

THE EVALUATION OF THE STANDING OF PROCHEM S.A. IN 2009 INCLUDING THE CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM

The evaluation of PROCHEM S.A. in 2008 will be effected in four aspects:

- results of the activities,
- situation of the company,
- functioning of the internal control system,
- risk management.

I.THE APPRAISAL OF PERFORMANCE OF THE COMPANY IN 2009

Results of company PROCHEM SA activity and the Capital Group in 2009 were definitely worse compared with the previous year - it concerns both the income and results.

PROCHEM SA recorded revenues of PLN 111 million as in the comparison to PLN 293.1 million in 2008 is indicating a fall about 62.1%.

Such significant decrease results above all from reducing the income from contracts connected with realization which reduced from PLN 238.9 million in 2008 to PLN 67.5 million in 2009 it is about 71.7 %.

What is a domain of the company i.e. the design and other engineering services registered the fall only about 14.8 % (PLN 38 million in 2008 and PLN 32.4 million in 2009).

From a point of view of the result, the year 2009 was first in the history of the company in which the net loss was recorded of the amount of PLN 3,118 thousand.

One of big contracts connected with realization was a primary source of the loss - contract with the Hungarian customer, where because of the failure to adhere to the final completion dates and for failure to achieve of assumed technical parameters the company was forced to make correction of the due remuneration and to incur high contractual penalties.

It is important, that if it is not for an event, having incidental character by its nature, the performance of the company in 2009 would be positive, what generally saying is pointing at the fact that PROCHEM SA competently accommodated itself to critical conditions.

The Capital Group got also clearly worse results compared with the previous year, however the scale of the deterioration is lower than for PROCHEM SA.

Revenues achieved in 2009 by the Group amounts to PLN 183 million and they were by 54 % lower than revenues got in the previous year.

In practice it means, that apart from the PROCHEM SA, results of companies being in the Group in the majority are positive. And so they had an amortizing influence on the whole of the group.

Achieved result of the Capital Group in part falling to shareholders of dominant entity is little and amounted to PLN 164 thousand - it is fraction of the result achieved in the previous year (PLN 12.7 million).

In 2009 it failed, mainly due to politics of financial institutions, to begin office property projects in Cracow and Warsaw. Arrangements led this year are pointing out to the possibility of starting one of them this year.

To sum up, results get by PROCHEM SA as well as the Group are reflecting the scale of the crisis, of crisis which in Poland most firmly hit into the market of industrial investments, the most important market for the operations of PROCHEM SA.

Relatively low turnovers, the little profit of Groups show on one hand the strong influence of the contingency on the other the need to make an appraisal, whether the politics implemented so far of the diversification is sufficient.

The additional issue, to which the Supervisory Board wants to approach, is reservation formulated by the auditor company MISTERS Auditor.

The reservation concerns the amount due on account of seized guarantee deposits by PERN "PRZYJAŹŃ" SA in the amount of PLN 17 363 930 , which in the opinion of the auditor as "overdue, uncertain and not confirmed by the creditor" should not be shown in company's assests. The Management Board has the counter opinion and recognizes, that creating the write-down to the amount of above amounts due is unjustified.

The Supervisory Board is acceding to the view of the company Management Board presented in item 5 and 6.13 the Report of the Management Board and is sharing arguments presented in them.

Simultaneously the Supervisory Board draw attention of the auditor to the fact that for securing full of the objectivity of subject reservation, no matter how formally right, it should be preceded deepened analysis of legal status of the amount due and formulating conclusions in the opinion of auditors which result from such analysis.

II.SITUATION OF THE COMPANY

Evaluation of the company's standing in 2009 similarly to the evaluation of a situation current and future isn't explicit. A crisis and an ability to amortise it by PROCHEM SA are main factors shaping this situation.

Economic crisis even though his most difficult phase associated with the financial crisis was defeated at the majority, influenced and influences developmental conducts of entrepreneurs very strongly.

Great level of uncertainty, unbalance of many economies (what is delaying the return of the business prospects) causes, that the investment sector is still stagnating and it is very probable that will be leaving it relatively slowly. Everything is pointing at it that neither current year nor perhaps still next year won't bring signals of an new investment boom.

There are of course developing dynamically sections in the sector , but they concern either spheres concerning public investments, infrastructure investments, projects from the scope of the environmental protection or also some economic sectors such as energetics or the gas industry. In these areas a broadly understood state and the European Union policy is a dynamizing factor.

The scope of diversifications strategically accepted by the Capital Group of PROCHEM SA was built from one side with the thought about creating the value added resulting from the blood relationship of activity and had abilities, from second side was supposed to be a form of reducing the general level of risk. That is why apart from the main activity property projects were taken up and maintenance both in industrial companies and in the real estate sector was being developed in the Group.

In practice scale of the crisis, its specificity, cause, that influences strongly and in different directions what in the significant way reduced the amortizing ability of the company based on the diversification.

Not only a demand for engineering and building services is falling, but also appear problems in starting property projects, and also weakening the demand for maintenance

services is taking place what is being bound with appearing universally cutting costs and weakening dynamics of attended companies.

Action taken in 2009 and continued in the current year building or developing specializations in areas, of which investment dynamics will be in the nearest years high is direction letting boost the business progress in the future. It concerns widely understood energetics, the environmental protection or the gas sector.

Acquired experience and know-how can in the future be premises of increasing the scope of the diversification or of other her configuring what would lead for increasing the ability for depreciation of critical or deopportunistic phenomena.

Adverse performance of the company, considerable commitment to projects property, problems with payments appearing particularly in the investment sector, show also the necessity of concentration of company on the financial standing, of its permanent monitoring and gradual rebuilding reserves.

So situation of the company in 2009, in the current year, but also in the nearest years will be determined by long-term effects of crisis, through effort of building new specializations and starting new activities increasing the scope of diversification with parallel effort of restoring the strong financial standing.

III.ASSESMENT OF THE INTERNAL CONTROL SYSTEM

In the opinion of the Supervisory Board the control system of the PROCHEM SA didn't undergo the substantial change in comparing to 2008 year.

Comprehensive character of the system guarantees timely and accurate revealing facts concerning essential elements of company's activity. It lets the Management Board as well as the Supervisory Board get the full knowledge about the financial standing, operating performances, the state of the company's assets, as well as the effectiveness of the management.

Scope of supervision covers above all:

- basic and support business activity of the company,
- the financial reporting and accounting settlements,
- compliance of the company's activity with effective laws and regulations and internal regulations,
- the employment and remuneration.

Specificity of the activity of PROCHEM S.A. is connected with realization for customers complex investment enterprises.

In connection with the above in the Company are applied systems of the planning and the inspection of undertakings carried out . These systems are monitoring activity in the real time allowing for possible action in case of the appearance of undesirable phenomena. They allow also for conducting manoeuvrable inspections of selected projects after finishing them aimed at avoiding mistakes in the future.

Main task of institutional controlling is the conducting comprehensive inspections within the scope of the most important issues for the company as well as collecting and drawing up the information concerning activities of organisational units of the company, chosen economic problems and other issues which in the given period were regarded most significant by the company Management Board. Apart from the institutional internal control also a so-called functional control made by managers of different ranks exists in the company. These managers are in charge of employees reporting to them, consisting in checking the state of the accomplishment of established objectives.

Test action is being conducted in all phases of activity in the preliminary, current and next form of the control. Financial and accounting documents are being subjected to the technical, formal and accounting control. The information about the formal-technical and accounting correctness is provided with the signature drawn up in the identifiable way

(full name) provided with the personal stamp of the authorised person and the date of approving the document.

The Supervisory Board is judging, that the control system functioning in PROCHEM S.A. in 2009 guaranteed the completeness of the approach to business transactions, correct classification of source documents, as well as correct evaluation of stock in possession on individual stages of the registration, and hence ensures the correctness of drawing up a financial statement and he let the Management Board conduct company's activity based on the verified and complete information.

IV. RISK MANAGEMENT

In PROCHEM S.A. isn't appearing a separate risk management system, allocated organizationally and procedural. The Company's service appropriate to the risks typical of the given kind are dealing with the identification and the evaluation of areas of the risk.

Also defining action essential to reduce the risk is included in their duties. Management Board is conducting supervision but also is taking crucial decisions concerning reducing the exposure to the risk.

1. Risk of economic fluctuations

The change in the economic trend associated with the worldwide crisis affected the situation of the Company particularly in the whole year 2009. It manifested itself with reducing the demand for engineering services provided by PROCHEM S.A. and the worsening of business conditions and the possibility of financing of property projects.

For reducing this risk Company:

- is keeping the diversification strategy of activity,
- is getting ahead in cutting costs,
- is keeping the optimal level of reserves.

The crisis afflicted all activities appearing in the PROCHEM S.A. Capital Group, and restrictions in the area of the external financing stopped the possibility of implementations of property projects as well as possibilities of the optimization of reserves.

2. Risk of the appearance of threats at carrying contracts out

Types of activity conducted in PROCHEM S.A. - preparing and managing of investment projects for customers cause, that there is this constantly appearing risk.

For limiting it PROCHEM S.A. is administering:

- realistic price calculation at entering into a contract,
- monitoring progresses of the contract and revealing threats,
- selection of credible subcontractors,
- contractual clauses limiting upper amount of contractual penalties.

In spite of applying these system instruments in 2009 the Company didn't manage to avoid financial consequences at the realization of the difficult contract on the Hungarian market what resulted in loss suffered by PROCHEM SA.

Financial risks appearing in 2009 were as follows:

3. Risk of the payment unreliability

The instruments limiting this constantly appearing kind of risks are:

- monitoring of the standing of customers before and in the process of the implementation of the contracts,
- applying of special debt collection procedures,
- optimization of structures of the payment.

In the crisis conditions and worsening the liquidity, this risk can gain the greater significance in current and next year.

4. Risk of disadvantageous settling the litigation with PERN S.A.

The current court course of the dispute shows little risk of the incident of such a situation.

In the evaluation of the Supervisory Board both identification of risk factors in 2009, monitoring them, as well as also a system of precautions are in PROCHEM SA on the good level. A feedback exists in the Company between the control system and appearing risks. The control system is helping to detect and determine size of risks and next areas of the increased risk are controlled more thoroughly.

Signatures of the Supervisory Board members:

1. Andrzej Karczykowski - Chairman
2. Marek Garliński
3. Krzysztof Obłój
4. Dariusz Krajowski-Kukiel
5. Steven Tappan