

**MANAGEMENT BOARD REPORT
ON THE ACTIVITIES OF PROCHEM S.A. CAPITAL
GROUP IN 2016**

Warsaw, 28 April 2017

1. Principles of presentation of financial statements

Principles of preparation of the separate financial statements of PROCHEM S.A. Capital Group for 2016 have been included in Explanatory notes to financial statements.

2. Basic economic and financial data disclosed in the annual financial report and presentation of development prospects of PROCHEM S.A. Capital Group in 2017

In 2016 PROCHEM S.A. Capital Group achieved revenues from basic activities in the amount of PLN 169.2 million. They are by PLN 97 million lower than those achieved in 2015. The decline in revenues is a consequence of a significant downturn of business conditions in the construction and assembly services market as a result of the reduction in the level of planned and undertaken investments by enterprises in 2016. Moreover, in connection with the occurrence of unexpected problems technical and formal in the final stage of construction, as well as on the stage of start-up of the installation for the production of highly purified paraffin, oils and lubricants along with expansion of the complex of energy plant which were executed under an agreement with Mineral Wax Factory S.A. based in Belarus, in Swisłocz, and with connected with this the necessity of shifting the term of putting into exploitation, the Issuer had to bear significant costs associated with completion of the contract. Lowering the estimated margin on the aforementioned contract, as well as reducing the number of orders executed by the companies belonging to the Capital Group have a significant impact on the results of operations in 2016, which ended with a net loss of PLN 23.1 million.

The macroeconomic environment will continue to impact significantly activity in 2017 and in particular the level of investment, which in the opinion of many analysts, should gradually improve. In PROCHEM S.A. in 2017 will also bring results, a program which was implemented in the fourth quarter of 2016, aimed at adjusting operating costs to planned revenues. Examination by the court of the appeal from judgment of 22 October 2015, which was lodged by PERN SA and which is expected to be done in the coming months will be of great importance to the financial position of the Group because in this judgment was granted the amount of about PLN 90 million (including default interest) for the consortium with the participation of the Issuer. The Issuer's share in this amount is approximately 50%.

3. Significant risk factors and threats to activity of PROCHEM S.A. Capital Group

Companies from PROCHEM S.A. Capital Group in their operations are exposed to the following types of risks and threats:

3.1 Economic fluctuations on the investment market

Part of companies from the Capital Group provide services on the investment market, which is characterized by a large scale of fluctuations in demand, which is strongly linked to general macroeconomic situation of the country. Methods used by the Group to reduce the negative impact of this factor on the financial results (the accumulation of financial reserves, diversification of services provided), may not fully neutralize this risk.

3.2 Possibility of threat occurrence in execution of contracts

Types of activities of companies from the Capital Group, and in particular the preparation and management of technically complex investment projects, often executed on the basis of contracts concluded in condition of a very strong price competition, cause a constant risk of the occurrence of technical and financial problems.

3.3 Dependence on the staff

Risk of dependence on staff occurs particularly in the Parent Entity. Raising the quality of services provided, undertaking the implementation of complicated technological projects, the use of modern information systems, and the work on behalf of the renowned clients require from workers the highest professional qualifications. Acquiring of such persons, especially 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 using incentive programs associating employees with the company.

3.4 Exchange rate risk

Part of contracts (mainly of the parent company) for the sale of services is concluded with foreign companies in foreign currencies (EUR, USD). In the event of a significant strengthening of the domestic currency it can have an adverse effect on the Group's results. This risk is partially mitigated in a natural way through the purchase of equipment and services necessary for the execution of these contracts abroad.

3.4 The risk of dependence on significant buyers of services

The realization by the companies from the Group of contracts for execution, which are of high value requires significant expenditure to be incurred on the purchase of services and equipment, which subsequently in the form of finished object are sold to the customer. Lack of proper correlation between the expenditure borne and proceeds from the implementation of a contract with a customer may require necessity of the use by the Companies of external financing and, in special circumstances, may cause even a temporary loss of financial liquidity. Such risk is largely hedged through appropriate provisions of the agreement with the customer by virtue of which the client is obliged to a successive return the outlays incurred during execution of order.

4. Statement on application of corporate governance principles in PROCHEM S.A. in 2016

Due to the entry into force on January 1, 2016 of the "Best Practices of WSE Listed Companies 2016" which were introduced by the Resolution of the Council of Warsaw Stock Exchange in Warsaw S.A. of 13 October 2015 (hereinafter referred to as DPS 2016), the Management Board of PROCHEM S.A. informs that has introduced to be applied DPS 2016 which is effective from 1 January 2016, with the exception of the principle

I.Z.1.20. Record of the proceedings of the general assembly, in the form of audio or video, Principle is not applied.

Company comment: The structure of the Company's shareholding does not justify the generally available broadcasting from the proceedings of General Meeting. The company also does not record the proceedings of the General Assembly in the form of audio or video. As a result, the Company does not have recordings that could be made available.

Full text of the corporate governance principles to which the Company is subject, together with a list of principles which the Company currently does not apply and its commentary in this regard is available on the website of PROCHEM S.A. – www.prochem.com.pl.

5. Description of the internal control system of the Capital Group

Internal control is one of the functions of the current management of the Group exercised directly by the Management Boards, directors, proxies and other employees in management positions or entrusted with this function.

Companies belonging to the Capital Group have a comprehensive system of internal control, the aim of which is to provide timely and accurate disclosure of facts concerning all material elements of the company's operations. It contributes to obtain a complete knowledge of the financial position, results of operations, the group's assets and management efficiency. The scope of supervision covers above all:

- business activities of the company, basic and auxiliary,
- financial reporting and accounting settlements,
- compliance of the company activity with the applicable laws and with internal regulations,
- employment and wages.

Institutional internal control analyses the projects which are already completed and the relevant documentation. Its main task is to carry out comprehensive checks in respect of most important issues for the Group, and collecting and preparing the information on the activities of the organizational units of the Group, selected economic problems and other issues that in the given period were regarded by the Management Board of the Parent Company as the most essential. Apart from the institutional internal control, there is also the so-called functional control in the Group, which is exercised by managers at various levels. Managers perform the supervision over the employees reporting to them, such control consists in the checking of the scope of accomplishment of set tasks.

Institutional internal control is exercised in PROCHEM S.A. Capital Group mainly by employees from financial and accounting departments, and also by the legal and organizational department. Some of the tasks of the internal control are carried out by teams and committees appointed for this purpose.

In the fourth quarter of 2016, basing on the experience from the contract implemented in Belarus has been introduced the modification of the procedure "Control of service costs". Modification was prepared, and now it is being implemented on the subsequent contracts by the newly appointed Head of Cost Control Team.

Checks are carried out in all phases of activity as the preliminary control, current and next. Financial and accounting documents are subject to substantive, formal and accounting control. Information on formal and substantive correctness and calculation correctness has a signature in an identifiable manner (full name and surname), or bears the stamp of the authorized person and the date of approval of the document.

The internal control system, which is functioning in PROCHEM S.A. Capital Group provides a completeness of the recognition of business transactions, and ensures the correct classification of source documents as well as enables for the proper valuation of the available resources at various stages of the registration, and thus ensures the correctness of preparation of the financial statements and enables the Management Board of the Parent Company to carry out the Group's activities on the basis of a verified and complete information.

6. Description of the risk management system in the Capital Group

The following risks occur in the activity:

- risk of economic fluctuations in the investment market,
- risk of losing key employees,
- risk of threats occurrence during execution of the contract,
- currency risk,
- risk of dependence on significant buyers of services,
- risk of payment unreliability,
- risk of unfavourable settlement of a litigation with PERN.

Risk management in particular areas consists in:

- supervising of the phenomena generating the risk,
- taking the measures aiming at the lowering of the level of a risk.

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

- the risk of economic fluctuations in the investment market:
- monitoring of the macroeconomic situation and in the selected industries,
- scope diversification (development of the activities allied to engineering services such

as maintenance, developer's activity)

- diversification of the territory (expanding of export)
- accumulation of the financial reserves.

- the risk of loss of key employees

- monitoring of the level of employment, remuneration and staff fluctuation,
- monitoring of the labor market and of the level of the remuneration on the market,
- maintenance of a system of training and raising of the qualifications,
- incentive programs for key employees,
- active recruitment system - cooperation within the sector and maintenance of relations with universities

- the risk of threats occurrence during execution of the contract

- realistic price calculation when concluding contracts,
- monitoring the progress in execution of contracts and disclosure of threats on the basis of the introduced "Control of Service Costs" procedure, which was modified in the fourth quarter of 2016, while recognizing the experience gained during the contract implemented in Belarus. Modification was prepared, and now it is being implemented on the subsequent contracts by the newly appointed Head of Cost Control Team.
- selection of reliable subcontractors,
- contract clauses restricting the maximum amount of contractual penalties.

- the foreign currency risk:

- monitoring and forecasting of exchange rates,
- forward currency transactions,
- purchase of equipment and services in the currency of the contract,
- maintaining a high level of domestic sales,

- the risk of dependence on significant buyers of services

- monitoring of the execution of contracts for the major buyers of services,
- contractual provisions containing the cushioning elements,
- maintenance of the partner relations with regular customers

- the risk of payment unreliability
- monitoring of the financial standing of key partners before and during the execution of contracts,
- the use of specialized recovery procedures

- the risk of unfavourable settlement of litigation with PERN SA
- monitoring of the legal situation by the Management Board and a team of lawyers.

Both the identification of risk factors, their monitoring and the risk mitigation system, which are applied in the PROCHEM S.A. Capital Group are at a good level, and the implemented strategy of development and diversification promotes the reduction of some risks and leads to professionalization during application of instruments.

7. Information on shareholders holding large blocks of shares of the Issuer

According to the knowledge of the Company as at the date this report, the following shareholders hold at least 5% of votes at the general meeting of shareholders:

Item No.	DESCRIPTION	NUMBER OF SHARES (UNITS)	NUMBER OF VOTES	% OF VOTES IN TOTAL NUMBER OF VOTES	% OF SHARE CAPITAL
1	Porozumienie PHC	662,663	662,849	17.04	17.02
2	Steven Tappan	817,500	817,500	20.98	20.99
3	Legg Mason TFI S.A.	560,549	560,549	14.39	14.39
4	Otwarty Fundusz Emerytalny PZU S.A. „Złota Jesień“	387,521	387,521	9.95	9.95
5	Quercus TFI S.A.	415,532	415,532	10.67	10.67
6	Value Fund Poland Activist Fundusz Inwestycyjny Zamknięty	203,455	203,455	5.22	5.22

No any securities exist that would grant special controlling rights in relation to the Issuer.

There are no restrictions on the transfer of ownership of the Issuer's securities and the exercising of voting rights.

Principles governing the appointment and dismissal of the Management Board members and their powers

Members of the Management Board of the Issuer are appointed by the Supervisory Board. The term of office of the Management Board of the Issuer lasts three years. Powers of the management are defined by the Statute of PROCHEM S.A. and do not go beyond the framework set by the Commercial Companies Code. In particular, the right to decide on the issue or redemption of shares has only a General Meeting of Shareholders.

Rules for amending the statutes or articles of association of the Issuer

Principles of amendments to the Articles of Association of the company of the Issuer are set out in accordance with the provisions of the Commercial Companies Code.

Procedure of the General Meeting of Shareholders of PROCHEM S.A.

Procedure of the General Meeting of Shareholders of PROCHEM S.A. and its basic rights and the rights of shareholders and the way of their execution are contained in the Articles of Association of PROCHEM S.A. and in the Regulations of the General Meeting of PROCHEM S.A. Above mentioned documents are available on the website of PROCHEM S.A. www.prochem.com.pl.

The composition and the changes that occurred during the last fiscal year, and a description of the activities of the Management Board, Supervisory Board or administrative authorities of the Issuer and of their committees

On June 13, 2015 the Supervisory Board of PROCHEM S.A. appointed the Management Board of PROCHEM S.A. for the next term in unchanged composition.

As at the date of preparation hereby financial statements the Management Board of PROCHEM S.A. comprises of:

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

In 2016 there were no changes in the composition of the Management Board.

As at the date of preparation hereby financial statements the Supervisory Board comprises of:

Andrzej Karczykowski

Krzysztof Obłój

Marcin Pędziński

Michał Suflida

Karol Żbikowski

Changes in the composition of the Supervisory Board in 2016:

1. In connection with resolutions of the General Meeting from June 11, 2016, there were the following changes in the composition of the Supervisory Board:

- have been dismissed from the Supervisory Board:

Steven Tappan,

Wiesław Kiepiel

- have been appointed to the Supervisory Board:

Michał Suflida,

Karol Żbikowski.

2. On the basis of resolutions of the Extraordinary General Meeting of 28 October 2016:

- has been dismissed from the Supervisory Board:

Marek Garliński

- has been appointed to the Supervisory Board:

Marcin Pędziński

Description of the operation of the Management Board is contained in the Regulations of the Management Board, and description of the operation of the Supervisory Board in the Regulations of the Supervisory Board. These documents are available on the website of the Issuer www.prochem.com.pl.

Tasks of the Audit Committee that is required under Art. 86 of the Act of 7 May 2009 on statutory auditors and their government, entities authorized to audit financial

statements and public supervision were entrusted to the Supervisory Board of PROCHEM S.A.

5. Proceedings pending before the court, competent authority for arbitration or public administration body

PROCHEM S.A. continues to be a party to the proceedings before the court concerning the settlement of the contract which was interrupted on 10 November 2005, for the Management Contracting for an investment project under the name of "Pipeline in a section from the ST- 1 Adamowo - to raw material base Plebanka" concluded with PERN S.A. PROCHEM S.A. filed a lawsuit to the court for payment of PLN 41, 301 thousand under the final settlement of the contract. PERN SA filed a counterclaim against the Company for payment of the amount of PLN 129,444 thousand under settlement of the contract. On 18 January 2008 District Court in Warsaw issued a judgment in this case by virtue of which rejected a claim filed by PROCHEM S.A. (Consortium GRI) and also rejected the counter-claim filed by PERN "Przyjaźń" S.A. From the grounds for the judgment of the Court it follows that :

- The Court recognized the claim for payment of the amount of PLN 41,301 thousand by PERN "Przyjaźń" SA as to be right in principle, and at the same time the Court recognized this claim as unmatured,
- The court held that there is no reason to accept the counter-claim filed by PERN „Przyjaźń” S.A.

After getting acquainted with the written grounds of the judgment PROCHEM S.A. lodged an appeal against the judgment, in this part in which the District Court has recognized the claim for payment of the amount of PLN 41,301 thousand by PERN "Przyjaźń" SA as premature and not matured, and in this part where PROCHEM S.A. demanded from PERN "Przyjaźń" S.A. to take over the liability for the reimbursement of guarantee deposits to contractors.

PERN SA also filed an appeal against the judgment, in which the District Court dismissed their claim from filed counter-claim.

On 26 August 2008 the Court of Appeal in Warsaw issued a judgment on the appeal lodged by PROCHEM S.A. from the judgment of the District Court of 18 January 2008 in the case against PERN S.A. for payment of PLN 41,301,495.22 under the final settlement of the contract for Management contracting related to the investment project

under the name of "Pipeline in a section from the ST-1 Adamowo to raw material base Plebanka".

The Court of Appeal in above judgment decided to refer the case to the District Court for settlement. From the grounds of the judgment issued by the Court of Appeal it follows, inter alia, that the claim of PROCHEM S.A. concerning the settlement of contract is not premature as was earlier recognized by the District Court.

In addition, the Court of Appeal stated that the settlement of the contract should be made under the provisions of the contract. This finding is consistent with the PROCHEM's position in legal proceedings.

From the part of this sentence PERN SA filed a cassation complaint to the Supreme Court. At its meeting on January 15, 2010 the Supreme Court dismissed the cassation complaint while stating lack of justified grounds, requiring the evaluation in relation to the contested part of the judgment. On 12 August 2010, a hearing was held before the District Court in Warsaw, where the court decided to appoint an expert who according to earlier recommendations of the Court of Appeal will make the final settlement of the contract in dispute. On 5 February 2013 before the District Court in Warsaw, a hearing was held with the participation of experts, after which the court decided to oblige the parties to submit the pleadings in which will be shown precisely final conclusions of evidence. On August 9, 2013 the Issuer received from District Court in Warsaw a decision on the ordering supplementary opinions from the experts in the scope of determining the value of services, supplies, and other liabilities made by PROCHEM S.A. and directly related to the implementation of the contract that have been made after the date of withdrawal from the contract on the basis of the commitments which were contracted before the withdrawal from the contract. The decision was consistent with the request set forth to the Court by PROCHEM S.A. Supplementary opinion of experts was delivered to the Court in February 2014. The court expert in his opinion confirms the amount of claims of PROCHEM S.A. The Court appointed the next date for the hearing on 30 April 2015.

At the hearing on 30 April 2015, the Regional Court in Warsaw has pledged experts to supplement the opinion.

On 6 May 2015 in relation to the doubts raised against some aspects of the expert's opinions and in the interest of a faster conclusion of the case, PROCHEM limited the

action for payment by the amount of PLN 139 thousand to the amount of PLN 41 162 thousand, along with statutory interest.

On 17 July 2015 the Company received a copy of the supplementary opinion expert, which in all cases had confirmed the position of PROCHEM S.A.

On 22 October 2015 the District Court in Warsaw, XXVI Commercial Division announced judgment in the above matter, in which:

- From the principal action, jointly and severally to the Issuer and a member of the consortium adjudged from PERN:
 - ✓ Amount of PLN 35 086 589.26, with statutory interest from 23 March 2006 until the date of payment;
 - ✓ Amount of PLN 4 879 883.58, with statutory interest from 22 March 2006 until the date of payment;
 - ✓ Amount of PLN 126 400.44, with statutory interest from 16 January 2007 until the date of payment.
- In the cross action, dismissed the action of PERN entirely.

From the above judgment on 7 December 2015 PERN lodged an appeal. The term of consideration of the appeal has not been set yet.

Furthermore, the total value of other proceedings separately for the group of liabilities and for the group of receivables does not exceed 10% of the equity of the Capital Group of the Issuer.

6.1 Information on basic products and services provided by the PROCHEM S.A. Capital Group

1. The scope of activities of the companies belonging to the Capital Group of PROCHEM S.A. includes the provision of services and sale of goods and materials related to:

- construction industry: design, general contracting, project management, technical consulting, general construction, installation and assembly services as well as rental of construction equipment;
- rental of office space;
- maintenance of installations, industrial plants and public utility buildings as well as housing estates;

- technical consulting, development and implementation of new technologies, integration of information systems.

Revenues from the sale of these services in 2016 were 37% lower than those achieved in the previous year.

Breakdown of revenues by separate types of activity is shown below:

(Revenues in PLN thousands)

DESCRIPTION	IN 2016	IN 2015
TOTAL REVENUES FROM SALE OF SERVICES	162 927	257 799
including:		
- sale of engineering services and construction services	152 888	246 331
- sale of maintenance services and of property management services	1 081	3 136
- rental of space	5 093	4 922
- sale of other services	3 865	3 410

6.2. The breakdown according to the markets for sales of services in 2016

The share of exports in sales of services amounted to 18.5% in 2016.

The buyers of services provided by the Group whose share in sales revenue in 2016 exceeded 10% were:

- Goodrich Aerospace Poland Sp. z o. o. - 19% of share in sale revenue- there are no other formal relationship with the entity except for trade agreements.
- Mineral Wax Factory Belarus – 12% of share in sale revenue - there are no other formal relationship with the entity except for trade agreements.
- Irydion Sp. z o.o. – 11.4% of share in sale revenue – jointly controlled company;

6.3 Information on concluded agreements significant for the activity of PROCHEM

S.A. Capital Group

The main income of the Capital Group of PROCHEM S.A. expected in 2017, will be obtained as a result of the execution of contracts for the provision of services for the

jointly controlled company Irydion sp. z o. o. within the implementation of the investment project Astrum Centre of office and service in Warsaw.

The Company is not aware of any agreements between shareholders of PROCHEM S.A., which would be significant for the business activity of PROCHEM S.A. Capital Group.

6.4 Information on the organizational or capital relations of the Capital Group of PROCHEM S.A. and about the main capital investments made within the Capital Group

The Issuer has the following subsidiaries directly or indirectly, as well as associated companies and jointly-controlled entities:

Subsidiaries covered by full consolidation:

- Prochem Inwestycje Sp. z o. o. seated in Warsaw – subsidiary directly (100.0%);
- PRO-INHUT Sp. z o. o. seated in Dąbrowa Górnicza – subsidiary indirectly (93.2%);
- Przedsiębiorstwo Konsultingowo-Inżynieryjne PREDOM Sp. z o. o. seated in Wrocław – subsidiary indirectly (80.7% of capital and profit, 71.1% of votes);
- Prochem Zachód Sp. z o. o. seated in Słubice – subsidiary directly (80.0%);
- ELPRO Sp. z o. o. seated in Kraków – subsidiary indirectly (92.7%, including 85.4% share in 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o. o. seated in Kraków – subsidiary indirectly (92.7%, including 85.4% share in 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. seated in Kraków – subsidiary indirectly (85.4%), including 73.0% of capital and votes belongs to company Prochem Inwestycje subsidiary in 100%. Elektromontaż Kraków S.A. prepares consolidated financial statements, which contain data of a subsidiary in 100%: ELMONT-POMIARY Sp. z o. o. seated in Kraków and two associated companies ELPRO Sp. z o. o. and Elmont-Inwestycje Sp. z o. o.;
- IRYD Sp. z o. o. seated in Warsaw – subsidiary indirectly 100%;
- ATUTOR Integracja Cyfrowa Sp. z o. o. seated in Warsaw – subsidiary indirectly (87.3% of share belongs to Prochem Inwestycje Sp. z o. o. subsidiary in 100%);
- Prochem RPI Sp. z o. o. seated in Warsaw – subsidiary directly and indirectly in 100%;

Associates and jointly-controlled entities consolidated with the equity method:

- IRYDION Sp. z o. o. seated in Warsaw – 50.0% of votes and share capital,
- ITEL Sp. z o. o. seated in Gdynia – 42.0% of share (18.7% of right of vote and capitals belong directly to PROCHEM S.A. and 23.3% belongs to Prochem RPI Sp. z o. o. subsidiary (in 100%).

The principle adopted at the consolidation is, that units which are not leading activity are not included into consolidation - financial data of these companies do not distort the information on the financial results of the Group of PROCHEM S.A. Companies excluded from consolidation:

- Predom Projektowanie Sp. z o. o. seated in Wrocław – subsidiary

The subsidiaries, associates and jointly-controlled entities covered by consolidation were included in the consolidated financial statements from the date of acquisition of control by the Parent Company.

6.5 Related party transactions

In 2016, there were no significant transactions between the companies belonging to the Capital Group of the Issuer which have been concluded under conditions other than market conditions.

6.6 Information on loans and borrowings

Name of the bank	Registered office	Credit limit	Amount engaged	Repayment date	Terms of interest	Security
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Contracted by Prochem S.A.

mBank SA	Warsaw	6,000 Credit in overdraft	1 903	30 June 2017	WIBOR for O/N deposits in PLN + margin	Promissory note in blank, pledge by court on shares
mBank SA	Warsaw	6.000 Revolving working capital loan	5 400	30 June 2017	WIBOR for one month deposits in PLN + margin	Promissory note in blank, pledge by court on shares
ING Bank Śląski S.A.	Katowice	3.000 Credit in overdraft	0	15 November 2017	WIBOR for one month deposits in PLN + margin	Statement on submission to forfeiting, mortgage on real estate

Contracted by Elektromontaż Kraków S.A.

Deutsche Bank	Kraków	500	322	15 July 2017	WIBOR for one month deposits in PLN + margin	Mortgage up to 2 250 thousands of PLN on real estate
ING BANK Śląski	Kraków	2 500	2 255	20 November 2017	WIBOR for one month deposits in PLN + margin	Mortgage up to 3 750 thousand of Zlotys on real estate

Contracted by Atutor Integracja Cyfrowa sp. z o.o.

Bank Millenium S.A.	Warsaw	150	149	15 April 2017	WIBOR 1 month plus margin	Granting a bank a power of attorney to collect and repay from accounts and to block funds in case of failure to repay the loan within the time limit
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Zaciągnięte przez Pro-Inhut sp. z o.o.

ING Bank Śląski S.A.	Dąbrowa Górnicza	398	371	24 September 2017	WIBOR for one month deposits in PLN + margin	lack
ING Bank Śląski S.A.	Dąbrowa Górnicza	300	299	30 July 2020	WIBOR for one month deposits in PLN + margin	lack

6.7 Information on issued and received sureties and guarantees

Total value of sureties and guarantees issued by the companies from the Capital Group, which are connected with operating activities on 31 December 2016 amounts to PLN 22,272 thousand, of which :

- a) Bank guarantee of good performance of services – PLN 22,235 thousand;
- b) Tender guarantee – PLN 37 thousand;
- c) Surety issued by PROCHEM S.A. on behalf of subsidiary Pro-Inhut Sp. z o.o. – PLN 247 thousand.

Total amount of contingent receivables under received guarantees of good performance and statutory warranty as at 31 December 2016 amounts to PLN 5,087 thousand.

In 2016 the companies from the Group did not issue the sureties to a loan repayment to related entities.

6.8 Description of the use of the proceeds from the issue

In 2016 companies from the Capital Group did not issue any securities.

6.9 Explanation of the difference between achieved financial results and forecast

PROCHEM S.A. Capital Group did not publish forecast of financial results.

6.10 Assessment of the management of financial resources

In 2016 in the Capital Group of PROCHEM S.A. did not occur any distortion of financial liquidity. In connection with the recorded loss on operations PROCHEM S.A. signed annexes to its credit agreements, as a result of which, after the introduction of additional collateral, the banks abandoned the verification of the financial covenants contained in these agreements in 2016. This allowed for the timely discharge of the contracted obligations.

6.11 Assessment of the possibility of implementation of investment objectives

From 2013, the jointly-controlled company IRYDION, is engaged in the construction and commercialization of office and service building in Warsaw under the name of Astrum Business Park. The project has been granted bank financing, and in 2017 are anticipated completion of the construction, and lease of approximately 22,000 square metres of office space of the first stage. Construction of the second stage of an area of about 8,000 square meters will start after signing a lease agreement with a prospective tenant, and on that basis, obtaining bank financing.

6.12 Assessment of factors and unusual events affecting the financial results achieved

In the assets of PROCHEM's balance sheet in the item "Receivables" has been shown the amount of PLN 17,363,930 from the title of guarantee deposits retained by PERN S.A. as security for possible claims towards the Consortium Prochem/Megagaz (GRI) under statutory warranty and guarantees resulting from Agreement no 20047 of 27 August 2002. The existence of this receivables, and its amount were confirmed in the previous years by PERN S.A.

At the same time, due to the fact that totality of the work and the supplies related to execution of Agreement No. 20047 has been done by the Consortium with help from the subcontractors and suppliers, as the security for the guarantee granted by these companies a part of their remuneration was retained by PROCHEM in the form of guarantee deposit in the total amount approximated to the amounts retained by PERN S.A. In compliance with agreements concluded with the above mentioned companies, the retained security deposits from the subcontractors and suppliers should be returned after the end of the period of warranty and guarantee, but not earlier than after the

reimbursement for the benefit of PROCHEM S.A. of the guarantee deposit which was retained by PERN.

According to GRI, the term of the statutory warranty, and the guarantee expired on 13 February 2009. In connection with it, PROCHEM S.A. demanded from PERN S.A. to refund the seized guarantee deposit. Request to pay as above remained unanswered. Irrespective of it, due to precaution in legal proceedings, the amount of withheld deposit has been reported to the court proceedings aimed at final settlement of the contract No. 20047 dated. 27.08.2002, proceedings was carried out before the District Court in Warsaw and finished in issuing of the appealable judgment, in which to the Issuer was granted the whole amount.

Establishment of a write-down for the amount of receivables under seized guarantee deposits, according to the Board of PROCHEM S.A. is unjustified, since there is a very high probability of the recovery of those receivables in this year within the final settlement, which is the subject of pending litigation.

6.13 External and internal factors significant for the development of the Capital Group of PROCHEM S.A. in 2017

Macroeconomic surrounding will have the significant effect on the development possibilities of the Capital Group of PROCHEM S.A. in 2017, in particular the condition of the Polish economy which in the significant way influences the undertaking of decisions on the starting of new investment objectives by the potential clients of the Capital Group of PROCHEM S.A. (in particular by industrial companies). After the slump of investment in 2016, some of the investment projects, which were suspended in the energy, chemical and environmental sectors, now are being launched. In many of them the companies from the Capital Group of PROCHEM S.A. have a chance to participate. This will be reflected in the number of orders obtained by the Group, and also in the financial results achieved in 2017. The Management Boards of companies from the Capital Group of PROCHEM S.A. with particular attention is monitoring the current situation and, if necessary, is prepared to take appropriate actions in order to adapt its potential to new opportunities.

6.14 Policies on directions of development of the Capital Group of PROCHEM S.A.

Policies of PROCHEM S.A. focuses on further consolidation of the Capital Group and adapting its activity to rapidly changing market requirements.

6.15 Changes in basic principles of management of the Issuer and its Capital Group

In 2016, there were no significant changes affecting the principles of management of the Issuer and its Capital Group.

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

Contracts of employment concluded by the Issuer with the managing persons provide for compensation in the amount of remuneration for the period of six months in case of dismissing from office of a member of the Board, except for the situation where the dismissal is due to obvious fault of managing person.

6.17 Remuneration of the Members of the Management Board and the Supervisory Board of the Issuer

Remuneration paid in 2016 by the Issuer to the members of the Management Board and the Supervisory Board was presented in the notes to the financial statements for 2016.

6.18 Total amount of shares of the Issuer and related entities held by persons managing and supervising of the Issuer

As at the date of the financial statements the following members of the Company's Management Board and Supervisory Board were in possession of shares of PROCHEM S.A.;

- Jarosław Stępniewski – 80,943 units;
- Marek Kiersznicki – 70,393 units;
- Krzysztof Marczak – 43.700 units;
- Andrzej Karczykowski – 115.186 units;

The nominal value of 1 share is PLN 1.

Members of the Management Board and the Supervisory Board do not have any shares in related entities.

6.19 Information on agreements which could result in changes in the proportions of shares held by current shareholders

The Company is not aware of any agreements which may result in future changes in the proportions of shares held by the current shareholders.

6.20 Information on the control system for employee share programs

In the companies from the Capital Group of PROCHEM S.A. does not exist any employee shares program.

6.21 Information on the contract with the entity authorized to audit financial statements of the Issuer

The agreement with the entity authorized to audit financial statements KPMG Spółka z ograniczoną odpowiedzialnością Sp. k. for the audit and review of separate and consolidated financial statements of PROCHEM S.A. for 2016 was concluded on 26 July 2016. The agreement was concluded only for the audit of financial statements for the year 2016. The total remuneration of KPMG under the contract amounts to PLN 94,000 net. In 2016 the additional remuneration was owed to KPMG in the amount of PLN 10,000 net for attestation services. For the audit and review of financial statements for 2015 KPMG Audyt Sp. z o. o. Sp. k. received remuneration in the amount of PLN 94,000 net. In 2015 the additional remuneration was paid to company KPMG Audyt spółka z ograniczoną odpowiedzialnością Sp. k. in the amount of PLN 20,000 net for attestation services.

Krzysztof Marczak

Marek Kiersznicki

Jarosław Stępniewski

Vice President of the
Management Board

Vice President of the
Management Board

President of the
Management Board