

**MANAGEMENT BOARD REPORT**  
**ON THE ACTIVITIES OF**  
**PROCHEM S.A. CAPITAL GROUP IN 2017**

Warsaw, 27 April 2018

## **1. Principles of presentation of financial statements**

Principles of preparation of the consolidated financial statements of the PROCHEM S.A. Capital Group for 2017 have been included in Explanatory notes to the financial statements.

## **2. Overview of basic economic and financial data disclosed in the annual financial report and presentation of development prospects of the PROCHEM S.A. Capital Group in 2018**

In 2017 the PROCHEM S.A. Capital Group achieved revenues from basic activities in the amount of PLN 112 million. They are by PLN 57 million lower than those achieved in 2016. The drop in revenues is a consequence of lasting in a subsequent year a significant downturn of the economic condition of the construction and assembly services market, which is the result of a decrease in the level of investments planned and undertaken by enterprises. The effects of this situation to the greatest extent has touched the activity of the Parent Company. Reducing the number of orders executed by the Issuer and the necessity to maintain the company's design potential have had a material impact on the results of a basic activity in 2017 which has closed in a gross profit on sales in the amount of PLN 3.7 million. On the other hand, the net profit of PLN 17 million was achieved as a result of a one-off event - of a positive settling of the long lasting dispute for the benefit of the Issuer in the legal case against PERN S.A..

The macroeconomic environment will continue to impact significantly activity in 2018, particularly, the operating activity will be impacted by the level of investment, which recently has been gradually improving. It is noted an increase in the offer inquiries received by the companies from the Capital Group of PROCHEM S.A. and, in effect, an increase in number of contracts concluded for the provision of services, in particular in the scope of design and engineering services.

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

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

### **3.1 Economic fluctuations on the investment market**

Part of the companies included in the Capital Group provide services on the investment market, which is characterized by a large scale of the fluctuations in demand strongly linked to general macroeconomic situation of the country. Methods used by the Group to limit the negative impact

of this factor on the financial results (accumulation of financial reserves, diversification of services provided), may not fully neutralize this risk.

### **3.2 Possibility of threats occurrence at execution of contracts**

Types of activity conducted by the companies from the Capital Group of PROCHEM S.A. in particular, the preparation and management of technically complex investment projects, often implemented on the basis of contracts concluded under conditions of strong price competition, cause that there is a constant risk of technical and financial problems.

### **3.3 Dependence on the staff**

The risk of dependence on staff in particular occurs in the Parent Company. Raising the quality of services provided, undertaking the implementation of complicated technological projects, the use of modern information systems, and the work for 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 for the sale of services is concluded with foreign companies in foreign currencies (EUR, USD). In the event of a significant fluctuation of the exchange rate of the domestic currency, it may have a material effect on the Group's results. This risk is partially mitigated in a natural way i.e. through the purchase of equipment and services necessary for the execution of these contracts abroad.

### **3.5 The risk of dependence on significant buyers of services**

Execution by the Companies from the Group of contracts for the implementation with a significant value requires significant expenditure to be incurred on the purchase of services and equipment, which subsequently, in the form of a 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 involve necessity of the use by the companies external financing, and in special circumstances, may cause even a temporary loss of financial liquidity by the Issuer. 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 2017**

In connection with 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 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's comment:** The structure of the Company's shareholding does not justify the generally available broadcast 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 at its disposal the recordings that could be made available.

In connection with the principle I.Z.1.15 of Best Practices for WSE Listed Companies 2016, the Company declares that it does not apply diversity policy. The basic criterion for making decisions about the selection of persons for the Company's managing bodies and when appointing key managers are the competencies of the candidates.

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 the commentary in this regard is available on the website of PROCHEM S.A.– [www.prochem.com.pl](http://www.prochem.com.pl).

#### **5. Description of internal control system in the Capital Group**

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

The companies included in the Capital Group have a comprehensive system of internal control, the aim of which is to ensure 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 law regulations and with internal regulations,
- employment and wages.

Institutional internal control analyses the undertakings which are already completed and documentation related to it. 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 as the most important by the Management Board of the Parent Company. Apart from the institutional internal control, there is also the so-called functional control in the Group, which is exercised by managers at various ranks. Managers perform the supervision over the employees subject to them, such control consists in the checking of the state of accomplishment of set tasks.

Institutional internal control is exercised in the 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.

Checks are carried out in all phases of activity in the form of 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 bears a signature in an identifiable manner (full name and surname), or bears the personal stamp of the authorized person and the date of approval of the document.

The internal control system, which is functioning in the PROCHEM S.A. Capital Group provides a completeness of the recognition of economic operations, and ensures the proper qualification of source documents as well as enables for the correct valuation of the resources had in possession at particular stages of the registration, 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**

In the activity the following risks exist:

- risk of economic fluctuations in the investment market,
- risk of threats occurrence during execution of the contract
- risk of losing key employees,
- currency risk,
- risk of dependence on significant buyers of services,
- risk of payments unreliability,

**Risk management in particular areas consists in:**

- monitoring 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 being alike to engineering services such as maintenance, developer's activity),
- diversification of the territory (expanding of exports),
- 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 environment and maintenance of relations with Universities

The risk of threats occurrence at execution of the contracts

- 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 introduced by Cost Control Team,
- selection of reliable subcontractors,
- contract clauses restricting the maximum amount of contractual penalties

- The foreign currency risk:

- monitoring and forecasting of currency exchange rates,
- forward type 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 with the significant buyers of services,
- contractual provisions containing the cushioning elements,
- maintenance of the partner relations with recurring customers

#### The risk of the payment unreliability

- monitoring of the financial standing of key clients before and during the execution of contracts,
- the use of specialized recovery procedures.

Both the identification of risk factors, their monitoring as well as the applied system of mitigating risk activities are in the PROCHEM S.A. Capital Group. at a good level, and the implemented development and diversification strategy fosters the reduction of some risks and leads to professionalisation of the instruments used.

### **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 hold (pcs)	Number of votes owned	% of votes in total number of votes	% of share capital
1	Steven Tappan	698,656	698,656	17.93	17.94
2	ESALIENS TFI S.A.	354,525	354,525	9.10	9.10
3	Otwarty Fundusz Emerytalny PZU S.A. „Złota Jesień“	387,521	387,521	9.95	9.95
4	Andrzej Karczykowski	201,882	201,882	5.18	5.18

There are no any securities that would give special control rights in relation to the Issuer.

As a result of the settlement, on 21 March 2018, of the transaction of purchase of own shares, the Company acquired a total of 960,000 (say: nine hundred sixty thousand) own shares with a nominal value of PLN 1.00 each share, which together constitute 24.65% of the share capital of the Company. The shares correspond to 960,000 votes at the General Meeting of the Company, which constitutes 24.64% of votes at the General Meeting of the Company. The purchase price was PLN 25.00 (say: twenty five of Zlotys) per one share. The shares were acquired in the framework of the offer announced by the Company on February 28, 2018 (current report No.

14/2018 of February 28, 2018), for purchase of no more than 960,000 shares of the Company with a nominal value of PLN 1.00. The offer was announced on the basis of Resolution No. 4 of the Extraordinary General Meeting of the Company of January 26, 2018 regarding giving the consent to the acquisition by PROCHEM S.A. of own shares for redemption and regarding giving power to purchase own shares of PROCHEM S.A.

Acquisition of shares took place outside the regulated market, through intermediary of mBank S.A. with headquarters in Warsaw - Dom Maklerski mBanku. The shares were purchased for redemption. Pursuant to § 2 of Resolution No. 4 of the Extraordinary General Meeting of PROCHEM S.A. dated 26 January 2018, the Management Board of the Company will insert on the agenda of the next General Meeting of the Company a resolution regarding the redemption of acquired own shares. As of the date of publication of this report, the Company holds a total of 960,000 own shares, constituting 24.65% of the share capital of the Company. These shares correspond to 960,000 votes at the General Meeting of the Company, which constitutes 24.64% of votes at the General Meeting of the Company.

On 1 February 2018 was delivered to the seat of the Issuer the decision issued by the District Court in Warsaw of 19 January 2018 in the case pursuant to the application filed by Value Fund Poland Activist FIZ based in Warsaw with the participation of the Issuer and Steven Tappan, Konrad Młynarz, Andrzej Karczykowski, Marek Garliński, Jarosław Stępniewski, Marek Kiersznicki, Maciej Kalita, Krzysztof Marczak, Jan Milczarczyk, Piotr Wowkonowicz, Barbara Auguścińska-Sawicka, Adam Parzydeł, Tomasz Antoszczuk, Jarosław Wieczorek, Grzegorz Kobyłecki, Lech Winnicki, Zdzisław Rokita, Grzegorz Piotrowski, Zofia Kaczor, Maciej Grzybowski, for granting security to the claim. In the indicated decision, the Regional Court decided to grant security to the claim, before instituting proceedings based on lawsuit filed by Value Fund Poland FIZ, to establish that above mentioned persons may not exercise their voting right from the Issuer's shares, through putting a ban on the exercising of voting rights from the Issuer's shares by the above-mentioned persons for the duration of the proceedings.

There are no restrictions on the transfer of ownership of the Issuer's securities.

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## **8. 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 managing persons are defined by the Statute of PROCHEM S.A. and they 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.

## **9. Rules for amending the statutes or articles of association of the Issuer**

Principles of amendments to the statutes or the articles of association of the Issuer's company has been set out in accordance with the provisions of the Commercial Companies Code.

## **10. 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 powers and the rights of shareholders and the way of their execution are contained in the Statutes of PROCHEM S.A. and in the Bylaw of the General Meeting of PROCHEM S.A. Above mentioned documents are available on the website of PROCHEM S.A. [www.prochem.com.pl](http://www.prochem.com.pl).

## **11. 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 2017 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:

- Marek Garliński
- Andrzej Karczykowski
- Krzysztof Obłój
- Marcin Pędziński
- Karol Żbikowski

The above-mentioned members of the Supervisory Board were appointed for a new term by Resolutions of the General Meeting of June 10, 2017.

Description of the operation of the Management Board is contained in the Bylaw of the Management Board, and description of the operation of the Supervisory Board in the Bylaw of the Supervisory Board. These documents are available on the website of the Issuer [www.prochem.com.pl](http://www.prochem.com.pl).

On 7 July 2017, the Issuer's Supervisory Board appointed an audit committee composed of:

Karol Żbikowski - Chairman of the audit committee

Marek Garliński – Member of the audit committee

Marcin Pędziński - Member of the audit committee

## **12. Proceedings pending before the court, competent authority for arbitration or public administration body**

PROCHEM S.A. was a party to the proceedings before the court concerning accounting for the interrupted on 10 November 2005 contract in the scope of Management Contracting for an investment project under the name of "Pipeline in a section from the ST- 1 Adamowo - to the Plebanka raw material base" which was 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 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 for the benefit of the Issuer and a member of the consortium, has 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.
- from the cross action, dismissed the action of PERN in its entirety.

PERN SA lodged an appeal from the above judgment, on October 30, 2017, an appeal was dismissed with the judgment of the Court of Appeal in Warsaw. In connection with the dismissal of the appeal, the judgment of 22 October 2015 became final and binding and the adjudged amount was received on the Issuer's account.

On April 5, 2018 to the Company's proxy was delivered a copy of the cassation appeal against above judgment, being lodged by PERN S.A. Based on the legal opinion prepared by the Company's proxy, the Issuer's Management Board is of the opinion that complaint lodged by PERN is groundless, does not contain the necessary statutory premises, and is fraught with formal deficiencies, and as such should not be accepted by the Supreme Court for the considering. If, however, the complaint would be accepted for examination, the Supreme Court should dismiss it, due to the lack of justified basis. Therefore, the complaint creates a low risk to the stability of the judgments delivered in this case.

The value of this proceeding exceeds 10% of the equity of the Issuer.

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 Issuer.

### **13. Information on basic products and services provided by the PROCHEM S.A. Capital Group**

The subject of activity of the companies of the Capital Group of PROCHEM S.A. covers the providing of services and the sale of materials and goods related to:

- Building industry: designing, general contracting, project management, technical consulting, general construction, installation and assembly services as well as rental of construction equipment;
- Rental of office space
- Technical consulting, development and implementation of new technologies, integration of information systems.

Revenues from the sale of these services in 2017 were by 32% lower than those achieved in the previous year.

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

(Revenues in PLN thousands)

DESCRIPTION	IN 2017	IN 2016
TOTAL REVENUES FROM SALE OF SERVICES	111 133	162 927
including:		
- sale of engineering services and construction services	101 691	152 888
- rental of space	4 487	5 093
- sale of other services	4 955	4 946

#### 14. Breakdown into markets of sale of services in 2017

The share of exports in sales of services in 2017 was 0.2%.

The only customer of the Group's services, whose share in sales revenues in 2017 exceeded 10% was:

- Irydion Sp. z o. o. – 12% share in sales revenue – a jointly controlled company;

#### 15. Information on concluded agreements significant for the activity of the PROCHEM S.A. Capital Group

As of today, main revenues of the PROCHEM S.A. Capital Group being anticipated in 2018 will be achieved as a result of the implementation of contracts for the provision of services for the company Bioagra and the associated company Irydion sp. z o. o.

The Issuer is not aware of any agreements concluded between shareholders of PROCHEM S.A., which would be significant for economic activities of the PROCHEM S.A. Capital Group.

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

Issuer has the following subsidiaries directly or indirectly and 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% share in capital and profit, 71.1% share in votes);
- Prochem Zachód Sp. z o. o. seated in Słubice- subsidiary directly (80.0%);
- ELPRO Sp. z o.o. seated in Krakow – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontaż Krakow);
- Elmont Inwestycje Sp. z o. o. seated in Krakow – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontażu Krakow);
- Elektromontaż Kraków S.A. seated in Krakow – subsidiary indirectly (85.4%), including 73.0% share in capital and votes belongs to company Prochem Inwestycje subsidiary in 100%. Company Elektromontaż Kraków S.A. prepares consolidated financial statements, which contain data of a subsidiary in 100%: ELMONT-POMIARY Sp. z o. o. seated in Krakow 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 in 100%;
- ATUTOR Integracja Cyfrowa Sp. z o. o. seated in Warsaw – subsidiary indirectly (87.3% of share belongs to company Prochem Inwestycje Sp. z o. o. subsidiary in 100%);
- Prochem RPI Sp. z o. o. seated in Warsaw – subsidiary directly and subsidiary indirectly in 100%;

Associated entities and jointly controlled entities consolidated with the equity method

- IRYDION Sp. z o. o. seated in Warsaw – 50.0% share in 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% holds Prochem RPI Sp. z o. o. a subsidiary (in 100%).

The principle adopted at consolidation consists in that entities not conducting activity are not included into consolidation - financial data of these companies do not distort information on financial results of the PROCHEM S.A. Capital Group. The companies excluded from consolidation:

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

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.

## **17. Related party transactions**

In 2017, no significant transactions were concluded between companies from the Issuer's Capital Group on terms other than market terms.

## 18. Information on loans and borrowings

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

mBank SA	Warsaw	5,000 Credit in overdraft	-	30 November 2018	WIBOR for O/N deposits in PLN + margin	Promissory note in blank, pledge by court on shares
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Contracted by Elektromontaż Kraków S.A.

Deutsche Bank	Kraków	500	445	15 July 2018	WIBOR for one month deposits in PLN + margin	Mortgage up to PLN 2 250 thousand on real estate
ING BANK Śląski	Kraków	2 500	774	19 November 2018	WIBOR for one month deposits in PLN + margin	Mortgage up to PLN 3 750 thousand on real estate

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

Bank Millennium S.A.	Warsaw	150	140	15 April 2018	WIBOR 1 m plus margin	Granting the bank power of attorney to collect and repay from bills and to block funds in the event of non-repayment of the loan on time
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Contracted by Pro-Inhut sp. z o.o.

ING Bank Śląski S.A.	Dąbrowa Górnicza	579	579	20 February 2018	WIBOR for one month deposits in PLN + margin	Guarantee of BGŻ Bank on the basis of a portfolio agreement. Promissory note in blank.
ING Bank Śląski S.A.	Sosnowiec	200	141	17 May 2019	WIBOR for one month deposits in PLN + margin	Guarantee of BGŻ Bank on the basis of a portfolio agreement. Promissory note in blank.
ING Bank Śląski S.A.	Sosnowiec	300	284	30 July 2020	WIBOR for one month deposits in PLN + margin	Guarantee of BGŻ Bank on the basis of a portfolio agreement. Promissory note in blank.

Contracted by Elmont Pomiary sp. z o.o.

PEKAO S.A.	Kraków	200	11	30 March 2018	WIBOR for one month deposits in PLN + margin	Guarantee of BGŻ Bank on the basis of a portfolio agreement. Promissory note in blank.
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## 19. Information on loans granted

In 2017, the Issuer granted a loan to its subsidiary Pro-Inhut Sp. z o. o. in the amount of PLN 130 thousand, interest is set at annual rate 3.25%, time of repayment was set for 30 September 2018.

## **20. Information on guarantees and surety granted and received**

The total value of sureties and guarantees granted by the Capital Group's companies being related to operating activities as at December 31, 2017 amounts to PLN 12,899 thousand, of which:

- a) bank guarantee of good performance of services – PLN 11,475 thousand;
- b) guarantee of return of advance payment – PLN 1,177 thousand;
- c) surety granted on behalf of subsidiary Pro-Inhut Sp. z o. o. – PLN 247 thousand.

The total amount of contingent receivables under received performance guarantees and statutory warranty as at 31 December 2017 amounts to PLN 3,866 thousand.

In 2017 the Capital Group's companies did not grant the surety of loan repayment to the related entities.

## **21. Description of the use of the proceeds from the issue**

In 2017, the Capital Group's companies did not issue any securities.

## **22. Explanation of differences between the achieved financial results and forecasts**

In 2017 the PROCHEM S.A. Capital Group did not publish forecast of financial results.

## **23. Assessment of the management of financial resources**

During 2017, a disruption of financial liquidity in PROCHEM S.A. Capital Group did not occur. Both the state of financial resources and available lines of credit allow for timely fulfillment of contracted obligations.

## **24. Assessment of the possibility of implementation of investment objectives**

Since 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. In 2018, construction is expected to be completed, all office space will be rented and will be started the process of selling of the office building.

## **25. Assessment of factors and unusual events affecting the financial results achieved**

A one-off event had a significant impact on the financial results achieved in 2017 - a positive settling of the long lasting dispute for the benefit of the Issuer in the legal case against PERN S.A. As a result of this event, the Company achieved a profit before tax of PLN 26.7 million. The received monetary funds that were left after covering the loans and other liabilities related to the performance of the contract with PERN S.A. in accordance with Resolution No. 4 of the

Extraordinary General Meeting of the Company of January 26, 2018 were destined for the acquisition by PROCHEM S.A of own shares with the aim of their redemption.

## **26. External and internal factors essential for the development of the PROCHEM S.A. Capital Group in 2018**

Macroeconomic surrounding will have the significant effect on the activities of the PROCHEM S.A. Capital Group in 2018, in particular, the condition of the Polish economy which in the significant way influences the undertaking of decisions on the starting of the new investment objectives by potential clients of the companies from the PROCHEM S.A. Capital Group (in particular by industrial companies). After the slump of investment in the last period, now takes place slowly launching of some of the investment projects, which were suspended in the energy, chemical and environmental protection sectors. In many of them the companies from PROCHEM S.A. Capital Group have a chance to participate. This would be reflected in the number of orders obtained by the companies, and also in the financial results achieved in 2018. The Management Boards of the companies from the PROCHEM S.A. Capital Group with particular attention are monitoring the current situation and, in case of a need, are able to take the appropriate steps aiming at increase of their potential to adapt to new opportunities.

## **27. Characteristics of the policy in the scope of directions of development of the Capital Group of PROCHEM S.A.**

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

## **28. Changes in basic principles of management of the Issuer and its Capital Group**

In 2017, there were no significant changes affecting the principles of management of the Issuer and its Capital Group.

## **29. 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 a managing person.

### **30. Remuneration of the Members of the Management Board and the Supervisory Board of the Issuer**

Remuneration paid in 2017 by the Issuer to the members of the Management Board and the Supervisory Board was presented in the notes to the separate financial statements for 2017.

### **31. 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 Issuer's Management Board and of the Supervisory Board held shares of PROCHEM S.A. ;

- Jarosław Stępniewski – 68,383 pcs;
- Marek Kiersznicki – 59,474 pcs;
- Krzysztof Marczak – 36,908 pcs;
- Marek Garliński – 73,996 pcs;
- Andrzej Karczykowski – 201,882 pcs;

The nominal value of 1 share is PLN 1.

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

### **32. Information on agreements which could result in changes in the proportions of shares held by current shareholders**

On 21 March 2018 the Company acquired 960,000 of own shares following the offer, which was announced on the basis of Resolution No. 4 of the Extraordinary General Meeting of the Company of January 26, 2018 regarding giving the consent to the acquisition by PROCHEM S.A. of own shares for redemption and regarding giving power to purchase own shares of PROCHEM S.A. Acquisition of shares took place outside the regulated market, through intermediary of mBank S.A. with headquarters in Warsaw - Dom Maklerski mBanku. The shares were purchased for redemption. Pursuant to § 2 of Resolution No. 4 of the Extraordinary General Meeting of PROCHEM S.A. dated 26 January 2018, the Management Board of the Company will insert on the agenda of the next General Meeting of the Company a resolution regarding the redemption of acquired own shares. These shares constitute 24.65% of the Company's share capital and correspond to 960,000 votes at the General Meeting of the Company, which constitutes 24.64% of votes at the General Meeting of the Company. As a result of their redemption, changes will take place in the proportions of shares held by the current shareholders.

### **33. Information on the control system for employee share programs**

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

### **34. 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 the company BDO Sp. z o. o. for the audit and review of separate and consolidated financial statements of PROCHEM S.A. for 2017 was concluded on 1 June 2017. The agreement was concluded only for the audit of financial statements for the year 2017. The total remuneration of the company BDO under the contract amounts to PLN 86,000 net. In 2017 the additional remuneration was owed to BDO in the amount of PLN 980 net under the participation of Issuer's personnel in a training organized by BDO.

For performing the audit and review of financial statements for 2016 the company KPMG Audyt Sp. z o. o. Sp. k. received remuneration in the amount of PLN 94,000 net. In 2016 the additional remuneration was paid to company KPMG Audyt spółka z ograniczoną odpowiedzialnością Sp. k. in the amount of PLN 10,000 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