

**REPORT OF THE MANAGEMENT BOARD
ON THE BUSINESS ACTIVITY OF THE CAPITAL
GROUP OF PROCHEM S.A. IN 2009**

Warsaw, April 2010

1. Description of principles of drawing up the financial statement

The description of principles according to which the individual financial statement of the Capital Group of PROCHEM S.A. for 2009 was drawn up was placed in the additional information to this report.

2. Review of economic-financial basic volumes revealed in the annual financial report and the prospects of the development of the Capital Group of PROCHEM S.A. in 2010

In 2009 Capital Group of Prochem S.A. achieved revenues of PLN 183 million. Revenues from basic activity i.e. sales of services constitute 89% of total revenue and are PLN 191 million lower than those achieved in 2008. Such significant decrease results from significant reduction of the income from contracts of implementation of investment projects recorded mainly by the dominant entity. The net profit have reached also rock bottom in comparison with last year. Above all it is a result of including in costs of 2009 effects of final settlement of accounts for contracts with the Hungarian customer, in consequence of which, due to the failure to adhere to the final completion dates and for failure to achieve of required technical parameters the dominant entity of the Capital Group was forced to make correction of due remuneration and to bear high contractual penalties.

On the operations of Capital Group of PROCHEM S.A. in 2010 the macroeconomic surrounding of the company will have the significant effect, particularly the leaving by the Polish economy the financial crisis lasting in previous years. In relation to the slow return by banks for financing of investments, many prospective customers (in particular industrial companies) are beginning work in this respect and are making decisions about taking new investment aims. A preparatory work being aimed at starting the accomplishment of large-scale investments in the energy, gas industry and the environmental protection is also being conducted. It will be reflected in the number of orders won over by the Group, and in the end on financial results achieved in 2010. The Management Board of companies belonging to Capital Group of PROCHEM S.A. with the particular attention is monitoring the current situation and if necessary is prepared for taking proper action being aimed at adapting its potential to new opportunities.

3. Description of essential risk factors and threats to activity of the Capital Group of Prochem S.A..

Companies belonging to Capital Group of Prochem S.A. are exposed in their activity to the following kinds of risks and threats:

3.1. Economic fluctuations on the investment markets

Part of companies being included in Capital Group provide services on the investment market, being characterized by a large scale of hesitations of the demand strongly connected with the general macroeconomic situation of the country. Methods used by the Group of limiting the adverse impact of this factor on financial results (concentrating reserves, diversification of provided services), cannot fully neutralize this risk.

3.2. Dependence on the staff

The risk of making conditional on the staff is appearing particularly in the dominant entity. The refinement of provided services, undertaking the completion of complicated technological projects, using modern computer systems and the work for highly-regarded customers requires the highest professional qualifications from employees. Recruiting this sort of persons, peculiarly in the situation of the liberalization of the European labour market can be difficult. The company is trying to minimize this threat by raising qualifications of the employed staff and applying incentive programs associating employees with the company.

3.3. Exchange rate risk

Part of contracts for sale of services (mainly of dominant entity) is concluded with foreign companies in foreign currencies (EUR, USD). The considerable hardening of domestic currency can adversely affect the performance of the Group. Partly this risk is being eliminated in the natural way through the purchase of devices and the services necessary for the accomplishment of these contracts abroad, as well as through the purchase of relevant financial instruments.

3.4. Risk of dependence on important buyers of services

Such a risk is appearing particularly in the company belonging to Capital Group, and conducting activity of maintenance of installations and industrial plants. Such activity requires incurring appropriate investments for the purchase of the spare parts, tools and

employing skilled staff at every contract. Loss of the big buyer of services can lead to temporary financial problems of this company. Relevant stipulations of a contract protect to a large extent against such a risk, by virtue of which the customer is obliged to a successive refund of the incurred expenditure during the process of the fulfilment of an order.

3.5 Risk connected with the protraction the proceedings in the dispute with PERN S.A.

In the face of considerable extending of judicial proceedings in the dispute with PERN SA which was begun in 2006 and is conducted currently by the District Court in Warsaw concerning settlement of accounts for the contract given up on the day 10.11.2005 for construction management of an investment project under the name „Pipeline in a section from the ST- 1 Adamowo - to raw material base Plebanka”, a risk exist of the necessity to fulfill obligations by PROCHEM S.A. in 2011 towards sub-suppliers concerning seized guarantee deposits before regaining them from PERN SA. Such a risk according to the opinion of the Company is minimal however the Management Board of PROCHEM S.A. is taking into account the need to accumulate adequate financial means for this purpose.

4. Declaration about applying Corporate Governance Standards in the company PROCHEM S.A. in 2009.

The Management Board of PROCHEM S.A. is declaring hereby that in the year 2009 the principles of corporate governance accepted in the company in the wording established according to the Attachment to the Resolution No 12/1170/2007 of July 4th 2007 of the Council of the Stock Exchange were fully obeyed. The full text of the set of principles of corporate governance to which the issuer is reporting is on the website of PROCHEM S.A. – www.prochem.com.pl

Description of the internal control system of the Issuer

The internal control is one of functions of current managing the company exercised directly by the company's Management Board, directors, proxy holders and other employees on managerial positions or which such a function was entrusted.

PROCHEM S.A. has the comprehensive internal control system that guarantees timely and accurate revealing facts concerning essential elements of company's activity.

It is contributing to getting 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.

The institutional internal control examines undertakings already carried out and relevant documentation. The main task of such control is to conduct periodic inspections in the most important issues for the company and the collecting and drawing up the information concerning activity of organizational units of the company, to study chosen problems of economic and other issues which in the given period were regarded most significant by the company's 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.

The institutional internal control in PROCHEM S.A. is mainly conducted by financial and accounting services and employees of the legal and organizational department. The part of the tasks of the internal control is being led through appointed teams and committees.

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 authorized person and the date of approving the document.

The control system functioning in PROCHEM S.A. guarantees 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.

Description of the system of managing the risk in the enterprise of the Issuer

The following risks are appearing in company's activity:

- risk of economic fluctuations on the investment market,
- risk of losing of crucial employees,
- foreign exchange risk,
- risk of making conditional on important buyers of services,
- risk of the payment unreliability,
- risk of disadvantageous settling the litigation with PERN S.A.

The risk management in individual areas consists on:

- monitoring of generating phenomena,
- taking action aiming at lowering the level of risk.

In the scope of individual risks the situation is as follows:

- risk of economic fluctuations on the investment market
 - monitoring of the macroeconomic situation and in chosen industries,
 - object diversification (development of the activities related to engineering services – maintenance and development),
 - field diversification (expanding of export)
 - collecting reserves.
- risk of losing of crucial employees,
 - monitoring of the level of employment, rewarding and fluctuation of the staff,
 - monitoring of the labour market and the level of the remuneration on the market,
 - holding the system of trainings and raising qualifications,
 - incentive programs for key employees,
 - active system of the recruitment - the environmental cooperation and maintaining relations with colleges.
- foreign exchange risk,
 - monitoring and forecasting the courses of exchange.
 - dealings in foreign exchange futures ,

- purchase of devices and services in currencies of contracts,
 - holding high-level domestic sales.
- risk of making conditional on important buyers of services,
 - monitoring of the performance of contracts with important buyers of services,
 - stipulations of a contract containing amortizing elements,
 - maintaining the partnership relations with regular customers.
- risk of the payment unreliability
 - monitoring of the financial standing of key contracting parties before and in the process of the execution of the contracts,
 - applying special debt collection procedures.
- risk of disadvantageous settlement of action against PERN S.A.
 - monitoring of the legal status by the Management Board and the team of lawyers.

Both the identification of risk factors and monitoring them as well as an applied system of actions reducing the risk are in PROCHEM S.A. on the good level and implemented strategy of development and diversification is supporting the reducing the part of risks and is leading to the professionalism in applied instruments.

Information about shareholders having considerable packages of the Issuer's share

Based on the information held by the Company as at the day of drawing up this report the shareholders with more than 5 % votes on the General Meeting of Shareholders are as follows:

Detailed list	Qty of shares (units)	% of votes in total qty of votes	% of share capital
1. Prochem Holding Sp. z o.o.	962.341	24,65	24,68
2. Steve Tappan	382.751	9,80	9,81
3. ING Towarzystwo Funduszy Inwestycyjnych SA, including: ING Parasol Specjalistyczny Fundusz Inwestycyjny Otwarty	358.312 228.950	9,18 5,86	9,19 5,87
4. Union Investment Towarzystwo Funduszy Inwestycyjnych S.A.	345.000	8,84	8,85
5. PTE PZU SA	325.521	8,34	8,35
6. Legg Mason Zarządzanie Aktywami S.A.	201.948	5,17	5,18

No securities which would give special prerogatives to control the Issuer exist.

No restrictions concerning transfer of ownership of securities of the Issuer and the exercising the right to vote exist.

Managing personnel of the Issuer are being appointed by the Supervisory Board.

The term of office of the Management Board of the Issuer lasts three years. Rights of managing persons are determined by Statutes of PROCHEM S.A. and they aren't going beyond the framework marked out by the Commercial Companies Code. In particular the right to make a decision about emission or the share redemption has only a General Meeting of Shareholders.

Principles of the amendment to the company's statute of the Issuer are pursuant to the provisions of the Commercial Companies Code.

The way of acting of the General Meeting of Shareholders of PROCHEM S.A. and their fundamental entitlements and the description of rights of shareholders and the way of its exercising are entered into Statutes of PROCHEM S.A. as well as into Bylaw of the General Meeting of Shareholders of PROCHEM S.A. A/m documents are available on a website of PROCHEM S.A.

On 6 June 2009 the Supervisory Board of PROCHEM S.A. appointed the Management Board for the next term of office in unchanged composition.

As at the day of drawing this financial statement up the following persons are members of the PROCHEM S.A. Management Board:

Jarosław Stępniewski - Chairman of the Management Board
Marek Kiersznicki - Vice Chairman of the Management Board
Krzysztof Marczak - Member of the Management Board

As at the day of drawing this financial statement up the following persons are members of the PROCHEM S.A. Supervisory Board:

- Andrzej Karczykowski - Chairman
- Marek Garliński – Vice Chairman
- Dariusz Krajowski-Kukiel
- Krzysztof Obłój
- Steven G. Tappan

5. Records of proceedings at law, competent authority for the arbitration or administrative body

PROCHEM S.A. is still a party in the lawsuit regarding settlement of accounts for the contract given up on the day 10.11.2005 for construction management of an investment project under the name "Pipeline in a section from the ST- 1 Adamowo - to raw material base Plebanka" concluded with PERN S.A. PROCHEM S.A. filed a suit demanding the payment of PLN 41,301 thousand as the final settlement of contract. PERN S.A. filed a counter-claim against PROCHEM S.A. demanding the payment of PLN 129,444 thousand as the settlement of contract. On 18 January 2008 District Court in Warsaw delivered a judgment regarding this case by virtue of which rejected a claim filed by PROCHEM S.A. (Consortium GRI) and also refused a counter-claim filed by PERN "Przyjaźń" S.A. It results from grounds for a judgment delivered by Court that:

- The Court admitted a claim for payment of the amount of PLN 41,301 thousand by PERN "Przyjaźń" S.A. as being rightful as for the principle, at the same time the Court judged, that this liability wasn't still due
- The Court acknowledged that there is no ground for admission of a counter-claim filed by PERN "Przyjaźń" S.A.

After getting acquainted with the grounds for the judgment in writing PROCHEM S.A. lodged an appeal from this judgment in this part, in which the District Court declared claim for the payment of the amount of PLN 41,301 thousand by PERN "Przyjaźń" S.A. premature and still undue and in this part in which PROCHEM S.A. demanded taking over by PERN "Przyjaźń" S.A. obligation towards contractors/suppliers to return guarantee deposits.

PERN "Przyjaźń" S.A. lodged too an appeal from the judgment, in which District Court rejected their claim from filed counter-claim.

On 26 August 2008 Court of Appeal in Warsaw delivered a judgment regarding an appeal lodged by PROCHEM S.A. from the judgment of District Court of 18 January 2008 regarding case at law against PERN S.A. for payment of amount of PLN 41 301 495.22 as the final settlement of contract for construction management of an investment project under the name "Pipeline in a section from the ST- 1 Adamowo - to raw material base Plebanka".

Court of Appeal in mentioned above judgment decided to relegate the case to the District Court for decision by making settlement of accounts for the mentioned above contract. It results among others from the grounds delivered by Court of Appeal that claim filed by PROCHEM S.A. regarding settlement of accounts for contract is not premature as it was earlier recognized by the District Court. Apart from that the Court of Appeal stated that settlement of accounts for the contract should be made pursuant to the provisions of the contract. This establishment is in compliance with position in a case of PROCHEM S.A.

From the part of this sentence PERN S.A. lodged the petition for the cassation into the Supreme Court. On the meeting on 15 January 2010 the Supreme Court dismissed the petition for the cassation stating the lack of reasonable bases in it, requiring the evaluation with reference to the appealed part of the judgment. At present the dossier is in a District Court in Warsaw, and sides are waiting for setting the date of the trial.

The value of these proceedings exceeds the 10 % of equity of the Issuer.

Apart from that total value of other proceedings separately for the group of obligations as well as the group of the debts, doesn't exceed the 10 % of equity of the Issuer.

6.1 Information on basic products and services provided Capital Group of Prochem S.A.

1. Subject of activity of companies included in Capital Group of PROCHEM S.A. covers providing services connected with:

- building industry: engineering and design, general contracting, project management, technical consulting, construction works, assembly of electrical installations and rental of construction equipment;
- lease of the office space;
- maintenance of installations and industrial plants, public buildings and facilities and housing estates;
- technical consulting, development and implementation of new technologies, integration of computer systems.

Revenues from sales of these services constituted 99% of total revenue of the Capital Group achieved in 2009, and their total value is almost 54% lower than those achieved in previous year.

The breakdown of revenues achieved on each type of activity and their structure is presented below:

(Revenues in PLN thousand)		
DESCRIPTION	2009	2008
TOTAL REVENUES FROM SALES OF SERVICES	163 297	354 277
including:		
- sales of engineering services and construction services	137 608	328 891
- sales of maintenance service	17 027	19 441
- lease of the office space	4 229	4 246
- sales of other services	4 433	1 699

6.2 The breakdown of markets of the sale of services in 2009 was as follows

- domestic market 99%
- foreign market 1%.

The only buyer of services of the Company which the participation in the income from sales in 2009 exceeded 10 % was company BIOAGRA S.A. – almost 30% of participation in the income from sales.

Other formal connections with the mentioned above company apart from the trade agreement aren't appearing.

6.3 Information on concluded agreements important for the activities of Capital Group of Prochem S.A.

As of today the most essential agreement, playing a significant role for activities both for the dominant entity as well as the capital group will be a contract for designing and construction of the office and commercial building Astrum in Cracow concluded between Prochem S.A. and subsidiary Elmont Inwestycje.

Any agreements concluded between shareholders of Prochem S.A. which would be important for the company's business activity aren't known to the Company.

6.4 Information on organizational or capital connections of Capital Group of Prochem S.A. and main capital investments made as part of the capital group.

The Issuer has the following subsidiaries directly or indirectly and associated companies:

Subsidiaries covered by full consolidation

- Prochem Inwestycje Sp. z o.o. with registered office in Warsaw – subsidiary directly (100.0%);
- Irydion Sp. z o.o. with registered office in Warsaw – subsidiary directly (100.0%);
- PRO-INHUT Sp. z o.o. with registered office in Dąbrowa Górnicza – subsidiary indirectly (99.0%);
- Pro-Organika Sp. z o.o. with registered office in Warsaw – subsidiary directly (91.4%);
- Prochem Serwis Sp. z o.o. with registered office in Warsaw - subsidiary indirectly (90.0%);

- PREDOM Sp. z o.o. with registered office in Wrocław – subsidiary indirectly (81.1% of share in capital and profit, 69.4% of share in votes);
- ASI Polska Sp. z o.o. with registered office in Gliwice – subsidiary indirectly (90.0%);
- Prochem Zachód Sp. z o.o. with registered office in Słubice – subsidiary directly (60.0%);
- PROTADE Sp. z o.o. with registered office in Gdynia– subsidiary indirectly (72%) (ASI Polska Sp. z o.o. subsidiary in 90.0% has 80.0%)
- ELPRO Sp. z o.o. Kraków – subsidiary indirectly (77.2%, including 54.5% of shares in 50% of share of Elektromontaż Kraków)
- Elmont Inwestycje Sp. z o.o. Kraków – subsidiary indirectly (77.2%, including 54.5% of shares in 50% of share of Elektromontaż Kraków)
- Elektromontaż Kraków S.A. – subsidiary indirectly (54.5%) – the company is drawing up consolidated financial statement, which contains data of the subsidiary in 100% ELMONT-POMIARY Sp. z o.o. with registered office in Kraków,
- IRYD Sp. z o.o. with registered office in Warsaw – subsidiary indirectly 100%
- ATUTOR Integracja Cyfrowa Sp. z o.o. with registered office in Warsaw – subsidiary indirectly (97.2% of shares is belonging to company Prochem Inwestycje Sp. z o.o. subsidiary in 100%),

Associated entities covered by consolidation under the equity method:

- PRO PLM Sp. z o.o. with registered office in Warsaw – associated indirectly (50% of shares is belonging to company Prochem Inwestycje Sp. z o.o. subsidiary in 100%),
- PROMIS Sp. z o.o. with registered office in Warsaw – associated indirectly (45% of right of vote and 97.6 of share in share capital is belonging to company Prochem Inwestycje Sp. z o.o. subsidiary in 100%),
- ITEL Sp. z o.o. Gdynia – 35.2% of shares,
- TEOMA S.A. with registered office in Warsaw – associated indirectly (12.8% of shares, including Prochem Inwestycje Sp. z o.o. subsidiary in 100% has 7.5% of shares).

The principle adopted at the consolidation is not including in the consolidation entities which aren't conducting activity - financial data of these companies aren't distorting the

information about results of Capital Group of Prochem S.A. The companies not covered by consolidation:

- Prochem RPI Sp. z o.o. with registered office in Warsaw - subsidiary
- Predom Projektowanie Sp. z o.o. with registered office in Wrocław – subsidiary
- Pasterex sp. z o.o. with registered office in Warsaw – associated.

Subsidiaries and associated covered by consolidation were included in the consolidated financial statement starting from the day of including the control by the parent company.

6.5 Description of the transactions with affiliated entities

In 2009 significant transactions between companies from the Capital Group of Issuer on other conditions than market conditions weren't concluded.

6.6 Information on contracted credits and loans

Name of the entity	Registered office	Amount of the credit acc. to agreement (in PLN th.)	Amount of the credit for the repayment (in PLN th.)	Conditions of the interest	Term of a loan	Security
Contracted by Prochem SA						
Fortis Bank Polska SA	Warsaw	3,000	0	WIBOR of monthly deposits + margin	24 May 2010	Obligation of realization of incomings
BRE Bank Polska SA	Warsaw	5,000	2 620	WIBOR for O/N deposits in PLN + margin	30 June 2010	Promissory note in blank
Contracted by ASI Polska Sp. z o.o.						
ING Bank Śląski	Gliwice	92	49	WIBOR for monthly deposits in PLN + margin	15 July 2015	B/e, pledge by registration
Deutsche Bank	Gliwice	1 000	798	WIBOR for monthly deposits in PLN + margin	15 July 2011	B/e, mortgage,
ING Bank Śląski	Gliwice	115	31	WIBOR for monthly deposits in PLN + margin	26 Dec.2010	B/e, pledge by registration
Pekao SA	Gliwice	200	66	WIBOR for monthly deposits in PLN + margin	31 Dec. 2010	B/e, pledge by registration
Pekao SA	Gliwice	500	367	WIBOR for monthly deposits in PLN + margin	30 June 2015	B/e, mortgage
Pekao SA	Gliwice	290	162	WIBOR for monthly deposits in PLN + margin	31 July 2011	B/e, pledge by registration
ING Bank Śląski	Gliwice	1 000	771	WIBOR for monthly deposits in PLN + margin	30 June 2010	B/e, credit in overdraft on current account
Contracted by company Spółkę Protrade Sp. z o.o.						
Fortis Bank Polska SA	Gdynia	160	78	WIBOR for monthly deposits in PLN + margin	05 June 2010	B/e in blank guaranteed by ASI Polska SA
Contracted by company PROORGANIKA Sp. z o.o.						
BRE Bank Polska SA	Warsaw	100	73	WIBOR for monthly deposits in PLN + margin	30 June 2010	B/e
Contracted by company Elektromontaż Kraków SA						
ING Bank Śląski	Kraków	2.000	1 013	WIBOR for monthly deposits in PLN + margin	23 July 2010	Mortgage
Deutsche Bank	Kraków	500	0	WIBOR for monthly deposits in PLN + margin	09 July 2010	Deposit
Contracted by Atutor Integracja Cyfrowa Sp. z o.o.						

Kredyt Bank SA	Warsaw	6	6	WIBOR for monthly deposits in PLN + margin	05 June 2010	B/e in blank
Contracted by Spółkę PRO INHUT Sp. z o.o.						
ING Bank Śląski SA	Warsaw	100	88	WIBOR for monthly deposits in PLN + margin	30 June 2010	B/e

6.7 Information on loans granted

Loans granted in the from 1 January to 31 December 2009:

- a) Issuer granted subsidiary Irydion sp. z o.o. long-term loans in the total amount of PLN 3,100 thousand for the purpose of financing of property investment in Cracow and in Warsaw. The interest on a loan was established on the level of the six-month WIBOR rate being in effect at the end of every calendar year. The date of payment falls on 31 Dec. 2012 r
- b) Subsidiary Irydion sp. z o.o. granted subsidiary indirectly Elmont Inwestycje sp. z o.o. long-term loans in the total amount of PLN 750 thousand. The interest on a loan was established on the level of the six-month WIBOR rate being in effect at the end of every calendar year. The date of payment falls on 31 Dec. 2012 r
- c) Subsidiary Elektromontaż Kraków S.A. granted subsidiary indirectly Elmont Inwestycje sp. z o.o. long-term loans in the total amount of PLN 750 thousand. The interest on a loan was established on the level of the six-month WIBOR rate being in effect at the end of every calendar year. The date of payment falls on 31 Dec. 2012 r

6.8 Information on granted and received warrantees and guarantees

Total value of warrantees and guarantees given by companies from Capital Group and connected with the operational activities as at 31 December 2009 amounts to PLN 12,667 thousand, including:

- a) own bank guarantees of the good performance of services – PLN 10,673 thousand;
- b) guarantee of repayment of advance payment – PLN 1,753 thousand
- c) b/e guarantee of the good performance of a contract – PLN 197 thousand
- d) warranty given for tenders - PLN 445 thousand.

The total sum of conditional amounts due from the title of received guarantees of the good performance and the statutory guarantee amounts to PLN 10,258 thousand as at 31 December 2009.

In 2009 companies from the Group granted to affiliated entities guarantees of the credit repayment to the total amount of PLN 1.740 thousand.

6.9 Description of the use of takings from the issue

In 2009 companies from Capital Group didn't issue any securities.

6.10 Explaining differences between achieved financial results and the forecast.

In 2009 Capital Group of Prochem S.A. didn't publish the forecast of financial results.

6.11 Evaluation of the management of financial means

During the year 2009 any disturbances to financial liquidity in Capital Group of PROCHEM S.A. didn't appear. The companies from the Group are keeping such a state of own financial means which enables punctual acquitting themselves of incurred liabilities. No circumstances exist which makes impossible the fulfilment of a contracted liability.

6.12 Appraisal of opportunity for realization of investment projects

In a Capital Group are included special purpose companies (Irydion, Elmont Inwestycje, Elpro, Iryd), formed for implementation of property projects, on which in the nearest period the investment activity of Capital Group of PROCHEM S.A. will focus. These companies at present are in possession of appropriate real estates and have or are conducting the intensive preparatory work being aimed at obtaining essential permits for the implementation of an investment project. These projects will be financed in a large measure based on the external financing (bank loans or the sale and lease back). At present advanced negotiations are being led about acquiring of financing of construction of the office and commercial building ASTRUM in Cracow by the company Elmont Inwestycje.

6.13 Evaluation of factors and untypical events affecting achieved financial results

In 2009 significant effect on financial results achieved by the Issuer, and in consequence for the creation of a loss from Issuer's activity have final settlement of accounts for contracts with Hungarian company, in the result of which because of the failure to adhere to the final completion dates and for failure to achieve of required technical parameters the company was forced to make correction of due remuneration for the over 800 thousand Euro and to bear high contractual penalties amounting to over 1,800 thousand Euro. In anticipation of effects of the above settlement the company created the reserve in 2008 for this purpose of the amount of PLN 5,909 thousand.

In assets of balance of PROCHEM S.A. an amount of PLN 17,363,930 is appearing in the item of the trade receivables on account of guarantee deposits seized by PERN S.A. as security for any claims towards the Consortium Prochem/Megagaz (GRI) on account of the statutory warranty and contractual guarantees resulting from Agreement no 20047 of 27 August 2002. The existence of this amount due and its sum in previous years were confirmed by PERN S.A.

Simultaneously because of the fact that the whole of work and supplies connected with the completion of a contract No 20047 was executed by the Consortium with the help of subcontractors and suppliers, as security for warranties given by these companies a part of their remuneration was seized by PROCHEM S.A. as the guarantee deposit in total amount similar to those seized by PERN S.A. Pursuant to agreements concluded with mentioned above companies return of guarantee deposits seized by GRI to subcontractors and suppliers will be after the expiry of statutory warranty and guarantee period, but not earlier than after the return of the guarantee deposit seized by PERN to PROCHEM S.A.

According to GRI the time of the statutory warranty and the guarantee expired on 13.02.2009. Therefore PROCHEM S.A. demanded return of the seized amount of the guarantee deposit from PERN S.A. Above request remained unanswered. Irrespective of it, from the trial carefulness, the amount of the seized guarantee deposit was filed for judicial proceedings being aimed at final settlement of accounts for the contract No. 20047 of 27 August 2002 which at present is being led again before the District Court in Warsaw.

Creating the revaluating write-off to the amount of the amount due on account of seized guarantee deposits in an opinion of the Management Board is unjustified, since the above amount is in the indissoluble way connected and protected (both expressed in an amount and on time) with guarantee deposits given by subcontractors and suppliers and seized by GRI.

According to the evaluation of the Management Board of PROCHEM SA even if PERN doesn't return the seized guarantee deposits, there is a great probability of regaining these amounts due yet this year within the framework of final settlement of accounts for the contract which is an object of judicial proceedings being in progress.

6.14 Characteristic of outside and internal factors essential for the development of the enterprise of the Issuer in 2010

In 2010 on development potentialities of Capital Group of Prochem S.A. the macroeconomic surrounding of the company will have the significant effect, particularly

leaving by the Polish economy the financial crisis lasting in previous years. In relation to the slow return by banks for financing of investments, many prospective customers (in particular industrial companies) are beginning work in this respect and are making decisions about taking new investment aims. Preparatory work being aimed at starting the accomplishment of large-scale investments in the energy, gas industry and the environmental protection is also being conducted. It will reflect on the number of orders won over by the company, and in the end on financial results achieved in 2010. The Management Boards included in Capital Group of PROCHEM S.A. with the particular attention is monitoring the current situation and if necessary is prepared for taking proper action being aimed at adapting its potential to new opportunities.

6.15 Characteristic of the politics within the scope of directions of the development of the Capital Group of Prochem S.A.

Politics of Prochem S.A. is concentrating on the further consolidation of the Capital Group and adapting their activity to very quickly changing market requirements.

6.16 Changes in basic principles of management of the Issuer and Capital Group

In 2009 substantial changes affecting principles of management of the Issuer and Capital Group didn't take place.

6.17 Description of the agreements concluded between the Issuer and managing persons providing compensation

Contract of employment concluded by the Issuer with managing persons provide for the compensation in the amount of remuneration in the period of six months in case of dismissing the member of the Management Board from office.

6.18 Value of the remuneration of persons managing and supervising the Issuer

Remuneration paid in 2009 in the enterprise of the Issuer:

Members of the Management Board:

1. Jarosław Stępniewski - PLN 413 thousand, including the remuneration set from the profit for 2008 - PLN 20 thousand,
2. Marek Kiersznicki – PLN 364 thousand, including remuneration set from the profit for 2008 - PLN 18 thousand,

3. Krzysztof Marczak – PLN 363 thousand, including remuneration set from the profit for 2008 - PLN 18 thousand.

Members of the Supervisory Board:

1. Andrzej Karczykowski – PLN 46 thousand, including remuneration set from the profit for 2008 - PLN 16 thousand,

2. Krzysztof Obłój – PLN 46 thousand, including remuneration set from the profit for 2008 – PLN 16 thousand,

3. Marek Garliński - PLN 38 thousand , including remuneration set from the profit for 2008 - PLN 8 thousand,

4. Dariusz Krajowski-Kukiel – PLN 38 thousand, including remuneration set from the profit for 2008 – PLN 8 thousand,

5 Steven Tappan - PLN 38 thousand, including remuneration set from the profit for 2008 - PLN 8 thousand,

Remuneration paid in 2009 on account of serving in the Management Boards and Supervisory Boards of companies being included in a Capital Group received:

1. Jarosław Stępniewski - PLN 52 thousand.

2. Krzysztof Marczak – PLN 44 thousand

6.19 Total amount of the shares of the Issuer and affiliated entities in the possession of persons managing and supervising the Issuer.

As at the day of drawing the financial statement up the following members of the Management Board and Supervisory Board of the company are in the possession of shares of Prochem S.A.;

-Jarosław Stępniewski – 37,787 units.;

- Marek Kiersznicki – 17, 500 units.;

- Krzysztof Marczak – 9,030 units.;

- Andrzej Karczykowski – 20,000 units.;

- Marek Garliński – 35,548 units.;

- Steven G. Tappan – 382,751 units.

Nominal value of 1 share is PLN 1.

Persons managing and supervising don't possess shares of affiliated entities.

6.20 Information on agreements as a result of which changes can take place in proportion of shares possessed by previous shareholders.

Any agreements, as a result of which changes can take place in the future in proportion of shares possessed by previous shareholders aren't known to the Company.

6.21 information on the system of the control of the programs of workers' shares.

In the companies belonging to Capital Group of Prochem S.A. no program of workers' shares is functioning.

6.22 Information on the agreement with the entity authorized to audit financial statements of the Issuer.

Agreement with the entity authorized to audit financial statements with company Mistery Audytor Sp. z o.o. for the auditing and reviewing of individual and consolidated reports of PROCHEM S.A. for 2009 was concluded on 26 June 2009. The agreement was concluded only for examining statements for 2009. The total contractual amount of remuneration of the Mistery Audytor amounts to PLN 76,000 net including PLN 44,500 for auditing annual financial reports and PLN 31,500 for the review of semi-annual financial reports. Company Mistery Auditor wasn't paid, neither is due remuneration from other titles. The above agreement is a fifth, successive agreement concluded by the Issuer with this auditor. On account of the examination and the review of financial statements for 2008 company Mistery Auditor received the remuneration in the net amount of PLN 84,400, including PLN 50,200 for auditing annual financial statements and PLN 34,200 for the review of semi-annual financial reports. In the year 2008 Company Mistery Auditor wasn't paid, neither is due remuneration from other titles.

Krzysztof Marczak
Member of the
Management Board

Marek Kiersznicki
Vice Chairman

Jarosław Stępniewski
Chairman