

**MANAGEMENT BOARD REPORT  
ON THE ACTIVITIES OF PROCHEM S.A.  
IN 2015**

Warsaw, 28 April 2016

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

Principles of preparation of the separate financial statements of the Company PROCHEM S.A. for 2015 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 the Issuer in 2016**

In 2015 the Company achieved revenues from basic activities i.e. sale of engineering services and construction services in the amount of PLN 217.6 million. They are by PLN 89.3 million higher than those achieved in 2014. The increase in revenues was primarily in the segment of General Contracting. This increase resulted mainly from an increase in sales for the Belarusian Client. At the operational level the Company recorded a profit of PLN 9.1 million. This amount was reduced by PLN 0.8 million of a loss on financial operations – primarily following the negative foreign exchange differences which arose at valuation of financial assets. Net profit in 2015 amounted to PLN 6.2 million and was by 1.2 million higher than in the previous year.

The strategy of PROCHEM S.A., which consists in maintaining and in many fields of the development of engineering potential makes that PROCHEM is one of the few engineering companies in Poland, which is able to provide high-quality multi-discipline design services. Owing to this, order backlog in this area for the year 2015 is on the good level. PROCHEM will continue the construction of the office building under the name of Astrum Business Park in Warsaw. However, in the segment of the general contracting, due to the fact that a contract in Belarus has entered the final phase of implementation, revenues in 2016 will be significantly lower. Considering the specificities the Company's operations, despite the anticipated reduction in sales, the Management Board of PROCHEM S.A. positively assesses the prospects for the development of the Company in 2016.

### **3. Significant risk factors and threats to activity of the Issuer**

Company PROCHEM S.A. is exposed in its operations to the following types of risks and threats:

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

The company provides services to the investment market, which is characterized by a large scale of fluctuations in demand that is strongly linked to general macroeconomic situation of the country. Methods used by the Company 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 Dependence on the staff**

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 labor 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.

### **3.3 Exchange rate risk**

Part of the contracts for the sale of services is concluded with foreign companies in foreign currencies (EURO, USD). In the event of significant fluctuations in the exchange rate of the national currency it could have a material impact on the Company'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, as well as through the purchase of the relevant financial instruments.

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

While executing of the contracts for implementation with a high value by the Company are required significant expenditures for the purchase of services and equipment that in the next sequence in the form of the finished object are sold to the customer. Lack of adequate correlation between the expenditures incurred and the proceeds from the execution of the contract may cause the necessity of the use of external financing by the Company and, in some circumstances, even may result in a temporary loss of liquidity by the Issuer. Such risk to a large extent is hedged through appropriate provisions in the agreement with the customer, by virtue of which the customer is obliged to the successive reimburse of capital expenditures incurred during the execution of the order.

## **4. Statement on the application of corporate governance principles in 2015 in PROCHEM S.A.**

General Meeting of PROCHEM S.A., by Resolution No. 7 dated. 8 June 2013 had adopted for application Corporate Governance Principles under the name of Best Practices for WSE Listed Companies after amendment, as in Resolution No. 19/1307/2012 of the WSE Board dated November 21, 2012, **with the exception of rules which are laid down in: Part 1 item 12, Part II item 1 subsection 9a and in Part IV item 10.** The full text of the principles of corporate governance to which the Issuer is subject is available on the website of PROCHEM S.A. – [www.prochem.com.pl](http://www.prochem.com.pl).

## **5. Internal control system of the Issuer**

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

PROCHEM S.A. has a comprehensive system of internal control, the aim of which is to provide timely and accurate disclosure of facts concerning essential elements of the company's operations. It contributes to obtain a complete understanding of the financial position, results of operations, the company's assets and management efficiency. The scope of supervision covers above all:

- business activities of the company, basic and auxiliary,
- financial reporting and settlements,
- compliance of the company's activities with the applicable laws and internal regulations,
- employment and remuneration.

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 company, and collecting and preparing the information on the activities of the organizational units of the company, selected economic problems and other issues that in the given period were regarded by the Management Board as the most essential. Apart from the institutional internal control, there is also the so-called functional control in the company 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. 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 initial inspection, current inspection and next inspection. The documents financial and accounting are subject to the substantive, formal and accounting inspection. Information on the formal correctness, substantive and the calculation correctness, bears a signature in a the identifiable way (full name) or it bears a seal with the name and surname of the authorized person and the date of approval of the document. The internal control system, which is functioning in PROCHEM S.A. provides a completeness of the approach to 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 Management Board to carry out the Company's activities on the basis of a verified and complete information.

## **6. Risk management system in the enterprise of the Issuer**

In the activities of PROCHEM S.A. occur the following risks:

- the risk of economic fluctuations on the investment market,
- the risk of loss of key employees,
- the foreign currency risk,
- the risk of dependence on significant buyers of services,
- the risk of the payment unreliability,
- the risk of adverse settlement of 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 area of particular risks the situation is as follows:

The risk of economic fluctuations on 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 system of recruitment – cooperation within the sector and maintaining the relations with universities,

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 the 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 adverse settlement of litigation with PERN

- monitoring of the legal situation by the Board and a team of lawyers.

Both the identification of risk factors, monitoring of them, and the applied system of risk mitigation measures in PROCHEM S.A. are at a good level, and the implemented strategy of development and diversification conduces to a reduction of part of the risks and leads to the professionalization in scope of the used 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	1,179,483	1,181,083	30.31	30.28
	including: Steven Tappan	510,000	510,000	13.09	13.09
2	Legg Mason TFI S.A.	560,549	560,549	14.39	14.39
3	Otwarty Fundusz Emerytalny PZU S.A. „Złota Jesień“	387,521	387,521	9.95	9.95
4	Quercus TFI S.A.	394,963	394,963	10.14	10.14

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.

#### **8. Principles of 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 SA 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.

#### **9. 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.

#### **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 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](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

The Supervisory Board comprises of :

- Marek Garliński - Chairman
- Steven Tappan – Vice Chairman
- Andrzej Karczykowski
- Krzysztof Oblój
- Wiesław Kiepiel

The above composition of the Supervisory Board is current on the date of preparation of these financial statements.

In the last financial year there were no changes in the Supervisory Board.

Description of the operation of the Management Board is contained in the Regulations of the Management Board, and the 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](http://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.

## **12. 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 precised the 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.

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 Issuer**

PROCHEM S.A. is an engineering company, which activity includes designing, general contracting, project management and technical consulting. The Company specializes primarily in customer service in the following segments: the industrial building, environmental protection facilities, public buildings and infrastructure projects. Revenues from sale of these services in 2015 constitute 96.9% of the total Company's revenues, and their value in 2015 is by 69.6% higher than in those achieved in previous year.

Breakdown of revenues by separate types of activity and their structure is shown below:

(Revenues in PLN thousands)

Description	Revenues in PLN thousands		% + growth - decline	The revenue structure %	
	2015	2014		2015	2014
1. Sale of services	217,631	128,322	+ 69.6%	96.9	98.3
2. Sale of goods	3,323	12	+ 27591.7%	1.5	0.1
3. Other operating income	1,478	1,100	+ 34.4%	0.7	0.8
4. Financial income	2,121	1,060	+ 100.1%	0.9	0.8
<b>Total</b>	<b>224,553</b>	<b>130,494</b>	<b>+ 72.1%</b>	<b>100.0</b>	<b>100.0</b>

As can be seen from the following statement in 2015 revenues from the engineering and design services dropped by PLN 5 million compared to the previous year, and revenues from general contracting increased by PLN 96.4 million. In the item of Other services are included primarily income from the rental of cranes and shoring.

Description	Total revenues from sale of services		+ growth - decline 2015/2014
	2015	2014	
1. Engineering and design services	28,361	33,382	- 15.0%
2. Contracting services	186,011	89,582	+ 107.6%
3. Other services	3,259	5,358	- 39.2%
<b>TOTAL</b>	<b>217,631</b>	<b>128,322</b>	<b>+ 69.6%</b>

#### 14. The breakdown according to the markets of sale of services in 2015:

The share of exports in sales of services amounted in 2015 to 54%.

The buyers of services provided by the Company of which share in the revenues from sales in 2014 exceeds 10%, were :

- Mineral Wax Factory in Belarus - 52% of share in revenues from sales - there are no other formal relationship with the entity except for trade agreements.

- Bioagra S.A. - 16% of share in revenues from sales - there are no other formal relationship with the entity except for trade agreements.
- Irydion Sp. z o.o. - 13% of share in revenues from sales – a jointly-controlled entity;

#### **15. Information on concluded agreements significant for the Issuer's activity**

At the present day the main incomes of the Issuer anticipated for 2016 will be obtained as a result of the implementation of contracts for the provision of services for associated entity Irydion Sp. z oo and for the Mineral Wax Factory in Belarus.

To the Company are not known any agreements concluded between shareholders of PROCHEM S.A., which would be significant for its economic activities.

#### **16. Information on the organizational or capital relations of the Issuer and about the main investments.**

PROCHEM S.A. is a parent entity of the Capital Group which includes, among others the companies:

##### Subsidiaries:

- 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%);
- Pro-Organika Sp. z o.o. seated in Warsaw – subsidiary directly (91.4%);
- Przedsiębiorstwo Konsultingowo-Inżynieryjne PREDOM Sp. z o.o. seated in Wrocław – subsidiary indirectly (81.1% of capital and profit, 69.4% 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 (88.8%, including 77.6% share in the 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o.o. seated in Kraków – subsidiary indirectly (88.8%, including 77.6% share in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. seated in Kraków – subsidiary indirectly (77.6%), including 65.5% of 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 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:

- 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 belongs directly to Prochem S.A., and 23.3% belongs to Prochem RPI Sp. o. o. subsidiary in 100%)

**17. Related party transactions**

In 2015, 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.

**18. Information on loans and borrowings**

Name of the bank	Registered office	Amount of a loan according to agreement (in PLN thousands)	Amount of a loan to be repaid (in PLN thousands)	Terms of interest	Repayment date	Security
mBank SA	Warsaw	6,000 Credit in overdraft on current account	3 024	WIBOR for O/N deposits in PLN + margin	30 June 2016	Promissory note in blank
mBank SA	Warsaw	6,000 Revolving working capital loan	6 000	WIBOR for one month deposits in PLN + margin	30 June 2016	Promissory note in blank
ING Bank Śląski S.A.	Katowice	3,000 Credit in overdraft on current account	0	WIBOR for one month deposits in PLN + margin	14 November 2016	Declaration of submission to execution

**19. Information on loans granted**

From 1 January to 31 December 2015 the Issuer granted the subsidiary Elmont Inwestycje Sp. z o.o. a loan in the amount of PLN 120 thousand. The interest rate on the loan has been determined on market terms.

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

The value of guarantees and sureties related to operating activities of the Issuer amounts to PLN 20,430 thousand, including :

- a) Bank guarantee of good performance of services – PLN 11,592 thousand;
- b) Guarantee of the payment of rent – PLN 852 thousand;
- c) Tender guarantee – PLN 60 thousand;
- d) Guarantee of refund of advance payment – PLN 4,115 thousand;

- e) Open Letters of Credit – PLN 3,564 thousand;
- f) surety granted on behalf of subsidiary – PLN 247 thousand.

The total amount of contingent receivables by way of received performance guarantees and statutory warranty as at 31 December 2015 amounts to 3,694 thousand.

In 2015 the Issuer did not grant the related entities the guarantees of loan repayment.

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

In 2015, the Company did not issue any securities.

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

In 2015 the company did not publish forecast of financial results.

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

During 2015 did not occur in PROCHEM S.A. disruption of liquidity. The Company maintains such a status of their own cash, that allows for timely fulfillment of its liabilities. No circumstances exist, that would make impossible the fulfilment of obligations by the Company.

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

Capital Group includes the special purpose companies (Irydion, Elmont Inwestycje, Elpro), formed to implement development projects, on which focuses investment activity of PROCHEM S.A. Capital Group. At present these companies are in possession of appropriate real estates, and are in possession or are conducting the intensive preparatory work being aimed at obtaining necessary permits for the implementation of an investment project. These projects will be financed largely basing on the external financing. In 2013, IRYDION gained a partner for joint investing, and commenced the phase of execution of the construction of the office and service building in Warsaw under the name of Astrum Business Park.

### **25. 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 as under guarantee deposit in the total amount approximated to the amounts retained by PERN S.A. In compliance with agreements with the companies as above, 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. 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, which is currently being carried out again before the District Court in Warsaw.

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 claims in this year within the final settlement, which is the subject of litigation pending before the court.

## **26. External and internal factors essential for the development of the enterprise of Issuer in 2016**

Macroeconomic surrounding will have the significant effect on the development possibilities of PROCHEM S.A. in 2016, 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 PROCHEM S.A. (in particular by industrial companies). Are launched large investments in the energy, chemical and environmental protection sectors. PROCHEM S.A. is involved in many of them as recognized engineering company. This will be reflected in the number of orders obtained by the Company, and also in the financial results achieved in 2016. The Management Board of PROCHEM S.A. with particular attention is monitoring the current situation and, if necessary, is prepared to take appropriate actions to adapt of its potential to new opportunities.

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

In 2015, there were no significant changes affecting the principles of management of the Issuer and its Capital Group.

### **28. Description of the agreements concluded between the Issuer and managing persons providing for compensation**

Employment contracts 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 where the dismissal is due to obvious fault of the person managing.

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

Remuneration paid in 2015 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 2015.

### **30. Determination of the total amount of shares of the Issuer and related entities held by persons managing and supervising 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;
- Marek Garliński – 86,400 units;
- Steven Tappan – 510,000 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.

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

To the Company are not known of any agreements, which could result in future changes in the proportion of shares held by current shareholders.

### **32. The control system for employee share programs**

In the company does not exist any employee shares program.

### **33. 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 2015 was concluded on 3 July 2015. The agreement was concluded only for the audit of financial statements for the year 2015. The total remuneration of KPMG under the contract amounts to PLN 94,000 net. In 2015 the additional remuneration was owed to KPMG in the amount of PLN 20,000 net for attestation services. For the audit and review of financial statements for 2014 KPMG Audyt Sp. z o. o. Sp. k. received remuneration in the amount of PLN 94,000 net. In 2014 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.

Vice President  
Krzysztof Marczak

Vice President  
Marek Kiersznicki

President of the Management Board  
Jarosław Stępniewski