (Equity) / (Total assets - Advance payments received)
Return on investment (ROI), %	= (Profit for the financial year + Interest expenses + Income taxes) / (Interest-bearing liabilities + Total equity), average of opening and closing balances
Net gearing, %	= (Interest-bearing liabilities - Liquid funds - Interest-bearing receivables) / Equity

SIGNATURES OF REPORT OF BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

Rauma, at 26 April 2018

Barbeiro Costa, Manuel
Chairman of the Board

Lopes Brogueira, Rui Pedro
Member of the Board

Pereira Dos Reis, João Manuel
Member of the Board

Pedreira Carvalho, Pedro Miguel
Member of the Board

Näsi, Risto
CEO

THE AUDITOR'S NOTE

Our auditor's report has been issued today.
Rauma, at 30 April 2018

KPMG Oy Ab
Authorized Public Accountants

Juha-Pekka Mylén
Authorized Public Accountant, KHT

THE FOLLOWING ACCOUNTING BOOKS WERE USED IN THE FINANCIAL YEAR:

General ledger		hard copy
Statement of financial position		hard copy
Statement of income		hard copy
VAT calculation		hard copy
Cash management		hard copy
Balance book		separately bound
Specifications of balance sheet item		separately

Voucher types:

Bank account statements	1-	in electronic archives
Memo vouchers	M00001-	paper vouchers
Purchase invoices	800001-	in electronic archives
Purchase invoice ledgers	000001-	in electronic archives
Sales invoice ledgers	000001-	in electronic archives
Payment ledgers	000001-	in electronic archives
Inventory ledgers	890001-	in electronic archives
Bookkeeping ledgers	000001-	in electronic archives
Vouchers for notes	000001-	in electronic archives

AUDITOR'S REPORT

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

TO THE ANNUAL GENERAL MEETING OF FORCHEM PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Forchem Plc (business identity code 2512058-6) for the year ended 31 December, 2017. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 9 to the consolidated financial statements.

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

MATERIALITY

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

IMPAIRMENT OF GOODWILL

(Notes 3, 4, 15 and 16 to the consolidated financial statements)

- | | |
|--|---|
| <ul style="list-style-type: none"> • The goodwill balance in the consolidated statement of financial position of Forchem Group is significant. Goodwill, in total € 48.5 million, represents 29.6 percent of the consolidated total assets as at 31 December 2017. • Goodwill is not amortized, but it is tested at least annually for impairment. • Determining the key assumptions used in future cash flow forecasts underlying the impairment tests requires management judgment, in respect of revenue growth rate, discount rate, long-term growth rate and inflation, among others. Due to the high level of judgement involved relating to the forecasts used in impairment tests, as well as the significant carrying value involved, impairment of goodwill is considered a key audit matter. | <ul style="list-style-type: none"> • We assessed key inputs in the calculations such as revenue growth rate, profitability levels and discount rate, by reference to the forecasts prepared by Forchem management and our own views. • We considered the historical accuracy of forecasts prepared by management by comparing the actual results for the year with the original forecasts. • We involved KPMG valuation specialists when assessing the technical accuracy of the calculations. • Furthermore, we considered the appropriateness of the notes provided on goodwill and impairment testing. |
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CARRYING VALUE OF INVENTORIES

(Notes 4 and 18 to the consolidated financial statements)

- The production process results in more than one product being produced simultaneously.
- Inventory monitoring is based on the ERP (Enterprise Resource Planning) software and monthly stock takes.
- Crude tall oil, used as raw material, is measured on Fifo basis.
- Production costs are allocated to finished products based on the relative sales value of each product.
- By-products are measured at net realizable value and this value is deducted from the cost of the main products.
- Inventory measurement involves management judgement. Measurement of inventory is partly based on imputed allocations of production costs determined by management that are prepared manually.
- We assessed the appropriateness of inventory measurement principles applied.
- We evaluated the stock taking process overall.
- We derived the inventory balances in the accounting software from the company's inventory system and performed procedures to assess both the standard cost method applied to finished products and underlying criteria.
- We tested the application of the Fifo principle in measurement of crude tall oil.
- We assessed the impairment risk of the inventories
- Furthermore, we considered the appropriateness of the notes provided on inventories.

VALUATION OF TRADE RECEIVABLES

(Notes 4, 19, 22, 27 and 30 to the consolidated financial statements)

- The amount of trade receivables in the consolidated statement of financial position as at 31 December 2017 was € 22.1 million of which there were no receivables over 60 days past due date.
- Forchem Plc belongs to Respol SPGS Group. The intra-group trade receivables accounted for 24 percent, i.e. € 5.2 million of the total trade receivables of Forchem Plc.
- In preparing consolidated financial statements, trade receivables are carried at fair value, equal to the original carrying value less expected credit losses. In respect of receivables past due impairment is based on the recoverable amount.
- Measurement of receivables involves management judgement in respect of the amount and timing of impairment losses.
- We evaluated the appropriateness of monitoring procedures in place and the measurement principles of trade receivables applied by the Group.
- We assessed sales transactions taking place before and after year-end to check that revenue was recognized in the appropriate period, based on delivery dates and terms of deliveries.
- We agreed the intra-group receivables from Respol SPGS to the counterparty confirmation obtained. We assessed the amount of trade receivables past due, age profile and the resulting effect on recoverability.
- Furthermore, we considered the appropriateness of the notes provided on trade receivables and related party disclosures on receivables.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

INFORMATION ON OUR AUDIT ENGAGEMENT

We were first appointed as auditors by the Annual General Meeting in year 2013 and our appointment represents a total period of uninterrupted engagement of 5 years. Forchem Plc became a public interest entity on date 30.6.2016.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Turku 30.4.2018

KPMG OY AB

JUHA-PEKKA MYLÉN

AUTHORISED PUBLIC ACCOUNTANT, KHT

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