

## **Letter of the President of the Management Board**

Dear Sirs,  
Our Shareholders, Clients and Partners,

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

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

Unfortunately, trends associated with the slowdown in the construction sector also affected the situation of PROCHEM. Although we obtained significant revenues from sales, both generated by the Company (PLN 109,7 million), and by the entire Capital Group (PLN 169.2 million), a loss of PLN 23.1 million was also noted (PROCHEM S.A. Capital Group).

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

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

However, 2016 also brought good things for PROCHEM. We finished the design and construction of the first stage of the Astrum Business Park office building, which became the new seat of the Company. New offices will allow us to work in significantly more comfortable conditions and enjoy their functionality and modern technical infrastructure. The Astrum office building was also appreciated and recognised by the jurors of the Polish Association of Construction Engineers and Technicians (PZiTb). Our Company, for the implementation of the ASTRUM Business Park, was awarded the prestigious title in the "Construction of the Year 2015" competition, most valued in the industry, a second degree award in the category of office and commercial buildings.

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

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

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

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

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

In designs for the energy industry, we make particular use of 3D integrated modelling, introduced by PROCHEM several years ago; this method combines building designs created with the Revita platform with models of technological facilities created in PDMS. In the case of the water processing system, for the first time PROCHEM integrated a 3D model with a schedule of execution works, which is the first implementation of BIM 4D technology. We hope that more new projects will soon be introduced to BIM.

Another important area of operations for PROCHEM S.A. in 2016 were developer activities. Together with our financial partner – LFI 1 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych – we are working on the Astrum Business Park project in Warsaw, an office complex with a total area of 30 thousand m<sup>2</sup> in stages I and II. We are currently in the process of acquiring tenants, which is painstaking due to the high supply of office space in Warsaw.

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

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

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

Warsaw, April 2017