

**REPORT OF THE MANAGEMENT BOARD  
ON THE BUSINESS ACTIVITY OF THE CAPITAL  
GROUP OF PROCHEM S.A. IN THE YEAR 2010**

Warsaw , 29 April 2011

## **1. Description of principles of drawing up the financial statement**

The description of principles according to which the consolidated financial statement of the Capital Group of Prochem S.A., for 2010 was drawn up was placed in Notes to this statement.

## **2. Review of economic and financial basic volumes revealed in the annual financial statement and the presentation of prospects of the development of the Capital Group of Prochem S.A. in the year 2010.**

In 2010 Capital Group of Prochem S.A. achieved revenue of PLN 127 million. Revenue from basic activity i.e. sales of services constitutes 89% of total revenue and are PLN 50 million lower than those achieved in 2009. Such significant decrease results from significant reduction of the income from contracts for implementation registered mainly by the dominant entity. Nevertheless the made net profit is by PLN 2.3 m higher than last year. The macroeconomic surrounding will have the significant effect on the operations of Capital Group of Prochem S.A. in 2011, particularly the leaving by the Polish economy the financial crisis lasting in previous years. In relation to the slow return by banks to financing of investment projects, many prospective customers (in particular industrial companies) are beginning to work in this respect and are making decisions about undertaking new investment objectives. A preparatory work being aimed at starting the accomplishment of large-scale investments in the energy, chemical and environmental protection sectors. It will be reflected in the number of orders won over by companies from the Group, and in the end to financial results achieved in 2011. The Managements of companies belonging to Capital Group of Prochem S.A. are monitoring the current situation with the particular attention and if necessary are prepared for taking proper action being aimed at adapting their potential to new opportunities.

## **3. Description of essential risk factors and threats to activity of 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 market**

Part of companies being included in a Capital Group provides 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 of limiting the adverse impact of this factor on financial results (concentrating reserves, diversification of provided services) applied by the Group may not 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 customers of high reputation 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 Risk of rate of exchange**

Part of contracts (mainly in the dominant entity ) for sale of services is concluded with foreign companies in foreign currencies. In case of the considerable stiffening of a domestic currency it can have an adverse influence on Group results. Partly this risk is wiped out 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**

This risk is appearing mainly in the company from the capital group which is conducting activity of the maintenance of the installations and the industrial plants. Such activity requires incurring appropriate capital expenditures on the purchase of the spare parts, tools and employing skilled personnel at every contract. Loss of the big recipient of services can lead to transitional money troubles of this company. Such a risk to a large extent is protected through relevant stipulations of the contract, on the power of which customer is obliged to repayment of the incurred capital expenditures connected with the execution of the 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 10 Nov. 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 2010.**

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 4<sup>th</sup> 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](http://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,
- risk of rate of exchange,
- 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)
  - accumulation of 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.
  
- risk of rate of exchange,
  - monitoring and forecasting the rates of exchange,
  - dealings in foreign exchange futures,
  - purchase of devices and services in currencies of contracts,
  - maintaining high level of 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**

According to the information in possession of Management Board as at the day of drawing up this report the shareholders with more than 5% votes at the General Meeting of Shareholders are as follows:

<b>Detailed list</b>	<b>Qty of shares (units)</b>	<b>% of votes in total qty of votes</b>	<b>% of share capital</b>
1. Prochem Holding Sp. z o.o.	962,341	24.68	24.71
2. Steve Tappan	382,751	9.82	9.83
3. ING Towarzystwo Funduszy Inwestycyjnych SA, including: ING Parasol Specjalistyczny Fundusz Inwestycyjny Otwarty	358,312	9.19	9.20
4. Union Investment Towarzystwo Funduszy Inwestycyjnych S.A.	228,950	5.87	5.88
5. PTE PZU SA	345,000	8.85	8.86
6. Legg Mason Zarządanie Aktywami S.A.	325,521	8.35	8.36
	201,948	5.18	5.19

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 the 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.

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

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

On 11 June 2010 the Company obtained information about the resignation of Mr. Steven Tappan from the membership of the Supervisory Board of PROCHEM S.A., in the result of what on 24 July 2010 the Extraordinary General Meeting appointed Mr Adam Parzydeł to the Supervisory Board.

As at the day of drawing this financial statement up Supervisory Board of Prochem S.A. comprises following persons:

- Andrzej Karczykowski - Chairman
- Marek Garliński – Vice Chairman
- Dariusz Krajowski-Kukiel
- Krzysztof Oblój
- Adam Parzydeł



## **5. Records of proceedings at law, competent authority for the arbitration or public administration 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 judgement 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 judgement 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 judgement, in which District Court rejected their claim from filed counter-claim.

On 26 August 2008 Court of Appeal in Warsaw delivered a judgement regarding an appeal lodged by PROCHEM S.A. from the judgement of District Court of 18 January 2008 regarding case at law against PERN S.A. for payment of amount of PLN 41 301 as the final accounting for 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 judgement decided to relegate the case to the District Court for their decision consisting in 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 accounting for contract is not premature as it was earlier recognised by the District Court. Apart from that the Court of Appeal stated that accounting for the contract should be made pursuant to the provisions of the contract. This stating is in compliance with position in a case of PROCHEM S.A.

PERN S.A. lodged the petition for the cassation into the Supreme Court from the part of this sentence. 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.

On 12 August 2010 the case was held before the district court in Warsaw, during which the court decided upon appointing the expert, who will finally make accounting for arguable contract according to recommendations of the court of appeal. In April 2011 the case records were sent to the court expert who within three months should deliver the appropriate opinion. 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 10 % of the equity of the Issuer.

## **6.1. Information on basic products and services provided by Capital Group of Prochem SA**

1. Range of activity of the companies being included in a Capital Group of Prochem SA covers delivery of services and sale of materials and goods connected with:

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

Revenues from sales of these products in 2010 r. were 30% lower than those achieved in previous year.

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

(Revenues in PLN thousand)

DESCRIPTION	YEAR 2010	YEAR 2009
TOTAL REVENUES FROM SALES OF SERVICES, GOODS AND MATERIALS	119 041	170 588
including:		
- sales of engineering and construction services	78 640	137 025
- sales of maintenance service	20 960	17 076
- lease of office space	4 635	4 201
- sales of other services	8 721	4 995
- sales of goods and materials	6 085	7 291

## 6.2 The breakdown of sales of services markets in 2010 was as follows:

- domestic market 98.4%
- foreign market 1.6%.

In 2010 the participation of none of recipients of services of companies from the capital group exceeded the 10% in the revenue from sales.

## 6.3 Information on concluded agreements important for activity of Capital Group of Prochem S.A.

As of today the main income of the Capital Group of Prochem SA expected in 2011 will be achieved in the consequence of the execution of the contracts for providing services for companies Goodrich Aerospace Poland Sp. z o.o. and Zachem S.A.

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

#### **6.4 Information about organizational or capital connections of Capital Group of Prochem S.A. and main capital investments made within frames 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. z 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. z with registered office in Warsaw – subsidiary indirectly (90.0%);
- PREDOM Sp. z o.o. with registered office in Wrocław – subsidiary indirectly (81.1% share in capital and profit, 69.4% 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% holds 80.0%)
- ELPRO Sp. z o.o. Kraków – subsidiary indirectly (78.3%, including 56.5% share in 50% share belonging to Elektromontaż Kraków)
- Elmont Inwestycje Sp. z o.o. Kraków – subsidiary indirectly (78.3%, including 56.5% share in 50% share belonging to Elektromontaż Kraków)
- Elektromontaż Kraków S.A. – subsidiary directly (56.5%) – the company is drawing up consolidated financial statement and includes data of the subsidiary in the 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% share belonging to company Prochem Inwestycje Sp. z o.o. subsidiary in 100%),
- PRO PLM Sp. z o.o. with registered office in Warsaw – subsidiary indirectly (100% share belonging to company Prochem Inwestycje Sp. z o.o. subsidiary in 100%),

#### Associated entities covered by equity method of consolidation

- PROMIS Sp. z o.o. with registered office in Warsaw associated indirectly – (45% in votes and 97.6 of share capital belonging to company Prochem Inwestycje Sp. z o.o. subsidiary in 100%),
- ITEL Sp. z o.o. Gdynia – 42.0% of shares ,
- TEOMA S.A. with registered office in Warsaw – associated indirectly (12.9% share, including Prochem Inwestycje Sp. z o.o. subsidiary in 100% holds 7.5% share).

The principle adopted at the consolidation provides that entities which aren't conducting activity are not included in the consolidation - financial data of these companies isn't distorting information about financial results of Group of Prochem S.A.. Companies being 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 entities 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 2010 significant transactions among companies from the capital group of the Issuer weren't concluded on other conditions than market conditions.

## 6.6 Information on contracted loans and credits

Name of the unit	Registered office	Amount of the credit acc to the agreement (in PLN th)	Amount of the credit for the repayment (in PLN th)	Terms of the interest	Time of payment	Security
Contracted by Prochem SA						
BRE Bank Polska SA	Warsaw	5,000	277	WIBOR for O/N deposits in PLN + profit margin	30 June 2011	Promissory note in blank
Contracted by ASI Polska Sp. z o.o.						
Pekao SA	Zabrze	500	234	WIBOR for 1 month deposits in PLN + profit margin	30 June 2015	B/e, mortgage
ING Bank Śląski	Zabrze	92	18	WIBOR for 1-month deposits in PLN + profit margin	15 July 2011	B/e, pledge by registration
ING Bank Śląski	Zabrze	1 000	268	WIBOR for 1-month deposits in PLN+ profit margin	22 June 2011	B/e, credit in overdraft on current account
Pekao SA	Zabrze	500	66	WIBOR for 1-month deposits in PLN+ profit margin	30 June 2011	B/e, mortgage
Pekao SA	Zabrze	290	60	WIBOR for 1-month deposits in PLN + profit margin	31 July 2011	B/e, pladge by registration
Contracted by company PROORGANIKA Sp. z o.o.						
BRE Bank Polska SA	Warsaw	100	92	WIBOR for 1-month deposits in PLN + profit margin	01 July 2011	B/e
Contracted by company Elektromontaż Kraków SA						
ING Bank Śląski	Kraków	2.000	973	WIBOR for 1-month deposits in PLN + profit margin	22 July 2011	Mortgage
Deutsche Bank	Kraków	500	0	WIBOR for 1-month deposits in PLN + profit margin	31 Aug. 2011	Deposit
Contracted by Atutor Integracja Cyfrowa Sp. z o.o.						
Kredyt Bank SA	Warszawa	6	6	14.2%	credit in overdraft on current account	B/e
Contracted by company PRO INHUT Sp. z o.o.						
ING Bank Śląski SA	Dąbrowa Górnicza	180	119	WIBOR for 1-month deposits in PLN + profit margin	25 August 2011	B/e
ING Bank Śląski SA	Dąbrowa Górnicza	150	149	WIBOR for 1-month deposits in PLN + profit margin	24 May 2011	Assignment from the trade agreement for the net amount of PLN 225 thousand

## 6.7 Information on loans granted

In the period from 1 January to 31 December 2010 Issuer granted to associated company Iteł Sp. z o.o. a short term loan in the amount of PLN 393 thousand. The interest on a loan was established at the annual rate of 7%. Time of payment is falling on 31 January 2011.

## 6.8 Information on granted and received warrantees and guarantees

Total value of warrantees and guarantees given by companies from Capital Group connected with operational activity as at 31 Dec. 2010 amounts to PLN 13,775 thousand, including :

- a) own bank guarantees of the good performance of services – PLN 12,385 thousand;
- b) b/e guarantee of the good performance of a contract – PLN 197 thousand;
- c) guarantee of the payment of the rent – PLN 827 thousand;
- d) warranty given for tenders - PLN 366 thousand.

Total sum of conditional amounts due by way of received guarantees of the good performance and the statutory warranty amounts to PLN 6,933 thousand as at 31 December 2010.

In 2009 the Issuer granted to affiliated entities guarantees of the credit repayment to the total amount of PLN 1,050 thousand.

### **6.9 Description of the use of takings from the issue**

In 2010 the companies belonging to Capital Group didn't issue any securities.

### **6.10 Explaining differences between achieved financial results and the forecast**

In 2010 the companies belonging to Capital Group didn't publish the forecast of financial results.

### **6.11 Evaluation of the management of financial means**

During the year 2010 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 timely to acquit of incurred liabilities. No circumstances exist which would make the meeting of undertaken obligation impossible for the companies.

### **6.12 Appraisal of opportunity for implementation of investment objectives**

In a Capital Group are included special purpose companies (Irydion, Elmont Inwestycje, Elpro, Iryd), formed for implementation of development projects, on which in the nearest period the investment activity of Capital Group of PROCHEM S.A. will focus. At present these companies 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. At present advanced negotiations are being led by companies Elmont Inwestycje and Irydion to the point of acquisition of possible co-investor for the construction of office and commercial buildings in Warsaw and Cracow.

### **6.13 Evaluation of factors and untypical events affecting achieved financial results**

In the assets of balance sheet of PROCHEM S.A. an amount of PLN 17,363,930 is appearing in the item of the trade receivables from the title 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 done 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 February 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 covering the value of the amount due on account of seized guarantee deposits in the opinion of the Management Board is unjustified, since the above amount is in the indissoluble way connected and protected (both as for the amount as well as the date) 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 will not return the seized guarantee deposits, there is a great probability of regaining these amounts due even this year within the framework of final settlement of accounts for the contract which is an subject matter of judicial proceedings pending in the court.



#### **6.14 Characteristics of outside and internal factors essential for the development of the Capital Group of Prochem SA in 2011**

For development of potentialities of Capital Group of PROCHEM S.A. in 2011 macroeconomic surrounding of the company will have the significant effect, particularly the leaving financial crisis lasting in previous years by the Polish economy. In relation to the slow return by banks to financing of investment projects, many prospective customers of PROCHEM S.A. (in particular industrial companies) begin to work in this respect and are making decisions about taking new investment objectives. A preparatory work is also being conducted aiming at starting the accomplishment of large-scale investments in the energy, gas industry and the environmental protection. It will reflect on the number of orders won over by the companies from the capital group, and in the end on financial results achieved in 2011. The Management Boards of companies belonging to Capital Group of PROCHEM S.A. are monitoring the current situation with the particular attention and if necessary are prepared for taking proper action being aimed at adapting its potential to new opportunities.

#### **6.15 Characteristics of the politics in directions of the development of the Capital Group of Prochem S.A.**

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

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

In 2010 any 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 on 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 except for the situation when the cancellation results for reasons being an evident guilt of the managing person.

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

Remuneration paid in 2010 in the enterprise of the Issuer:

### **Members of the Management Board:**

1. Jarosław Stępniewski - PLN 393 thousand
2. Marek Kiersznicki - PLN 284 thousand,
3. Krzysztof Marczak - PLN 284 thousand.

### **Members of the Supervisory Board:**

1. Andrzej Karczykowski – PLN 30 thousand,
2. Krzysztof Oblój - PLN 30 thousand
3. Marek Garliński - PLN 30 thousand,
4. Dariusz Krajowski-Kukiel - PLN 30 thousand,
5. Steven Tappan - PLN 14 thousand,

Remuneration paid in 2010 on account of serving in the Management Boards and Supervisory Boards of companies being included in a Capital Group received:

1. Jarosław Stępniewski - PLN 54 thousand,
2. Marek Kiersznicki – PLN 62 thousand,
3. Krzysztof Marczak – PLN 108 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.

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 in the future take place 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 programmes of workers' shares**

In the company 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 company KPMG Audyt Sp. z o.o. being the entity authorized to audit financial statement for auditing and reviewing of individual and consolidated reports of PROCHEM S.A. for 2010 was concluded on 2 August 2010. The agreement was concluded only for examining statements for 2010. The total contractual amount of remuneration of KPMG amounts to PLN 65,000 net. Neither it wasn't paid nor isn't due to company KPMG the remuneration from other titles. On account of the examination and the review of financial statements for 2009 company Mistery Auditor received the remuneration in the net amount of PLN 76,000. In the year 2009 remuneration from other titles neither wasn't paid nor wasn't due to Company Mistery Auditor

Krzysztof Marczak

Marek Kiersznicki

Jarosław Stępniewski

Member of the Board

Vice Chairman

Chairman