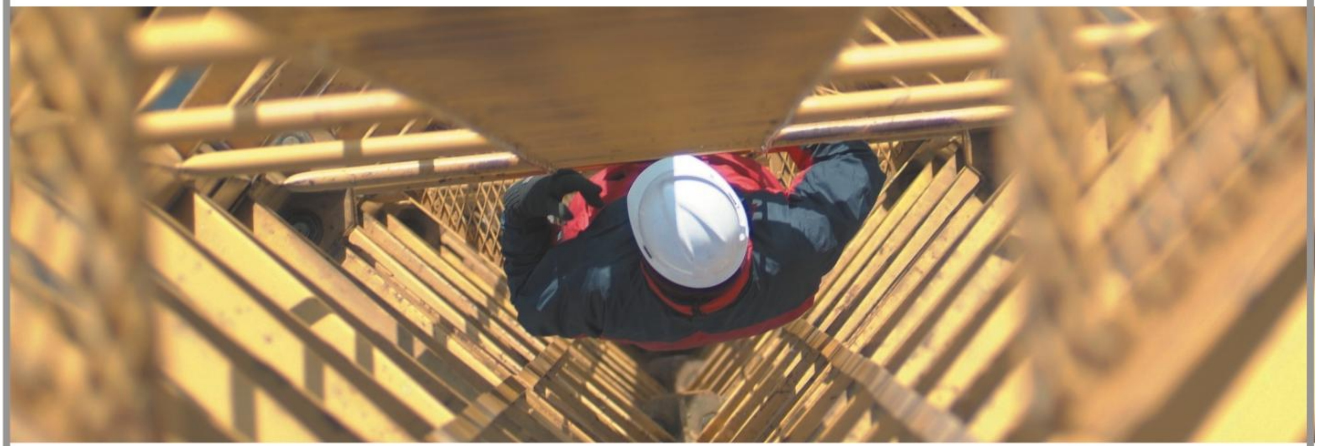

REPORT OF THE MANAGEMENT BOARD OF THE ACTIVITY OF THE INPRO SA CORPORATE GROUP IN 2016

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SPÓŁKA NOTOWANA NA GPW

GDAŃSK, 21 MARCH 2017

Approval

of the report of the Management Board of the activity

of the INPRO SA Corporate Group

in 2016

This Report of the Management Board of the activity of the INPRO SA Corporate Group in 2016 contains the report of the activity of the parent entity, INPRO Spółka Akcyjna.

Gdańsk, 21 March 2017

Piotr Stefaniak **President of the Management Board**	**Zbigniew Lewiński** **Vice-President of the Management Board**	**Krzysztof Maraszek** **Vice-President of the Management Board**

Contents

1. Basic information

INPRO SA (the "Company," "Parent Entity") is the parent entity of the INPRO SA Group:

Table 1. Basic information on INPRO SA

Full name (business name)	INPRO Spółka Akcyjna
Registered office	80-320 Gdańsk, ul. Opata Jacka Rybińskiego 8
Business registry number (REGON)	008141071
Tax ID (NIP)	589-000-85-40
Court registration number (KRS)	0000306071
Polish Classification of Activity (PKD) 2007	4120Z – construction works relating to the erection of residential and non-residential buildings

The legal predecessor of INPRO SA, the company under the business name of Biuro Projektów i Usług Inwestycyjnych Budownictwa INPRO Spółka z o.o. with its registered office in Kartuzy, was recorded in the Commercial Register on 30 May 1987. The Company's main object was the design and preparation of construction projects.

In accordance with the provisions of the notarised deed of 8 November 1990, the Company's business name was changed to Przedsiębiorstwo Budowlane INPRO Sp. z o.o.

In 1992 the Company extended its business offer by undertaking the property development activity.

As from 1998, the Company has concentrated its activities on property development projects.

The registration of the transformation of the limited liability company into a joint stock company (still under the business name of Przedsiębiorstwo Budowlane INPRO SA) was effected by the District Court in Gdańsk, 7th Business Division of the National Court Register, on 29 May 2008 (court registration: KRS 0000306071).

The change of the Company's business name to INPRO SA was registered by the Court on 26 June 2008 under number KRS 0000306071.

On 20 December 2010 the Polish Financial Supervision Authority approved INPRO SA's prospectus offering the subscription, in the public offering, of not less than and not more than 10,010,000 ordinary series B bearer shares offered by the Issuer as part of the public subscription.

On 17 February 2011 the rights to series B shares of INPRO SA were listed on the parallel market of the *Warsaw Stock Exchange.*

Series A and B shares of the Company were listed on the parallel market of the stock exchange on 22 March 2011.

The main object of the INPRO SA Group is the construction and sale of residential and commercial real estate (the Issuer and Przedsiębiorstwo Budowlane Domesta Sp. z o.o.).

In addition, the companies within the Group are involved in the following:

- hotel services (Dom Zdrojowy Sp. z o.o. and Hotel Mikołajki Sp. z o.o.),
- fit-out and finishing of flats (SML Sp. z o.o.),
- manufacture of precast concrete elements, manufacture and erection of steel structures for the civil engineering, industrial and municipal construction industry (inBet Sp. z o.o.),
- plumbing and heating systems (PI ISA Sp. z o.o.).

2. Corporate Group structure

The structure of the Corporate Group and the Company's share in the share capital of subsidiaries as at 31/12/2016 is presented in the table below:

Table 2. Structure of the share capital of INPRO SA Corporate Group as at 31/12/2016

Entity	Registered office	Share in the share capital	Share capital PLN	Object
Przedsiębiorstwo Budowlane DOMESTA Sp. z o.o.	Gdańsk	59.57%	300 800	Property development activity (popular flats)
SML Sp. z o.o.	Gdańsk	100%	200 000	Fit-out and interior finish
inBet Sp. z o.o.	Kolbudy	74.85%	10 790 864	Manufacture of concrete, reinforced concrete and steel elements
Przedsiębiorstwo Instalacyjne ISA Sp. z o.o.	Gdańsk	76.92%	80 000	Plumbing and heating systems
Hotel Mikołajki Sp. z o.o.	Mikołajki	100%	15 780 000	Hotel services
Dom Zdrojowy Sp. z o.o.	Jastarnia	100%	19 140 385	Hotel services

In the reporting period ended on 31 December 2016:

1) The composition of the INPRO SA Corporate Group changed as follows:

a) On 06/04/2016 the Extraordinary General Meeting of inBet Sp. z o.o. adopted a resolution on the increase of the share capital from PLN 9,695,672 to PLN 10,790,864, that is by the sum of PLN 1,095,192, by way of creation of 19,557 new shares of the nominal value of PLN 56 each, which were subscribed for by INPRO SA by cash. After the registration of the capital increase, the number of shares held by INPRO SA in inBet Sp. z o.o is 144,224 shares, which constitutes 74.85% of the share capital. The increase of the capital was registered by the National Court Register on 11/05/2016.

b) On 01/07/2016, on the basis of a notarised deed, Register A No. 5802/2016, the INPRO SA subscribed for 4,000 shares of the nominal value of PLN 50.00 each, of the total value of PLN 200,000.00, in the newly created company, SML Sp. z o.o. INPRO SA covered the whole of the shares by cash. INPRO SA is the sole shareholder in the above company and is entitled to all the shares in the share capital. The object of the new company in the INPRO S.A. Corporate Group is the "turn-key" finish of flats at selected property development projects implemented by INPRO SA. The Gdańsk-North District Court in Gdańsk issued a ruling on the company registration in the National Court Register on 14/07/2016 under number KRS 0000628286.

2) The Group did not discontinue any of the kinds of its activity.

3) The Group did not make any significant capital deposits or capital investments other than the one described in item 1 above.

Free cash is invested by the Group's entities in short-term fixed-time deposits.

3. Capital structure of INPRO SA

As at 31/12/2016 the share capital of INPRO was PLN 4,004,000.00 and was divided into 40,040,000 ordinary bearer shares of the nominal value of 10 groszes each.

Table 3. Structure of the share capital of INPRO SA as at 31/12/2016

Shareholder	Series	Number of shares	Nominal value	Share in the capital	Number of votes	Share in votes
Piotr Stefaniak	A	8 460 000	846 000	21.13%	8 460 000	21.13%
Zbigniew Lewiński	A	9 460 000	946 000	23.63%	9 460 000	23.63%
Krzysztof Maraszek	A	10 010 000	1 001 000	25%	10 010 000	25%
ING OFE	A	2 100 000	210 000	17.93%	2 100 000	17.93%
	B	5 077 704	507 770		5 077 704	
Shareholders with less than 5% of votes	B	4 932 296	493 230	12.31%	4 932 296	12.31%
		40 040 000	**4 004 000**	**100%**	**40 040 000**	**100%**

The Group's total equity as at 31/12/2016 was: PLN 245,636,264.26.

The total equity of INPRO SA as at 31/12/2016 was: PLN 240,011,089.01.

Table 4. Shareholding structure of the Parent Entity as at 21/03/2017

Shareholder	Series	Number of shares	Nominal value	Share in the capital	Number of votes	Share in votes
Piotr Stefaniak	A	8 460 000	846 000	21.13%	8 460 000	21.13%
Zbigniew Lewiński	A	9 460 000	946 000	23.63%	9 460 000	23.63%
Krzysztof Maraszek	A	10 010 000	1 001 000	25%	10 010 000	25%
ING OFE	A	2 100 000	210 000	17.93%	2 100 000	17.93%
	B	5 077 704	507 770		5 077 704	
Shareholders with less than 5% of votes	B	4 932 296	493 230	12.31%	4 932 296	12.31%
		40 040 000	**4 004 000**	**100%**	**40 040 000**	**100%**

To the Company's best knowledge, no significant changes in the shareholding structure occurred against the status as at 30/06/2016. During the second half of 2016 and until the submission of this report, the shareholders did not advise of any change in the shareholdings in INPRO SA.

4. Situation in the trade

According to the preliminary estimates of the Central Statistical Office of Poland, the Gross National Product in 2016 was realistically higher by 2.8% compared to 2015, that is the growth trend has slowed down as we noted economic growth at the level of 3.9% in 2015. Economic activity was supported mainly by individual consumption, supported with the improvement of the situation on the labour market and by the increase of real income (the average gross remuneration increased in 2016 by 3.8 per cent against the previous year). According to preliminary estimates by the Central Statistical Office of Poland, the unemployment rate went down in 2016 (8.3% at the end of December) and deflation maintained, and the Consumer Price Index was 99.4% y/y. The decrease in investment, both public and private, affected the slowdown in the economic growth. The decrease in the investment level is, in turn, the effect of the low utilisation of EU funds and of the changeability at the political scene in the country.

Assessment of the situation in property development[1]

Contrary to previous expectations, in accordance with the report by the REAS consulting company, the property development industry has noted record results again. Strong demand for flats was created by, among other things, two groups of buyers: those taking advantage of the Flat for Young People Programme and those buying flats for cash (also for investment purposes). Low interest rates and an increase in the level of salaries were conducive of such purchases.

In 2016 developers placed over 65,000 flats or 25% more than in the previous year on the market in six agglomerations (Kraków, Łódź, Poznań, the Tri-city, Wrocław and Warsaw).

At the same time, nearly 62,000 premises i.e. nearly 20% more than in the whole of 2015 were sold.

The number of flats on sale as at the end of December 2016 in the six agglomerations was 52,700, an 8% increase against the end of 2015.

The level of the prices of flats became stable at the end of the year, however, the prices of flats placed on the market at the end of 2016 were 6% higher on average compared to December 2015.

The Tri-City new flats market in 2016 behaved in a similar way to the markets in the biggest Polish agglomerations, the only difference being that the average gross price of the flats on offer increased considerably i.e. by 7.3% y/y. In the last four quarters, one of the higher sales growth coefficients was also noted (26.2% compared to the average value of 19.5% for all the agglomerations). In the sales offer in the Tri-City, there were 7.5% more flats at the end of 2016 than in the previous year.

Assessment of the situation in the hotel trade[2]

In view of the fact that INPRO SA holds 100% shares in Dom Zdrojowy Sp. z o.o. and Hotel Mikołajki Sp. z o.o., the Group's activity is dependent on the situation on the hotel market as well.

Available statistical data permits the statement that 2016 was an excellent year for Polish hotels. In the biggest Polish cities, the revenues per room increased by approximately a dozen percent, whereas the growth in 2015 was only several percent. This was certainly influenced by the most important events of the last year, that is the NATO summit and the World Youth Days. The activity of the investors in the hotel trade did not decrease, either, and brand takeovers by big players occurred, such as the takeover of Starwood Hotels by Marriott International. The Polish market is becoming more and more attractive for the foreign MICE trade. Poland is becoming a country which is more and more willingly chosen owing to the fact that it is perceived as one of the safer places, even in Europe itself. The significant development of transport infrastructure is an additional factor.

According to the data with the imputation by the Central Statistical Office of Poland, the increase in the number of night accommodation stays sold in 2016 was 19% y/y. The total number of night accommodation stays sold was 79.3 m.

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[1] *This data is based on the report titled the Housing Market in Poland by REAS, the 4th quarter 2016, and on the company's sources.*

[2] *Data based on the Company's own research and presented by the Hotelarz monthly*

According to preliminary estimates, last year Poland was visited by 30.1 m tourists who used at least one commercial overnight accommodation stay. The number of tourists grows year by year, a fact about which the hotel trade representatives are pleased.
In the period from January to June 2016, the degree of utilisation of overnight accommodation in all tourist facilities was 34.4% (33.0% in the first half of 2015) and the growth of that index, compared to the previous year, occurred in all the consecutive months in the first half of 2016.

5. Significant risk factors and threats

Risk relating to the implementation of property development projects

The property development project cycle is a long-term one (over 24 months) and characterised by considerable financial expenditure and its full return after as long as minimum 2 years. In particular, the following events may have a significant influence on the developer's financial results: (i) the need to incur additional costs, (ii) change of the time for completion of construction (iii) delay to the procurement of an occupancy permit; (iv) delays to the completion of the documentation necessary for signing notarised deeds of sale.

Risk of failure to obtain credit finance

Banks directly influence the end customer's apartment purchase capacity as the vast majority of new premises are bought on credit. The banks' expansive sales policy combined with less restrictive credit worthiness testing has an impact on easier credit availability to prospective apartment buyers. Conversely, the banks' restrictive sales policy combined with more restrictive credit worthiness testing by financial institutions or more conservative recommendations used by the regulators, causes the limited availability of finance which, in turn, results in the reduced number of apartments sold. Experience from the last years indicates that both the former situation, created by the banks' uncontrolled fight for the customer, which results in a rapid increase of apartment prices, and the latter, caused by the worldwide crisis, which in turn caused the banks' aversion to risk and a serious slowdown on the apartment market, are not advantageous to both the customers and developers.
Similar reactions may be observed in the case of corporate credit granted directly to the developers for projects under way. Restrictions in credit finance contribute to projects being suspended, be it at the stage of construction commencement or as early as land purchase, with the resulting fall of apartment supply. That situation may bring about sharper apartment price fluctuations and the reduction of the range of apartments on offer.
The Group has had positive financial results for many years and has a very good credit history and very good relations with financial institutions.

Competition risk

Entities in the trade in question compete with one another, in particular in the following areas: (i) real estate location; (ii) prices of the premises; (iii) structure of the offering; (iv) progress of construction; (v) the architectural layout of the premises; (vi) credits on offer by the banks working with the developer. A less favourable business outlook in residential construction industry may influence the growth of competition on the property development market, which may imply the need to adjust the offer to market conditions (including price reduction), more intense implementation of projects, takeover of skilled workers and, possibly, moving the business off the Tri-City. The above factors may cause a cost increase and thus the deterioration of the Group's financial results. The Group watches and analyses the competitors' activity and makes relevant steps to minimise that risks on an ongoing basis.

Risk of concentration of the Group's property development activity on the local market

The Tri-City market is the main market in the Group's activity. Revenues from sales as well as profits depend on the situation on that market. The lower level of investment, of household income and of consumer's demand on the Tri-City markets may have an adverse influence on the Group's financial result and development prospects.

Risk relating to the lack of the possibility of acquiring a sufficient amount of land in the future

The possibility of implementation of the Group's strategy in the area of the property development activity depends, to a considerable extent, on the possibility of acquiring appropriate land necessary for the implementation of property development projects both in the Tri-City and the surroundings, as well as in other attractive locations within the Group's interest.

Land acquisition for residential development depends on the Group's efficiency of operation on one hand and on objective external factors on the other. External factors which may adversely affect the Group's efficiency of land acquisition are, first of all, the following: competition on the real estate market, the lack of local area development plans, limited resources of land with appropriate infrastructure and lengthy procedures relating to the procurement of necessary decisions.

The Group is unable to guarantee that no problems will occur in the future with land acquisition for property development projects even though the Group has no problems with the acquisition of appropriate amount of land at present. Any disturbance of the acquisition process of an appropriate amount of land would slow down the Group's development in the area of residential property development projects.

Risk relating to Poland's macroeconomic situation

The macroeconomic situation in Polish economy, the pace of its development and the economic situation in the region, the European Union and on the world's market have a significant influence on the construction market. The factors directly affecting the Group's financial results include: the GDP growth pace, inflation, the unemployment rate, monetary and fiscal policy of the state, level of investment of enterprises, household income level and consumer demand. Both the factors mentioned above and the direction and level of their changes influence the accomplishment of the objectives established by the Group. If the pace of economic development in Poland and on other markets slackens or instruments of shaping the economic policy of the state are used which adversely affect the Group's market position, the demand level may fall down and the Group's costs increase and, therefore, the financial results may deteriorate.

Risk relating to administrative decisions

The Issuer cannot guarantee that administrative decisions (permits, permissions, licences, concessions and consents) such as a building permit, zoning approval, occupancy permit and environmental decision required in relation to property development projects will be obtained by the Group and that any existing or new decisions will not be challenged. Whilst the Issuer exercises due diligence in applying for relevant administrative decisions, the Issuer cannot guarantee that the risk of failure to obtain the above decisions or of their challenging will be eliminated. Consequently, that risk may adversely affect the Group's activity, financial situation, results or development prospects.

Information on financial instruments with regard to risks and the entity's objectives and risk management methods are included in note No. 34 to the consolidated financial statements.

6. Directions of the development of the INPRO SA Corporate Group

The Group intends to strengthen its strong position in the current business sectors, including first of all the property development one. INPRO as a company will focus its activity on the segment of popular standard and upper-end flats on the Tri-City market. One of the strongest assets of the Company is the knowledge of the market including location preferences and other requirements of various customer groups.

The achieved market position creates an opportunity for further, dynamic development, in particular by way of implementation of projects attractive to the market.

In addition to the upper-end flats, the Group intends to continue the development of the popular flats segment; high demand for flats of that kind offered by the Group in 2011-2016 confirms unambiguously that this is a good direction in the property development activity.

The Company regularly places new projects on the market. INPRO SA has a the bank of land bought at advantageous prices and plans to maintain the policy consisting in seeking unique sites with relatively low land prices. Owing to that, it will be possible to implement projects which, in view of their attractive location, architecture, quality of construction and prices, will be sold in a relatively short time. To significantly expand the bank of land for new projects, INPRO monitors the situation on the construction plot market on an ongoing basis.

Further strengthening of the "Inpro" brand as a symbol of high quality, reliability and safety is a significant element in the Group's strategy.

INPRO considers stronger involvement in the implementation of commercial projects, in particular office buildings.

Following the completion of stage II of the extension of the Dom Zdrojowy in Jastarnia (to include a large conference and banquet hall for 200 persons) the Group does not plan other hotel projects for the near future.

The upgrade strategy for the production plant of inBet Sp. z o. o. will be continued in 2017 – the first changes made in 2015-2016 brought with them positive results, clearly seen at the level of the profit of that subsidiary.

The Management Board of INPRO SA is of the opinion that the continuation of the Group's activity is not threatened.

7. Statement on compliance with corporate governance in INPRO SA in 2016

a) Corporate governance principles followed by the Company in 2016

In compliance with the provisions of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information submitted by the issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent, INPRO SA submits that the "*Best Practice for WSE Listed Companies 2016*" attached to Resolution No. 26/1413/2015 of the Exchange Council of 13 October 2015 is the document complied with by the Company since 1 January 2016, which became effective on 1 January 2016 (*the document is available from the official web site of the Warsaw Stock Exchange, www.corp-gov.gpw.pl*).

b) The scope in which the Company departed from the set of corporate governance principles in the *"Code of Best Practice for WSE Listed Companies 2016"* referred to in item a), indication of those provisions and explanations of the reason for the departure.

In 2016, the Company departed from the following provisions of the set of corporate governance principles titled *"Best Practice for WSE Listed Companies 2016"* referred to in item a) of the statement, however, the Company indicates below both the principles which were not followed by it throughout 2016 and which are not followed at present, and those which the Company did not follow only for some time in 2016:

1) Part I – Disclosure Policy, Investor Communications

I.Z.1.20. An audio or video recording of a general meeting.

This principle is not followed.
Justification: The above principle is not followed as the sessions of the general meeting (assembly) are not audio or video-recorded. At the moment, non-registration of the sessions is due to the lack of recording media of sufficient quality which could reflect the course of a general meeting without the risk of an image defect. Moreover, in compliance with the binding provisions of law, general meeting sessions are minuted by a notary, and the resolutions adopted during those sessions published by the Company. In the Company's opinion, non-compliance with this principle is not related to any risk as the procedures for the convocation of general meetings and recording their course in compliance with the binding provisions of law ensure that the shareholders have both the opportunity to participate in the sessions of the Meeting and become familiar with its course later. The Company does not, however, rule out steps to procure and implement technical measures which may audio or video-record the course of a general meeting.

I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.

This principle is not applicable to the Company.
Justification: The above principle I.Z.2 does not apply with regard to the extent specified in principle I.Z.1 as the Company's shares do not participate in WIG20 or mWIG40 exchange indices. The compact structure of shareholders and the scope of activity do not support the application of that principle, either.

2) Part II – Management Board and Supervisory Board

II.Z.IV. Annex II to the Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board applies to the independence criteria of supervisory board members. Irrespective of the provisions of point 1(b) of the said Annex, a person who is an employee of the company or its subsidiary or affiliate or has entered into a similar agreement with any of them cannot be deemed to meet the independence criteria. In addition, a relationship with a shareholder precluding the independence of a member of the supervisory board as understood in this principle is an actual and *significant relationship with any shareholder who holds at least 5% of the total vote in the company.*

This principle is followed.
Justification: This principle is followed in its entirety. At the Company's General Assembly held on 17/05/2016 the independence criteria set out in the second sentence of principle II.Z.4 under discussion were introduced into the provisions of the Company's Statutes and into the By-Laws of the Supervisory Board and thus all the independence criteria allowed for by principle II.Z.4 are now included in the Company's Statutes and the By-Laws of the Supervisory Board. Partial compliance with that principle by the Company before, that is from the introduction of the above-mentioned changes to the Statutes, was described in the Company's report dated 01/01/2016 and published on the basis of clause 29 par. 3 of the Warsaw Stock Exchange Rules.
The Company indicates that, at the moment, two Supervisory Board members, including the chairperson of the Supervisory Board, have the independence status set out in conformity with the criteria contained in the current Company's Statutes and in the By-Laws of the Supervisory Board.

II.Z.7. Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.

This principle is not followed.
Justification: The committees mentioned in Annex I to the Commission Recommendation of 15 February 2005 i.e. the nomination committee and the remuneration committee do not operate at the Company at the moment. In conformity with § 10 of the Company's Statutes, the Supervisory Board performs the tasks of the audit committee. In view of the Company's size, the Management Board is of the opinion that the current regulations on the election of management board members appointed by the Supervisory Board and the principles of election of Supervisory Board members by the General Meeting are the correct and sufficient regulation in that regard and carry no risk of the lack of transparency and clarity of action and no risk of action violating the shareholders' equal rights. Moreover, the Company informs that the Statutes stipulate that at least two members of the Supervisory Board must be independent, the status as set out in the current wording of the Statutes. The By-Laws of the Supervisory Board stipulate that if the independent member's status is lost by a Supervisory Board member, such a person shall notify the Chairperson of the Supervisory Board and the President of the Company's Management Board immediately. Moreover, in conformity with the provision of § 9 item 7 of the By-Laws of the General Meeting, a candidate for member of the Supervisory Board shall, at the General Meeting at which he or she is to be appointed, make a statement on compliance or non-compliance with the status of an independent Supervisory Board member. The remuneration policy has not been created or endorsed at the Company. In conformity with the Company's Statutes, the remuneration of the Supervisory Board members is fixed by the General Meeting and the remuneration of the Management Board members by the Supervisory Board. Moreover, the Company publishes information on the remuneration of the members of governing and managing bodies in compliance with the binding provisions of law. Owing to that circumstance the lack of the remuneration policy does not actually cause the violation of the above-mentioned recommendations, and salaries at the Company are transparent and so there is no risk or negative implications of non-compliance with that principle. The Company submits, however, that at the Company's General Assembly conducted on 17/05/2016 the independence criteria set out in the second sentence of principle II.Z.4 were introduced into the Company's Statutes and into the By-Laws of the Supervisory Board and thus all the independence criteria allowed for by principle II.Z.4 are now included in the Company's Statutes and the By-Laws of the Supervisory Board.

II.Z.8. The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4.

This principle is not followed.
Justification: As it was advised in the substantiation to the statement on non-compliance with principle II.Z.7 above, the committees mentioned in Annex I to the Commission Recommendation of 15 February 2005, including a separate audit committee, do not operate at the Company at the moment. In conformity with § 10 of the Company's Statutes, the Supervisory Board performs the tasks of the audit committee. The Company indicates, however, that at the Company's General Assembly conducted on 17/05/2016 the independence criteria set out in the second sentence of principle II.Z.4 were introduced into the Company's Statutes and into the By-Laws of the Supervisory Board and thus all the independence criteria allowed for by principle II.Z.4 are now included in the Company's Statutes and the By-Laws of the Supervisory Board. The Company indicates that, at the moment, two Supervisory Board members, including the chairperson of the Supervisory Board, have the independence status set out in conformity with the criteria contained in the current Company's Statutes and in the By-Laws of the Supervisory Board.

3) Part III – Internal Systems and Functions

III.R.1. The company's structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company's activity.

This principle is not followed.
Justification: In view of the size and kind of activity, the Company's structure does not include separate units responsible for the performance of tasks in individual systems or functions. The current methods of control in the Company were detailed in comments on principle III.Z.1.

III.Z.1. The company's management board is responsible for the implementation and maintenance of efficient internal control, risk management and compliance systems and internal audit function.

This principle is not followed.
Justification: The Company indicates that the Management Board is responsible for the control of the Company's operating activity, including the control of the internal processes of its activity, along with risk management processes. At the Company there are, however, no formalised procedures, systems (instructions) or specialised units for managing internal control, risk and compliance processes. At the moment, the Management Board can see no need for the introduction of such processes unless the assessment conducted by the Supervisory Board indicates the need for doing so. The Company indicates that in view of its size and object the Company considers the current control, audit and risk management system to be sufficient. In accordance with the recommendations concerning the credibility and reliability of the financial statements, including the requirements set out in the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information submitted by the issuers of securities [. . .], the Company uses the control and risk management mechanisms with regard to the process of preparation of financial statements and consolidated financial statements, described below in point c) of the Statement. Financial statements (annual, semi-annual, separate and consolidated) are subject to an audit (review) by an independent statutory auditor. Irrespective of the above, the Company is assisted by an independent lawyers' office which reviews the Company's activities subjected to the assessment by that office for compliance with the provisions of law. The Company has an agreement with a tax consultancy office. In view of the above, in the Company's opinion, non-compliance with the above principle will not adversely affect the Company's activity and the systems

described above eliminate the negative consequences, if any, of the Company's non-compliance with that principle.

III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

This principle is not followed.
Justification: As it was already indicated with reference to the substantiation of non-compliance with principle III.Z.1, no units involved in risk management, internal audit and compliance were established at the Company; that is why the above rule in its literal sense is not followed. The Company indicates, however, that among the practices used by it at the moment, which are detailed in the substantiation of non-compliance with principle III.Z.1 above, the Finance Director (Chief Accountant) is directly responsible before the President of the Management Board. Moreover, the directors of various divisions at the Company report directly to the members of the Company's Management Board too. External entities providing advisory services, including legal consultancy, and entities conducting audits have constant and direct contact with the Company's Management Board. The Company has no mechanisms forbidding the submission of reports directly to the Supervisory Board. In this state of affairs, in the Company's opinion, the current organisational structure ensures the correct information flow and supervision over the activity of various persons as part of the activities described above.

III.Z.3. The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.

This principle is not followed.
Justification: The Company has no separate internal audit unit and there is no separate position for the person heading that unit. The Company follows the principles detailed in the substantiation of current non-compliance with principle III.Z.1 above. In the Supervisory Board there is no separate Audit Committee, which was discussed in detail above in the substantiation of current non-compliance with principle II.Z.7. At least two Supervisory Board members, however, meet the independence requirements described in the Company's Statutes and in the By-Laws of the Supervisory Board. Moreover, persons performing the audits and statutory auditors are independent of the Company. If an internal audit unit is established at the Company, the person who will be given the function of the manager of that unit will meet the requirements described in this principle.

III.Z.4. The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

This principle is not followed.
Justification: As it was already indicated in the substantiation of current non-compliance with principle III.Z.3 above, the Company has no separate internal audit unit and no separate position for a person heading that unit; in relation to that the Supervisory Board will not be presented by such entities with the assessment of the efficiency of the systems and functions referred to in that principle. The Management Board submits a report of the Company's activity to the General Meeting and Supervisory Board every year. At the moment, the Company will follow the principle under discussion with regard to the reports of the Management Board adequate to the current mechanisms described above and existing at the Company.

III.Z.5. The supervisory board should monitor the efficiency of the systems and functions referred to in principle III.Z.1 among other things on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in principle III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.

This principle is not followed.
Justification: As it was already indicated in the substantiation of non-compliance with principle III.Z.1 above, at the Company there are no formalised procedures, systems (instructions) or specialised units for managing internal control, risk and compliance processes. In view of the above, compliance with principle III.Z.5 will be based on the assessment by the Supervisory Board of the activities described in the substantiation to item III.Z.1 with reports described in the substantiation to principle III.Z.4 above taken into account.

4) Part IV – General Meeting, Shareholder Relations

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:
1) real-life broadcast of the general meeting,
2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,
3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

This principle is not applicable to the Company.
Justification: The above recommendation is not applicable because of the costs of related services and the need to ensure not only bilateral communication, but also the safety of such broadcasts and the need to develop the technical capacity to conduct voting and verify the rights of participation in a general meeting. The Company will consider the possibility of following recommendation IV.R.2 of the Best Practice for WSE Listed Companies 2016 in the future. In the event that the above-mentioned principle is introduced when the Company obtained necessary means and telecommunication and computer devices have complied with the requirements stated in that principle, INPRO SA will immediately give relevant information to the public. In the Company's opinion, non-compliance with that principle is not, at the moment, related to any risk as the procedures for the convocation of General Meetings in compliance with the mandatory provisions of law ensure that the shareholders have the opportunity to participate in the sessions of the Meeting. Moreover, the relatively compact structure of shareholders of the Company does not require the use of such forms of broadcast of the sessions of a general meeting.

IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

This principle is not applicable to the Company.
Justification: The Company's shares are traded on the domestic market only.

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

This principle is not applicable to the Company.
Justification: The current relatively compact structure of shareholders of the Company does not require the use of such forms of broadcast of the sessions of a general meeting. In the Company's opinion, non-compliance with that principle is not, at the moment, related to any risk as the procedures for the convocation of General Meetings in compliance with the mandatory provisions of law ensure that the shareholders have the opportunity to participate in the sessions of the Meeting.

5) Part V – Conflict of Interest, Related Party Transactions

V.Z.5. Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board’s approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing does not apply to typical transactions and transactions at arm’s-length made as part of the company’s operating activities between the company and members of its group. If the decision concerning the company’s significant agreement with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.

This principle is followed.
Justification: The Company informs that at the Company's General Assembly conducted on 17/05/2016 the specified principles were introduced into the Company's Statutes and into the By-Laws of the Supervisory Board also as regards the obligation to express consent to the conclusion of a significant agreement with a shareholder holding at least 5% of the total number of votes in the Company. Until the introduction of the changes described above, that principle was not followed in that regard before, of which fact the Company informed in current report dated 01/01/2016 published on the basis of clause 29 par. 3 of the Warsaw Stock Exchange Rules. Thus the Company informs that at the moment, in conformity with the provision of § 10 par. 10 of the Company's Statutes and of § 8 par. 2 of the By-Laws of the Supervisory Board, the Company's Supervisory Board is a body whose consent is required to the conclusion by the Company of a significant agreement with a shareholder holding at least 5% of the total number of votes in the company or with a related party, however, that obligation does not apply to typical transactions concluded at arm's length as part of the operating activities pursued by the Company with a party comprised by the Company's group.

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company’s internal regulations should among other things provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

This principle is not followed.
Justification: The Company informs that it does have a set of internal regulations complying with the requirements of the above-mentioned regulations. The Company has taken steps to check the possibility of a conflict of interest with regard to the Company's activity and to prepare a relevant document. Following the preparation and endorsement

of such a document by the Company, the above principle will be followed. The Company will use the existing relevant regulations, in particular the provisions of the Statutes requiring the expression of consent by the Supervisory Board to the conclusion of an agreement with a related party, the provisions of the By-Laws of the Supervisory Board regarding the obligation of a Supervisory Board member to report the rise or the possible rise of a conflict of interest and to abstain from taking the floor in a discussion or voting on a resolution in which such a conflict has or could have arisen, and also regarding the obligation on the Supervisory Board members to report their relations with the company's shareholders representing not less than 5% of the total vote at the General Meeting. It should also be indicated that in conformity with the provision of § 10 of the By-Laws of the Management Board, its members are also obliged to advise the Management Board of the existing or potential conflict of interest and to exclude themselves from resolving the matters comprised by such a conflict. If a conflict of interest arises in relation to the employees of the Company or persons acting upon its instruction, the Management Board will review each reported or noticed instance of such an existing or potential conflict of interest and attempt to resolve it.

6) Part VI – Remuneration

VI.R.1. The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

This principle is not followed.
Justification: In view of the size and kind of its activity, the Company does not have a formalised remuneration policy. In conformity with the Company's Statutes, the remuneration of the Supervisory Board members is fixed by the General Meeting and the remuneration of the Management Board members by the Supervisory Board. Moreover, each year the Company publishes information on the remuneration of the members of governing and managing bodies in compliance with the binding provisions of law. The remuneration of the managers is fixed on the basis of the Remuneration Rules prepared in conformity with the requirements of the Labour Code. Owing to that circumstance the remuneration principles at the Company are transparent and there is no risk or negative implications of non-compliance with that principle.

VI.R.2. The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

This principle is not followed.
Justification: As indicated in the comments on recommendation VI.R.1, the Company does not have a remuneration policy. The remuneration principles at the Company comply, however, with the requirements specified in recommendation VI.R.2.

VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

This principle is not applicable to the Company.
Justification: A remuneration committee does not operate at the Company.

VI.Z.1. Incentive schemes should be constructed in a way necessary among other things to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

This principle is not applicable to the Company.
Justification: The Company does not have any incentive schemes at the moment. The principles regarding the remuneration of the Company's employees are specified in the

Remuneration Rules binding at the Company. The form and structure of the remuneration of the Management Board members is, however, fixed by the Supervisory Board, which should be guided by its best knowledge and will. The amount of the remuneration for the Supervisory Board is fixed by the shareholders at a general meeting. The Management Board declares, however, that if incentive schemes are introduced, they will be constructed on the basis of the above principle.

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

This principle is not applicable to the Company.
Justification: The Company does not have any incentive schemes at the moment. The principles regarding the remuneration of the Company's employees are specified in the Remuneration Rules binding at the Company. The form and structure of the remuneration of the Management Board members is, however, fixed by the Supervisory Board, which should be guided by its best knowledge and will. The amount of the remuneration for the Supervisory Board is fixed by the shareholders at a general meeting. The Management Board declares, however, that if incentive schemes are introduced, they will be constructed on the basis of the above principle.

Moreover, the Company indicates that the statements regarding the application of the principles set out by the "Best Practice for WSE Listed Companies 2016" were published, in conformity with the binding principles, at the Company's web site and the Company provided information on the non-application of those principles in the report of 01/01/2016 published on the basis of clause 29 par. 3 of the Warsaw Stock Exchange Rules.

c) Description of the main features of internal control and risk management systems in the Company's enterprise with regard to the process of preparation of financial statements and consolidated financial statements

In accordance with the recommendations concerning the credibility and reliability of the financial statements, including the requirements set out in the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information submitted by the issuers of securities [. . .], the Company uses the following control and risk management mechanisms with regard to the process of preparation of financial statements and consolidated financial statements:

- The Company's Management Board is responsible for the correct preparation of separate and consolidated financial statements. That is the governing body approving the Company's financial documentation. Materials for the statements are prepared by an organisational unit of the Company's enterprise – the Finance and Accounting Department. That department is involved, among other things, in accounting, the Company's reporting, making the Group's consolidated statements (for the years from 2007 to 2015), financial analysis, controlling, and budget preparation. Those tasks are within the powers of various employees of the Finance and Accounting Department. The Department is managed by the Chief Accountant who is also the Finance Director. The Group's consolidated statements for 2016 were made by a third party entity on the basis of the materials prepared by the Finance and Accounting Department.
- Internal control with regard to accounting documentation is exercised in the following way: invoices are reviewed at the Company's various departments from the activity of which those costs arise (material control), by the Finance and Accounting Department (formal and accounting control) and by the Chief Accountant (payment approval). Invoices are also reviewed by the Company's

Management Board. At the Company, there is also a position for the material control of agreements entered into by the Company.

- A budget and programme broken down by months, both updated on an ongoing basis, are prepared by the Production Department for each property development project pursued by the Company. A site manager on a given project provides the Finance and Accounting Department and the Management Board on a monthly basis with a report containing the value of the works performed at the site in a given month divided into the scope of the works, with information on the progress of various items and of the entire project.
- Every month, the Company's Sales Department prepares a report containing the number and value of agreements concluded and terminated with the acquirers of the premises. The Sales Director makes a programme showing the planned receipt of advances in relation to the purchase of premises and the number of premises delivered to customers in a given month for the purposes of various projects.
- Based on the above-mentioned programmes (production and sales), annual financial plans broken down to various projects are prepared. The financial plan is approved by the Management Board. The plan is reviewed and updated (including from the point of view of monthly reports from the Production and Sales Departments) in the course of the year.

- The Company prepares separate and consolidated financial statements in conformity with the International Financial Reporting Standards ("IFRS") approved by the European Union, the Accounting Act of 29 September 1994, the Regulation of the Minister of Finance of 25 September 2009 on the detailed rules for the preparation of consolidated financial statements of groups by entities other than banks, insurance companies and reinsurance companies and with the Commercial Companies Code. The Company also has the Accounting Policy containing, among other things:
    - The definition of the financial year and reporting periods comprised in it,
    - The definition of the method of keeping the books of accounts (the chart of accounts, the list of the books of accounts, the description of the data processing system),
    - The definition of the system used for the protection of data and its sets, including accounting vouchers, the books of accounts and other documents forming the basis for making entries in those books.

- The Company's accounts are kept with the help of the Comarch ERP Optima accounting programme. Access to the data in the programme is available to the specified persons. That software is used for book keeping, making analyses, schedules, financial statements etc. The data obtained owing to the accounting software is analysed every month and then, based on those analyses, decisions in the risk management process are made.

- All financial statements (annual, semi-annual, separate and consolidated) are subject to an audit (review) by an independent statutory auditor.

d) Indication of shareholders holding directly or indirectly large packages of shares, the identification of the number of shares held by those entities, their percentage in the share capital, the number of votes following from those shares and the percentage of votes in the total number of votes at a general assembly

Table 5. Shareholding structure of the Parent Entity as at 31/12/2016

Shareholder	Series	Number of shares	Nominal value	Share in the capital	Number of votes	Share in votes
Piotr Stefaniak	A	8 460 000	846 000	21.13%	8 460 000	21.13%
Zbigniew Lewiński	A	9 460 000	946 000	23.63%	9 460 000	23.63%
Krzysztof Maraszek	A	10 010 000	1 001 000	25%	10 010 000	25%
ING OFE	A	2 100 000	210 000	17.93%	2 100 000	17.93%
	B	5 077 704	507 770		5 077 704	
Shareholders with less than 5% of votes	B	4 932 296	493 230	12.31%	4 932 296	12.31%
		40 040 000	**4 004 000**	**100%**	**40 040 000**	**100%**

To the Company's best knowledge, no significant changes in the shareholding structure occurred against the status as at 30/06/2016. During the second half of 2016 and until the submission of this report, the shareholders did not advise of any change in the shareholdings in INPRO SA.

e) Holders of securities with special control powers

There are no statutory or contractual provisions allowing special control powers to the holders of securities.

f) Restrictions as to the voting right, such as the restriction in the exercise of the voting right by the holders of a specific part or number of votes, time restrictions concerning the exercise of the voting right or provisions under which, with the Company's cooperation, rights to equity relating to securities are segregated from holding those securities

There are no statutory restrictions in the above regard. The Issuer is not aware of any restrictions with regard to the exercise of a voting right or of any provisions in conformity with which, with the Company's cooperation, the rights to equity under the securities are segregated from holding of securities.

g) Restrictions as to the transfer of the ownership right to the Company's securities

There were no restrictions in that regard in 2016.

h) Rules of appointment and dismissal of managers and their powers, in particular the right to take a decision on the issue or buyout of shares

In conformity with the Company's Statutes, the Company's Management Board consists of one to three members appointed for the common term of office of five years. In the case of the Management Board consisting of one person, the only Member of the Management Board shall fulfil the function of the President of the Management Board. If the Management Board consists of more than one person, it includes the President and two Vice-Presidents or members of the Management Board depending on a resolution by the Supervisory Board. The Members of the Management Board shall be appointed and

dismissed by the Supervisory Board; dismissal may, however, take place for important reasons only. The mandates of the Members of the Management Board shall expire on the day of holding a General Assembly approving the financial statements for the last full financial year of the function of the Member of the Management Board being fulfilled.
The following shall be authorised to make statements on behalf of the Company:

a) In the case of the Management Board consisting of one person – the President of the Management Board,
b) in the case of the Management Board consisting of more than one person – two Members of the Management Board acting jointly or a Member of the Management Board acting jointly with a proxy.

At the Company, one person has been appointed who has the joint power of proxy with a member of the Management Board and two persons who have the joint power of proxy with another proxy.

In conformity with the By-laws of the Management Board, that body is authorised to adopt resolutions on matters not reserved for the General Assembly and the Supervisory Board, in particular to:

1) contract obligations and dispose of rights;
2) prepare proposals regarding development and investment trends for submission to the Supervisory Board for approval;
3) make an annual report, the balance sheet and income statement;
4) make and accept on behalf of the Company the statements of will on property matters in compliance with the provisions of the Company's Statutes and mandatory provisions of law;
5) approve candidacies for managerial positions and for members of Supervisory Boards of subsidiaries and related entities;
6) enter into and termination of contracts of employment with the Company's employees and fix their remuneration, following approval by an appropriate committee of the Supervisory Board;
7) give opinions on and approve internal by-laws;
8) give opinions on proposals concerning the creation or liquidation of branch offices and on participation in other companies;
9) prepare relevant documents and draft resolutions proposed to be adopted by the Supervisory Board and the General Assembly;
10) fix the agenda of a session of the General Assembly;
11) establish and cancel the power of procuration and powers of attorney in conformity with the provisions of the Commercial Companies Code, the Civil Code and of the Company's Statutes;
12) approve the organisational by-laws of the Company;
13) prepare draft by-laws of the Management Board.

The by-laws provide for the following two reservations regarding the power of the Management Board to contract obligations and dispose of rights:

- The acquisition, transfer and encumbrance of real estate by the Management Board requires consent from the Supervisory Board if the value of real estate or encumbrance thereon exceeds 20,000,000.00 zlotys.
- Before the Company concludes a significant agreement with a related entity and with a shareholder holding at least 5% of the total number of votes in the Company, the Management Board is obliged to ask the Supervisory Board for approval of that agreement. The foregoing obligation does not apply only to typical transactions and transactions at arm’s-length made as part of the Company’s operating activities between the Company and members of its group.

The Management Board is not empowered to take a decision on the issue or buyout of the shares.

The remaining rules concerning the procedure for the activity of the Management Board are set out in its by-laws available from the Company's website.

The rules specified above are binding on both 31 December 2016 and as at the date of making this statement.

i) Description of the rules concerning the amendment to the Company's Statutes

An amendment to the Company's Statutes requires a resolution of the General Assembly and an entry in the register. An amendment to the Statutes is submitted to the registration court by the Company's Management Board. The General Assembly may authorise the Supervisory Board to establish the consolidated text of the amended Statutes of the Company or to introduce other amendments, of an editorial character, as specified in the resolution of the Assembly. Amendments to the Company's Statutes are binding upon registration in the register of entrepreneurs.

The rules specified above are binding on both 31 December 2016 and as at the date of making this statement.

j) The way of operation of the General Assembly and its basic powers, and the description of the shareholders' rights and the way of their exercise, in particular the rules following from the by-laws of the General Assembly if adopted, unless relevant information follows directly from the provisions of law

The rules for the convocation and activity of the General Assembly of the Company are set out in the Commercial Companies Code, the Company's Statutes and the By-laws of the General Assembly (the full title: The By-Laws of the General Assembly of INPRO Spółka Akcyjna with its registered office in Gdańsk).

In conformity with the Company's Statutes, the General Assembly shall hold its sessions as an ordinary or extraordinary assembly. The Ordinary General Assembly shall be held within six months of the end of each financial year. The General Assembly shall be held in a locality which is the Company's registered office. The General Assembly may be held also in a locality which is the registered office of a company running a stock exchange at which the Company's shares are traded. The detailed procedure for the activity of the General Assembly, and the rules for its sessions and adoption of resolutions are set out in the By-Laws of the General Assembly (available from the Company's website).

The powers of the General Assembly shall include, in particular:

1) Consideration and approval of the report of the Management of the Company's activity and of the financial statements for the previous financial year,
2) Acknowledgement of the fulfilment of duties by the members of the Management Board and Supervisory Board,
3) Division of profit or the determination of the ways of financing the losses,
4) Provisions concerning the claims for redress of damage occasioned upon the Company's formation, administration or supervision,
5) Amendment to the Company's Statutes,
6) Transfer and leasing of an enterprise or its organised part and establishing limited right in property on them,
7) Issue of convertible bonds or with the priority right or the issue of subscription warrants,
8) Acquisition of own shares in the case specified in Article 362 § 1 item 2 of the Commercial Companies Code, and giving the power to acquire those shares in the case specified in Article 362 § 1 item 8 of the Commercial Companies Code,
9) Merger, division, transformation, dissolution and liquidation of the Company,

10) Appointment and dismissal of the members of the Supervisory Board and fixing their remuneration,
11) Approval of the by-laws of the Supervisory Board,
12) Making other decisions referred to in the provisions of law.

The resolutions of the General Assembly shall be adopted by the absolute majority of votes, no matter the number of shares represented at the Assembly, unless the provisions of law provide otherwise.

The Company's Management Board shall fix the place and date of the General Assembly to enable the greatest possible number of shareholders to participate in the sessions. The programme of work in the organisation of General Assemblies shall be planned in such a way that the obligations before the shareholders are properly complied with and they have the opportunity to exercise their rights.

The Company's shareholders shall exercise their rights in a way and within the limits set out by the universally binding provisions of law, the Company's Statutes and the By-Laws of the General Assembly.

A Shareholder who is a natural person may participate in the General Assembly and exercise the voting right personally or through an attorney in fact. The power of attorney shall specify the number of shares under which the attorney in fact exercises the voting right.

A Shareholder who is a legal person or an organisational unit not having legal personality may participate in the General Assembly through a person authorised to make statements of will on behalf of such a Shareholder or through an attorney in fact. To demonstrate the right to represent a legal person or an organisational unit not having legal personality at the General Assembly, one shall produce an up-to-date extract from a relevant register, in the original or a copy certified by a notary, legal advisor or solicitor.

The power of attorney shall be given in writing or in the electronic form. If the authenticity or validity of a document confirming the power to appear at the General Assembly gives rise to the doubts of the Company's Management Board (during the preparation of the list of shareholders or its draft) or of the Chairperson of the General Assembly, they may order that the document be checked from that point of view.

The rules specified above are binding on both 31 December 2016 and as at the date of making this statement.

k) Personal composition and changes during the last financial year, and the description of operation of managing and supervising bodies and their committees

Status as at 31/12/2016:

<u>The Management Board</u>

a) personal composition

Piotr Stefaniak	- President of the Management Board
Zbigniew Lewiński	- Vice-President of the Management Board
Krzysztof Maraszek	- Vice-President of the Management Board

There were no changes in the composition of the Company's Management Board during the last financial year.

b) description of the governing body's functioning

The rules for appointment and dismissal of the members of the Management Board and its powers were described in item h) of this Statement.

The Management Board shall manage the Company's affairs and represent it outside, i.e. exercise all powers with regard to the Company's management except the powers reserved for the other governing bodies by the provisions of law, the Company's Statutes or other regulations in force at the Company.

The resolutions of the Management Board shall be adopted by the majority of votes; if the number of votes is equal, the President of the Management Board shall have the casting vote.

The Management Board may, without consent from the General Assembly and Supervisory Board, perform activities consisting in the acquisition by the Company, the transfer by it and encumbrance with limited rights in property the Company's real estate or the right of perpetual usufruct of land. In conformity with the Statutes, the Supervisory Board must, however, give consent to the performance by the Management Board of those activities if the value of real estate or that right or an encumbrance on it exceeds PLN 20,000,000.00.
Moreover, the Supervisory Board must give consent to the conclusion by the Company's Management Board of a significant agreement with a related entity and shareholder holding at least 5% of the total number of votes in the Company. The foregoing obligation does not apply only to typical transactions and transactions at arm's length as part of the Company's operating activities between the Company and entities within the Group.

The detailed procedure for the activity of the Management Board is set out in its by-laws available from the Company's website.

The rules specified above are binding on both 31 December 2016 and as at the date of making this statement.

<u>The Supervisory Board:</u>

a) personal composition in 2016

Jerzy Glanc	- Chairman of the Supervisory Board
Krzysztof Gąsak	- Deputy Chairperson of the Supervisory Board
Łukasz Maraszek	- Secretary of the Supervisory Board
Szymon Lewiński	- Member of the Supervisory Board
Wojciech Stefaniak	- Member of the Supervisory Board

No changes in the composition of the body occurred in the period in question.
It should be noted, however that on 18 December 2015 the Management Board of INPRO SA received a statement from a Member of the Supervisory Board, Mr Robert Maraszek, on resignation from his function as a member of the Supervisory Board effective on 31 December 2015.
The resignation does not contain any reasons.
In relation to the above, on 18/12/2015 the Supervisory Board, while taking advantage of its power under clause 10 item 2 of the Company's Statutes, adopted resolution No. 35/2015 on the basis of which the Supervisory Board elected Mr Łukasz Maraszek new Member of the Supervisory Board. Mr Łukasz Maraszek was appointed member of the Supervisory Board for the period from 01/01/2016 to the election of a new Member of the Supervisory Board by the nearest General Assembly. On 17 May 2016 the Ordinary

General Assembly decided again to appoint Mr Łukasz Maraszek (effective from 17 May 2016) member of the Company's Supervisory Board for the joint term of office.

b) description of the governing body's functioning

The Supervisory Board shall consist of five to seven members elected by the General Assembly for the common term of office lasting 3 years. The mandate of the Member of the Supervisory Board shall expire, at the latest, on the day of holding a General Assembly approving the financial statements for the last full financial year of the function of the Member of the Supervisory Board being fulfilled. Moreover, the mandate expires as a result of the death or resignation of the member of the Board.
In conformity with clause 2 item 2 of the Company's Statutes, in the event that the membership in the Supervising Personnel expires as a result of resignation or due to ill-fated reasons, the Supervisory Board may elect a new member, who shall perform his or her activities until election by the nearest General Assembly.
The Supervisory Board shall adopt resolutions by the absolute majority of votes. If the number of votes is equal, the Chairperson shall have the casting vote.

The Supervisory Board shall adopt resolutions if at least one half of its members are present, and all members were invited.

The Supervisory Board shall exercise permanent supervision over the Company's activity in all its areas in conformity with the Company's Statutes, the Commercial Companies Code and other legal acts. In particular, the Supervisory Board shall:

a) evaluate financial statements and reports of the Management Board of the Company's activity with regard to their conformity with the books and documents, as well as the actual state of affairs, and proposals of the Management Board concerning the division of profits or the financing of losses, and submit to the General Assembly an annual written report on the results of such evaluation,
b) approve the by-laws of the Company's Management Board,
c) conclude agreements with the members of the Company's Management Board, fix the remuneration of the President and Members of the Management Board, and the rules concerning bonuses, as well as exercise other powers following from the employment relationship in relation to the members of the Company's Management Board,
d) suspend various or all members of the Management Board in their activities for important reasons, and delegate the members of the Supervisory Board to perform on a temporary basis the activities of the Members of the Management Board who are unable to perform their activities,
e) express consent to the payment of advances towards the forecast dividend,
f) express consent to the performance by the Management Board of activities consisting in the acquisition, transfer and encumbrance of real estate or the perpetual usufruct right if the value of such real estate or a right or an encumbrance on it exceeds 20,000,000.00 zlotys,
g) make once a year and present to the Ordinary General Assembly a concise assessment of the Company's situation, with the significant risk management system taken into account,
h) make once a year and present to the Ordinary General Assembly an assessment of the work of the Supervisory Board,
i) consider and give opinion on matters which are to be the objects of the resolutions of the General Assembly.

The powers of the Supervisory Board also include giving approval of the conclusion by the Company's Management Board of a significant agreement with a related entity and shareholder holding at least 5% of the total number of votes in the Company. The foregoing obligation does not apply only to typical transactions and transactions at arm's-length made as part of the Company's operating activities between the Company and members of its group.

At least two members of the Supervisory Board must be independent of the Company and entities related with it.

The Supervisory Board shall elect a statutory auditor conducting an audit of the Company's financial statements.

The detailed procedure for the activity of the Supervisory Board is set out in its by-laws available from the Company's website.

The rules specified above are binding on both 31 December 2016 and as at the date of making this statement.

In 2016, and at present, the audit committee or any other committees were not established within the Supervisory Board. In relation to the fact that the Supervisory Board consists of 5 members, the tasks of the audit committee prescribed in Article 86 par. 7 of the Act of 7 May 2010 on statutory auditors and their self-government, on entities authorised to audit financial statements and on public supervision are performed by the Supervisory Board. The following members of the Supervisory Board meet the condition of independence of the Company and its related entities: Mr Jerzy Glanc and Mr Krzysztof Gąsak. In compliance with Article 86 par. 4 of the Act of 7 May 2010 on statutory auditors and their self-government, on entities authorised to audit financial statements and on public supervision, Mr Gąsak has the skills in accounting or financial audit.

l) Additional information on compliance with the rules and principles contained in the "Code of Best Practice for WSE Listed Companies 2016" from 1 January 2016

At the same time INPRO S.A. with its registered office in Gdańsk informs that, while meeting the obligation set out in § 29 par. 3 of the By-Laws of the Warsaw Stock Exchange (WSE), on 1 January 2016 INPRO S.A. published a report on compliance with the new "*Best Practice for GPW Listed Companies 2016*" attached to Resolution No. 26/1413/2015 of the Stock Exchange Council of 13 October 2015, which became effective on 1 January 2016 (*the document is available from the official web site of the Warsaw Stock Exchange, www.corp-gov.gpw.pl*). Fulfilling its obligation set out in principle I.Z.1.13, INPRO S.A. published current information on compliance by the Company with the principles and recommendations contained in the "*Code of Best Practice for WSE Listed Companies 2016*" on its web site:*www.corp-gov.gpw.pl*):
(http://www.inpro.com.pl/relacje-inwestorskie/lad-korporacyjny/oswiadczenia-spolki-o-stosowaniu-ladu korporacyjnego)

8. Consolidated financial statements and rules for their preparation

Rules for the preparation of financial statements

Both the consolidated and separate financial statements were prepared on the assumption that the Group companies will continue as the going concern in the foreseeable future. As at the date of approval of these financial statements, no circumstances indicating a threat to the Group companies to continue as a going concern are found.

The annual consolidated financial statements were prepared in conformity with the International Financial Reporting Standards ("IFRS") approved by the European Union.

The Parent Entity prepares separate and consolidated financial statements in conformity with the International Financial Reporting Standards ("IFRS") and the other entities within the Group keep their books in conformity with the principles and practices generally used by Polish enterprises – in conformity with the Accounting Act of 29 September 1994, the Regulation of the Minister of Finance of 25 September 2009 on the detailed rules for the preparation of consolidated financial statements of capital groups by entities other than banks, insurance companies and reinsurance companies and with the Commercial Companies Code.

Companies comprised by consolidation

The following companies were comprised by direct consolidation with INPRO SA for the period from 01/01/2016 to 31/12/2016:
1) inBet Sp. z o.o. – by means of the full consolidation method,
2) Dom Zdrojowy Sp. z o.o. – by means of the full consolidation method,
3) Przedsiębiorstwo Budowlane DOMESTA Sp. z o.o. – by means of the full consolidation method,
4) Hotel Mikołajki Sp. z o.o. – by means of the full consolidation method,
5) Przedsiębiorstwo Instalacyjne ISA Sp. z o.o. – by means of the full consolidation method.

Statement of the Group's total income

In 2016 the INPRO SA Corporate Group achieved revenues from sales of nearly PLN 205 m, i.e. 3% less than in the previous year, with a simultaneous increase of net profitability (from 12% to 14%). The improvement of the Group's profitability was related, first of all, to a higher margin realised on the flats being sold and to better profitability of hotels operating within the Group.

The total level of the management and sales costs was approximately 5% higher than in 2015. The Group did not note significant deviations in the cost/revenue levels compared to 2015 at the various levels of the consolidated statements of total income.

Consolidated statement of the financial position

In the period presented, the asset structure did not change significantly compared to the previous year, and the share of fixed assets in the balance sheet total increased from 29% to 32% (the increase in fixed assets was related to placing the canopied pedestrian bridge connecting the hotel building at the island with the conference and restaurant building at the peninsula in the Mikołajki Hotel).

In the structure of equity and liabilities, in relation to 2015, an increase in the share of equity from 62% to 69% in the balance sheet total can be seen, however (in view of a higher level of net profit), with a slightly lower balance sheet total). Given the simultaneous increase of long-term credit debt, the share of fixed capital in the balance sheet total increased dynamically (from 73% to 81%).

The most significant item among short-term assets is inventory (land with construction expenditure on projects under way); in terms of short-term liabilities, those are trade and other liabilities (advances paid towards the purchase of premises).

Key ratios characterising the financial and economic position of the INPRO SA Corporate Group in 2016 and 2015 have been presented below.

Table 6. Ratios characterising the financial position of the INPRO SA Group for 2016 and 2015

Ratio	Way of calculation	2016	2015
Net profitability	Net profit (loss) * 100% / Sales revenues	14%	12%
Return on sales	Gross profit (loss) on sales * 100% / Sales revenues	31%	27%
Net return on assets (ROA)	Net profit (loss) * 100% / Total assets	8%	7%
Return on equity (ROE)	Net profit (loss) * 100% / Equity	12%	11%
Current liquidity	Current assets / Short-term liabilities	3.66	2.65
Cash to liability ratio	(Current assets – inventory) / Short-term liabilities	0.49	0.49
Trade receivables turnover in days	Final state of trade receivables * 360 / Sales revenues	13	20
Trade liabilities turnover in days	Final state of trade liabilities * 360 / Cost of sales	38	81
Inventory turnover in days	Final state of inventory * 360 / Cost of sales	536	501
Asset structure	Fixed assets * 100% / Current assets	48%	41%
Asset financing structure	Equity * 100% / Total assets	69%	62%
Sustainability of financing	(Equity + long-term liabilities) / Total assets	81%	73%
Net debt ratio	(Financial debt – cash and cash equivalents) / Equity	13%	12%

The Group's financial situation described above is confirmed in the ratio analysis. As it follows from the data presented, the receivables and liabilities turnover period became shorter and the inventory turnover ratio increased in 2016 compared to 2015. Financing structure indices improved. Current liquidity increased, and quick liquidity remained at the same level. Profitability ratios are at a higher level than in the previous year.

9. Separate financial statements

Statement of total income

In 2016 INPRO SA achieved revenues from sales of approximately PLN 147.7 m, i.e. 9% lower than in the previous year, with a simultaneous slight increase of net profitability (from 16% to 17%). Whilst in 2016 INPRO SA delivered significantly fewer flats than in the previous year (372 units compared to 483), the Company achieved a similar result with a higher margin.

The total level of the management and sales costs was approximately 9% higher than in 2015. Financial revenues decreased by 44%. This was the effect of the lower level of cash at bank accounts on the one hand. On the other hand, interest in relation to the repayment of loans given to Hotel Mikołajki Sp. z o.o. was booked (the conversion into additional contributions to the capital), and INPRO SA did not note the relevant revenues in 2016.

Statement of the financial position

In the presented period, the asset structure did not change considerably compared to the previous year, with fixed assets still constituting over 30% of total assets.

In the structure of equity and liabilities, in relation to 2015, an increase in the share of equity from 68% to 78% in the balance sheet total can be seen (an increase of the retained profit level with a lower balance sheet total). Given the simultaneous increase of long-term credit debt, the share of fixed capital in the balance sheet total increased slightly (from 73% to 84%) as well.

The most significant item among short-term assets is inventory (land with construction expenditure on projects under way); in terms of short-term liabilities, those are trade and other liabilities (advances paid towards the purchase of premises).

Key ratios characterising the financial and economic position of INPRO SA in 2016 and 2015 have been presented below.

Table 7. Ratios characterising the financial position of INPRO SA for 2016 and 2015

Ratio	Way of calculation	2016	2015
Net profitability	Net profit (loss) * 100% / Sales revenues	17%	16%
Return on sales	Gross profit (loss) on sales * 100% / Sales revenues	30%	28%
Net return on assets (ROA)	Net profit (loss) * 100% / Total assets	8%	8%
Return on equity (ROE)	Net profit (loss) * 100% / Equity	11%	12%
Current liquidity	Current assets / Short-term liabilities	4.13	2.55
Cash to liability ratio	(Current assets – inventory) / Short-term liabilities	0.48	0.41
Trade receivables turnover in days	Final state of trade receivables * 360 / Sales revenues	16	21
Trade liabilities turnover in days	Final state of trade liabilities * 360 / Cost of sales	39	99
Inventory turnover in days	Final state of inventory * 360 / Cost of sales	630	587
Asset structure	Fixed assets * 100% / Current assets	51%	45%
Asset financing structure	Equity * 100% / Total assets	78%	68%
Sustainability of financing	(Equity + long-term liabilities) / Total assets	84%	73%
Net debt ratio	(Financial debt – cash and cash equivalents) / Equity	4%	3%

The Company's financial situation described above is confirmed in the ratio analysis. As it follows from the data presented, the receivables and liabilities turnover period became shorter and the inventory turnover ratio increased in 2016 compared to 2015. Financing structure indices improved. Current and quick liquidity increased. Profitability ratios are generally at a higher level than in the previous year.

10. Events with significant influence on activity and financial results

Key factors influencing financial performance in 2016:

- The Group sold the total of 388 flats and houses net (in the meaning of concluded preliminary sale agreements net i.e. with the resignations taken into consideration: preliminary sale agreements concerning completed projects, agreements with entities other than customers who are natural persons, and agreements concerning commercial premises, as well as documents issued to customers advising them on the conditions of the conclusion of property development agreements, such documents enabling the customers to file an application for funds for the financing of the property development agreements), including INPRO SA – 262 premises. That result is significantly worse than in the previous year (2015: the Group: 545 units – a decrease by 29%, INPRO SA: 444 units – a decrease by 41%). The gross value of flats sold by the Group in the period under review was approximately PLN 178 m, which was lower by 22% than the value achieved in 2015. The decrease in the preliminary sales level resulted, among other things, from a smaller number of flats for sale than last year, the range of the offer, movements in the time schedule for placing further property development projects on the market, and by a high base effect. At the same time, for a major part of 2016, the offer included a smaller number of popular and upper-end flats in the price range from PLN 5,200 to 6,200/m^2 than in 2015,
- in relation to the specific nature of the property development cycle, the revenues from operations are posted after approximately 2 years from the commencement of a property development project, following receipt of the occupancy permit and delivery of the premises to the buyers. During the entire year 2016, INPRO SA placed the following projects in service: Chmielna Park building C (December), Kwartał Uniwersytecki (October) and the total of 22 single-family houses at the Wróbla Staw and Golf Park estates. Przedsiębiorstwo Budowlane Domesta Sp. z o.o. delivered four buildings (Nos. 16, 17, 18 and 19 at the Leszczynowe estate (in July, June, October and December respectively). In total, the construction of 437 premises and single-family houses was completed, including INPRO with 331 units (the construction of 609 premises including INPRO with 537 units was completed in 2015). The number of flats delivered to the buyers in the reporting period is lower than in the previous year as 463 premises/houses were delivered

(a 17% decrease compared to 2015). It should be noted that the pace of the decrease of consolidated revenues (that being 3%) is smaller than the decrease trend in the number of the premises delivered (17%) - the average prices of flats at projects completed in 2016, in view of their location and the standard of finish, were higher than in the comparable period.

- a very good year in the hotel trade, which translates to the results achieved by Dom Zdrojowy Sp. z o.o. and Hotel Mikołajki Sp. z o.o.,
- Activities taken in previous years by persons managing inBet Sp. z o.o. (cost cutting, focus on the most profitable areas of activity, plant modernisation) continue to yield results – for twelve months of 2016 the company noted gross profit in the amount of approximately PLN 650 k (gross profit was approximately PLN 516 k in 2015).

In the subsequent years, the Group's financial performance will be affected, first of all, by the following:

- the macroeconomic situation in Poland and in the world,
- the development of the property development market with special consideration for its competitiveness (a growing offer of flats),
- regulatory activities of the government, in particular the influence of the "Flat for Young People" programme, of recommendation S3, and work on the update of the property development act, the adoption of the 500+ programme, and the progress of works on the National Housing Programme, adoption of the Agricultural Land Trade Act,
- the banks' policy in mortgage loans, readiness to offer escrow accounts and credits for developers,
- the possibility of procurement of various administrative decisions and permits.

11. Assessment of the management of financial resources

The management of the resources of the INPRO SA Corporate Group is focused on ensuring the financial liquidity of all entities in the Group, including first of all in the property development activity. For the Group, the crucial factor is the provision of finance for each project under way and keeping liquidity ratios at a safe level.

The Group's present liquidity ratios indicate its stable and safe financial situation and capacity to meet liabilities. Both the INPRO Group, and the Issuer have a low debt ratio in the property development trade.

Group companies analyse their financial assets and payment obligation on an ongoing basis.

Owing to the various property development projects being financed by credit, despite difficulties on the market from time to time, the Company pays its trade liabilities on time.

There has been no case of late payment in relation to credit agreements in the Company's history so far.

The Group, and first of all INPRO SA, The Group has been working with various banks on a long-term basis (risk diversification) to ensure the financing of both investing and current activities.

12. Assessment of the capacity to implementation contemplated construction projects with regard to the funds at hand and to possible changes in the financial structure of the activity

Property development projects are characterised by a long cycle and thus considerable expenditure at the preparation and construction stage, with a cash surplus occurring not sooner than after 12 months from the start of construction works. INPRO SA attempts to manage each project in such a way that the positive cash flow is achieved as quickly as possible, therefore construction (and sometimes land purchase is co-financed with bank credits.

Property development projects are financed with funds from own assets, bank credits, from advances paid by customers towards the purchase of premises and from the issue of debt securities. The Management Board of INPRO channels its efforts into making the credit maturity structure match, first of all, the period of implementation of various projects.

It should be noted that INPRO and its subsidiaries have full capacity to finance projects now under way.

13. Information on basic products

In 2016, the main source of income for the Group was the sale of residential and commercial premises and residential buildings as part of property development projects in modern technology available on the domestic market, in line with the profitability principle in using new solutions. The remaining sources of income from the sale of the Group's products are as follows: manufacture of hardware and of semi-precast floor slabs, the hotel activity and plumbing systems.

The sales revenue structure is presented in the following table:

Table 8. Group's sales revenues by category (PLN '000)

Description	2016	Share (%)	2015	Share (%)	Change %
1. Sales revenues, including:	204 631	100%	211 021	100%	- 3%
a. manufacture of hardware and semi-precast concrete floor slabs	7 053	3%	3 181	2%	122%
b. hotel activity	28 444	14%	27 114	13%	5%
c. plumbing and heating systems	1 021	1%	2 077	1%	- 51%
d. property development activity	168 113	82%	178 649	84%	- 6%

Table 9. INPRO SA's sales revenues by category (PLN '000)

Description	2016	Share (%)	2015	Share (%)
1. Revenues from the sale of products (without services), including:	135 538	92%	159 257	98%
a. upper-end flats	117 734	80%	137 043	84%
b. apartments	8	0%	4 346	3%
c. single-family houses	17 796	12%	17 868	11%
d. commercial facilities	0	0%	0	0%
e. popular flats	0	0%	0	0%
2. Revenues from the sale of goods for resale and materials	12 146*	8%	3 460**	2%
3. Total sales revenues	147 684	100%	162 717	100%

* the following was included, without limitation, in this item:
- revenues in relation to the construction and assembly works for the construction, upon order from Hotel Mikołajki Sp. z o.o., of an enclosed foot bridge connecting the hotel and apartment building on the island with the conference building on the peninsula (PLN 3.3 m),
- revenue from the sale of land located in Gdańsk, Kartuska Street (PLN 4.4 m),

** the following was included, without limitation, in this item:
- revenues in relation to the construction and assembly works for the construction, upon order from Hotel Mikołajki Sp. z o.o., of an enclosed foot bridge connecting the hotel and apartment building on the island with the conference building on the peninsula (PLN 1.1 m).

The Group offers the following range of products (the property development activity refers):

- Multi-family buildings (flats and apartments) divided as follows:
  - Apartments – high standard flats in the inner city centre (of the Tri-City) or in popular holiday and tourist resorts, in buildings with up to 100 flats, with the price of 1 m^2 above PLN 10,000.
  - Upper-end flats – those built to an increased standard, in an attractive location, at enclosed estates provided with a security service, with recreational grounds, a basement garage and outdoor car parks. Average prices per 1 m^2 from PLN 5,000 to PLN 8,500.
  - Popular flats – those in good standard, located off the city centre, with recreational grounds and ground-based car-parks. Average prices per 1 m^2 from PLN 3,800 to PLN 5,500.
- Single-family houses – detached, semi-detached and terraced houses, at enclosed estates, with recreational grounds, with garages and ground-based car-parks.

Flats in the increased standard and popular flats segment are provided in the so-called "builder's finish," which means that the customer finishes the flat (provides internal doors, floor panelling, sanitary ware, wall and floor terra-cotta tiles) on his or her own. The buyer of a flat in selected locations can sign a fit-out agreement with SML Sp. z o.o., in which agreement the buyer can choose one out of three various options for the finish of the premises.

In 2016 the Group pursued the following housing projects:

1. Golf Park – Tuchom – an estate of 81 single-family and semi-detached house at the lake in Tuchom, close to Gdynia. The usable residential area: 14,274 m^2; segment: single-family houses. The following stages were implemented in 2016:

   Stage B (the number of houses: 22, usable residential area: 3,918 m^2) – the first houses obtained an occupancy permit in June 2013, and the last ones were placed in service in November 2016;
   Stage C (the number of houses: 17, usable residential area: 3,164 m^2) – the works commenced in the first quarter of 2016; the last houses will be placed in service in the fourth quarter of 2017;

2. The Wróbla Staw single-family houses – an estate situated in Gdańsk Jasień, Jasieńska Street, by lake Wróbla Staw. The estate was divided into 4 stages, at which 84 detached and semi-detached houses will be built; the usable residential area is 12,346 m^2; segment: single-family houses. The following stages were implemented in 2016:

   Stage H (the number of houses: 18, usable residential area: 2,437 m^2) – the works commenced in the second quarter of 2015; the last houses were placed in service in the second quarter of 2016;

3. Chmielna Park – Gdańsk, the Granary Island, a complex of three residential and commercial buildings. The number of premises: 310, usable residential area: 17,680 m^2, segment: upper-end flats. The following stages were implemented in 2016:

   Building C (the number of premises: 134, usable residential area: 7,959 m^2) – the works commenced in the first quarter of 2015, the final occupancy permit was obtained in December 2016;

4. Kwartał Uniwersytecki – Gdańsk Przymorze, two buildings with three, five and eight storeys, located at the boundary of a popular office quarter in Gdańsk. The number of premises: 175, usable residential area: 8,612 m^2, segment: upper-end flats. Construction works commenced in the first quarter of 2015, and were completed in October 2016;

5. Harmonia Oliwska – Gdańsk Oliwa, an estate consisting of 10 buildings located in the direct vicinity of the Oliwa Park. The number of premises: 554, usable residential area: 32,004 m^2, segment: upper-end flats. The following stages were being implemented in 2016:

   Stage I (the number of premises: 151, usable residential area 9,103 m^2) - construction works commenced in the first quarter of 2016; the scheduled date of placing in service: fourth quarter of 2017;

6. Optima, stage I – Gdańsk Jasień, the project consists of 6 multi-family buildings. The number of premises: 212, usable residential area: 10,643 m^2, segment: popular flats. Construction works commenced in the second quarter of 2016; the scheduled date of placing in service: fourth quarter of 2017;

7. Osiedle Leszczynowe estate (Domesta) – Gdańsk Jasień; the number of premises: 577; usable residential area: 31,530 m^2; segment: popular flats. The following buildings were being constructed in 2016:
   Building No. 16 (the number of premises: 26, the usable residential area: 1,594 m^2) – the building placed in service in July 2016;

Building No. 17 (the number of premises: 28, the usable residential area: 1,540 m^2) – the building placed in service in June 2016;
Building No. 18 (the number of premises: 28, the usable residential area: 1,540 m^2) – the building placed in service in October 2016;
Building No. 19 (the number of premises: 24, usable residential area: 1,282 m^2) – the building placed in service in December 2016;
Building No. 20 (the number of premises: 35, the usable residential area: 1,972 m^2) – scheduled for placing in service in the second quarter of 2017;
Building No. 21 (the number of premises: 28, the usable residential area: 1,606 m^2) – scheduled for placing in service in the third quarter of 2017;

8. Osiedle Leszczynowe estate (Domesta) – Gdańsk Jasień; the number of premises: 227; usable residential area: 11,426 m^2; segment: popular flats. The following buildings were being built in 2016:

   Building No. 1 (the number of premises: 31, the usable residential area: 1,522 m^2) – scheduled for placing in service in the fourth quarter of 2017;
   Building No. 2 (the number of premises: 31, the usable residential area: 1,522 m^2) – scheduled for placing in service in the second quarter of 2018;
   Building No. 4 (the number of premises: 31, the usable residential area: 1,522 m^2) – scheduled for placing in service in the second quarter of 2018;

9. Osiedle Nowa Niepołomicka estate (Domesta) – Gdańsk Chełm; the number of premises: 208; usable residential area: 9,672 m^2; segment: popular flats. The following buildings were being implemented in 2016:

   Building No. 1 (the number of premises: 47, the usable residential area: 2,241 m^2) – scheduled for placing in service in the first quarter of 2018.

In addition, INPRO SA was pursuing as the main contractor, upon order from Hotel Mikołajki Sp. z o.o., the works related to the addition of an enclosed foot bridge connecting the hotel and apartment building on the Birds' Island on Lake Mikołajskie with the restaurant and conference building on the peninsula. The occupancy permit was issued in June 2016.

14. Sales markets and distribution channels

In 2016 the INPRO Group sold its products and services first of all on the domestic market, mainly in Gdańsk. Only inBet Sp. z o.o. noted sales outside the domestic market – nearly 6% of the company's total revenues.

Customers for the services

INPRO SA has the greatest contribution to the Group's sales – the Company's sales are 70% of those of the entire Group.

The whole of the sales of INPRO's products is targeted at retail customers: natural persons and business entities. No permanent group of customers can be distinguished. Owing to that fact, one cannot speak of the Company being dependent on any of its customers; that is because of the diversification into a numerous, variable and ever-changing group of customers.

In 2016 none of the Group's customers had a higher share than 3% of the revenues from sales.

INPRO SA's sales are effected through the following distribution channels:

- the sales and marketing department at the Company's registered office,
- sales outlets at selected project sites,

- cooperation with selected intermediaries,
- sales through the Internet.

In 2016 INPRO did not have branch offices (establishments) in which activity was conducted.

Service suppliers

In the opinion of the Management Board, the Group is not dependent on suppliers. In 2016, the share of the biggest supplier was not bigger than 5% of the Group's costs of sales, however, in the opinion of the Management Board, the Group can always replace the present suppliers. Moreover, construction works, services or deliveries are provided by entities each time selected by way of tender or tender enquiries. Owing to such a policy, the Group has a considerable influence on the range of goods and services on offer, their quality, price and timely performance.

It should be emphasized that the Group is somewhat independent of third party subcontractors owing to its own construction capacity i.e. the Construction Division of INPRO SA (a group of approximately 70 skilled workers; the scope of works done by them comprises building substructures).

15. Information on agreements significant for the activity

Construction work agreements

On 12/04/2016 INPRO SA signed an agreement for the redevelopment of Aleja Spacerowa in Mikołajki with Hotel Mikołajki Sp. z o.o. The net value of the agreement was PLN 345 k.

Land purchase agreements

1. On 01/03/2016 and 24/03/2016 INPRO SA signed with the Municipality of the City of Gdańsk an agreement for the perpetual use of the plots in Gdańsk, Opacka street, for the price not exceeding 10% of the Issuer's equity.
2. On 26/10/2016 INPRO SA signed a preliminary purchase agreement for land at Szczecińska Street in Gdańsk. The purchase price of the land does not exceed 10% of the Issuer's equity.
3. On 27/10/2016 INPRO SA signed a purchase agreement for land in Pruszcz Gdański. The purchase price of the land does not exceed 10% of the Issuer's equity.
4. On 03/11/2016 PB DOMESTA Sp. z o.o. signed a preliminary purchase agreement for land at Dąbrówki Street in Gdańsk. The purchase price of the land does not exceed 10% of the Issuer's equity.
5. On 23/11/2016 INPRO SA signed with a purchase agreement for land in Gdynia, Fleszerowej-Muskat Street. The purchase price of the land does not exceed 10% of the Issuer's equity.
6. On 15/12/2016 PB DOMESTA Sp. z o.o. concluded a preliminary purchase agreement for land at Kruczkowskiego Street in Gdańsk with private persons. The purchase price does not exceed 10% of the Issuer's equity.

Land sale agreements

On 15/07/2016 INPRO SA signed a sale agreement for land at Kartuska Street in Gdańsk. The price for which the Company sold the land does not exceed 10% of the Issuer's equity.

Financial agreements

In 2016, the INPRO SA Group did not enter into significant financial agreements.

Other agreements

As part of its activity, the Group concluded the following significant agreements not described in previous items:

1. On 27/04/2016 inBet Sp. z o.o. started a new semi-precast floor production line financed by way of an operating lease agreement with PEKAO Leasing Sp. z o.o. (the book value of the line is approximately PLN 5.1 m).
2. On 28/04/2016 the Company signed an agreement with Powszechna Kasa Oszczędności Bank Polski SA for the transfer of a cash claim following from the business property insurance of the enterprises (within the scope related to the insurance of the office building in Gdańsk, 8 Opata Jacka Rybińskiego Street). The agreement constitutes a legal security for the repayment of the overdraft facility in the amount of PLN 10 m granted by the Bank and was described in current report No. 13/2016 of 29/04/2016.
3. On 01/06/2016 inBet Sp. z o.o. signed two lease agreements with IdeaLeasing SA, each for EUR 26 k, for the purchase of a stair flight mould with two manual hydraulic pumps. The lease was granted for 59 months.
4. On 08/06/2016 PB DOMESTA Sp. z o.o. signed a lease agreement for PLN 42 k with Volkswagen Leasing GmbH Sp. z o.o. for the purchase of a SKODA Rapid Spaceback 13-. The lease was granted for 36 months.
5. On 04/08/2016 inBet Sp. z o.o. signed a loan agreement with IdeaLeasing SA for PLN 55.4 k for the purchase of an electronic truck weighbridge. The loan was given for 60 months. The legal security for the repayment of the agreement is a registered pledge on the object of lease up to PLN 66.4 k.
6. On 11/08/2016 PB DOMESTA Sp. z o.o. signed a lease agreement for PLN 406 k with mLeasing Sp. z o.o for the purchase of two sets consisting of 11 containers each. The lease was granted for 60 months.
7. On 12/10/2016 inBet Sp. z o.o. signed a lease agreement for PLN 85 k with PEKAO Leasing Sp. z o.o. for the purchase of a Toyota Avensis. The lease was granted for 60 months.
8. On 28/11/2016 inBet Sp. z o.o. signed a lease agreement for PLN 355 k with PEKAO Leasing Sp. z o.o. for the purchase of four single-girder overhead travelling cranes. The lease was granted for 60 months.
9. On 15/12/2016 INPRO SA signed an agreement for the comprehensive multi-disciplinary building permit and construction designs for the Debiut property development project in Pruszcz Gdański with MS 15 Sp. z o.o. (i.e. a company in which the Mr Łukasz Maraszek, also performing the function of a member of the Supervisory Board of INPRO SA, is the President of the Management Board and a shareholder). The value of the agreement is PLN 1,575 k.
10. On 21/12/2016 PB Domesta Sp. z o.o. signed a variable interest rate operating lease agreement with mLeasing Sp. z o.o. for the period of 60 months. The object of lease is a POTAIN tower crane worth PLN 370 k. The legal security for the repayment is a blank promissory note.

Detailed information concerning the lease agreements as at 31/12/2016 is included in note No. 27 of the Group's consolidated financial statements for the financial year 2016.

Cooperation agreements

In 2016 the INPRO SA Group did not enter into significant cooperation agreements with other entities other than the agreements described above.

16. Information on transactions effected by INPRO SA or a subsidiary with related entities on conditions other than market conditions

All the transactions by the Company or its subsidiaries with related entities were entered into on market conditions.

The description of transactions with related entities was presented in note 31 of the Group's consolidated financial statements for 2016.

17. Information on credits and loans incurred

Credits terminated

No credit agreements were terminated in 2016, or in the period from the balance sheet date to the date of making this Report of Activity.

Credits incurred

The following credit agreements were concluded in 2016:

1. On 26/01/2016 INPRO SA signed with the consortium of banks: SGB – Bank SA with its registered office in Warsaw and Bank Spółdzielczy in Tczew with its registered office in Tczew a working capital credit agreement for PLN 6,000,000 for refinancing of the costs of construction of 24 premises at the Chmielna Park project, buildings A and B. The agreement was described in current report No. 2/2016 of 26/01/2016.
2. On 10/03/2016 INPRO SA signed with mBank SA with its registered office in Warsaw a working capital credit agreement for PLN 31,000,000 for the financing of the costs of construction of the Harmonia Oliwska project, stage I, in Gdańsk, Opacka street. The agreement was described in current report No. 5/2016 of 10/03/2016.
3. On 14/07/2016 INPRO SA signed with the consortium of banks: SGB – Bank SA with its registered office in Warsaw and Bank Spółdzielczy in Tczew with its registered office in Tczew and Bank Spółdzielczy in Pruszcz Gdański with its registered office in Pruszcz Gdański a working capital credit agreement for PLN 22,500,000 for financing a part of the costs of construction of stage I of the Optima estate, stage I. The agreement was described in current report No. 23/2016 of 14/07/2016.
4. On 22/09/2016 INPRO SA signed with Alior Bank SA with its registered office in Warsaw a working capital credit agreement for PLN 7,500,000 for the refinancing of the costs of purchase of land located in Gdańsk, Opacka Street, for stages II, III and IV of the Harmonia Oliwska estate. The agreement was described in current report No. 24/2016 of 22/09/2016.
5. On 22/09/2016 INPRO SA signed an overdraft agreement for up to PLN 16,000,000 with Alior Bank SA with its registered office in Warsaw. The funds under that agreement were used to repay the overdraft facility up to PLN 10,000,000 allowed by PKO BP SA. The agreement with Alior Bank SA was described in current report No. 24/2016 of 22/09/2016.
6. On 22/12/2016 the Company signed a working capital credit agreement for PLN 7,000,000 for the partial refinancing of the costs of purchase of land located in Gdynia, Fleszarowej-Muskat Street, with the consortium of Bank Spółdzielczy in Tczew with its registered office in Tczew and SGB Bank SA with its registered

office in Warsaw. The agreement was described in current report No. 28/2016 of 22/12/2016.

7. On 22/12/2016 the Company signed a working capital credit agreement for PLN 3,900,000 for the partial refinancing of the costs of purchase of land located in Gdańsk, Kruczkowskiego Street, with the consortium of SGB Bank SA with its registered office in Warsaw and Bank Spółdzielczy in Tczew with its registered office in Tczew. The deadline for the final repayment of the agreement is 02/12/2019. The legal security for the repayment is constituted by a mortgage on the real property being refinanced, 2 blank promissory notes and a power of attorney for the bank to dispose of the account. The principal is repaid monthly in 34 instalments.

Credits repaid

The Group repaid the following credits in 2016:

1. On 09/02/2016 the Company effected the full early repayment of the working capital credit in the amount of PLN 10,000,000 granted by Alior Bank SA in 2013 for the refinancing of the costs of the construction of the Wróbla Staw single-family houses.
2. On 11/02/2016 the Company effected the full early repayment of the working capital credit in the amount of PLN 5,000,000.00 granted in 2015 by the consortium of banks: SGB – Bank SA and Bank Spółdzielczy in Pruszcz Gdański for partial financing of the costs of construction of the Wróbla Staw multi-family buildings, phase I.
3. On 26/04/2016 the Company effected the full early repayment of the working capital credit in the amount of PLN 11,000,000.00 granted in 2014 by the consortium of banks: SGB – Bank SA and Bank Spółdzielczy in Tczew for partial financing of the costs of construction of the Wróbla Staw multi-family buildings, phase II.
4. On 27/07/2016 the Company effected the full early repayment of the working capital credit in the amount of PLN 24,300,000.00 granted by mBank SA in 2015 for financing a part of the costs of construction of the Chmielna Park project, building B.
5. On 07/11/2016 the Company effected the full early repayment of the working capital credit in the amount of PLN 34,600,000.00 granted by mBank SA in 2015 for financing a part of the costs of construction of the Kwartał Uniwersytecki project.
6. On 09/11/2016 the Company effected the full early repayment of the working capital credit in the amount of PLN 5,000,000.00 granted in 2015 by the consortium of banks: SGB – Bank SA and Bank Spółdzielczy in Tczew for partial financing of the costs of construction of the Wróbla Staw multi-family buildings, phase I.

The following changes took place in credit agreements in 2016:

1. On 03/02/2016, PI ISA Sp. z o.o. signed with Bank Millennium SA an annexe to an overdraft agreement on the basis of which the loan amount was increased from PLN 250 k to PLN 300 k and the loan term extended until 04/02/2017.
2. On 31/05/2016 INPRO SA signed with mBank SA an annexe to the working capital credit agreement for PLN 31,000 k for financing the construction of stage I of the Harmonia Oliwska residential estate. Under the annexe, the start of the credit use period was postponed from 01/06/2016 to 01/08/2016.
3. On 26/07/2016 INPRO SA signed with mBank SA an annexe to the credit agreement financing the construction of building C at the Chmielna Park residential

estate. Based on the annexe, the credit agreement was repaid before the deadline in full on 27/07/2016.

4. On 22/09/2016 INPRO SA signed with Alior Bank SA an annexe to the working capital credit agreement of 2014 refinancing the costs of purchase of land at Jana Pawła II Street in Gdańsk. Based on the annexe, the previous mortgage security of the credit repayment was replaced with a combined mortgage constituting at the same time the legal security for the repayment of the overdraft facility as described in current report No. 24/2016 of 22/09/2016.

Detailed information concerning the structure of credit agreements as at 31/12/2016 is included in note No. 27 of the of the Group's consolidated financial statements for the financial year 2016.

Loans incurred

INPRO SA did not take any loan-related liabilities in the financial year 2016.

18. Information on loans granted in the financial year

No loan agreements were terminated in 2016, or in the period from the balance sheet date to the date of making this Report of Activity.
INPRO SA as the parent company and the subsidiaries did not grant any loans in 2016.

19. Information on sureties and guarantees granted and received in the financial year

In 2016 the Company did not receive any sureties or give any new guarantees and sureties.

INPRO SA received the following guarantees in 2016:

1. the advance repayment guarantee from KONE Sp. z o.o. in the amount of PLN 169,830.00 with the expiry date of 04/03/2017.
2. the advance repayment guarantee from Schindler Polska Sp. z o.o. in the amount of PLN 159,246 with the expiry date of 27/02/2017.
3. warranty security from Schindler Polska Sp. z o.o. in the amount of PLN 35,463.44 with the expiry date of 02/09/2021.

20. Description of the utilisation of proceeds from the issue of securities in the period covered by the report

The Company did not issue any new securities in 2016.

21. Information on pending proceedings concerning the liabilities or receivables of INPRO SA or its subsidiaries

In the reporting period, none of the following proceedings were pending before a court, a body competent for arbitration proceedings or a public administrative body:

- proceedings concerning INPRO's or its subsidiary's liabilities or receivables whose value would be at least 10% of the Company's equity;
- two or more cases of proceedings concerning liabilities or receivables whose total value is at least 10% of the Company's equity respectively.

22. Difference between the financial performance indicated in the annual report and forecasts for a given year published previously

The Company did not publish financial forecasts for 2016.

23. Unusual factors and events which may affect the profit or loss

No unusual factors and events affecting the profit or loss for the financial year were noted in 2016.

24. Group's activity during the financial year 2016

In view of the fact that the property development activity is the main activity of the Group, the major achievements of INPRO SA and PB DOMESTA Sp. z o.o. will be presented below:

Buildings placed in service in 2016:

Table 10. Buildings placed in service by INPRO SA and PB DOMESTA Sp. z o.o. in 2016

Project	Decision on the occupancy permit	Number of premises	Kind of project
Gdańsk, Kwartał Uniwersytecki (ul. Szczecińska)	October 2016	175	Upper-end flats
Chmielna Park Building C (the Granary Island)	December 2016	134	Upper-end flats
Tuchom, the Golf Park estate	November 2016	4	Single-family houses
Gdańsk, the Wróbla Staw estate (Świstaka Street)	April, May, July 2016	18	Single-family houses
Gdańsk, the Osiedle Leszczynowe estate, building No. 16	July 2016	26	Popular flats
Gdańsk, the Osiedle Leszczynowe estate, building No. 17	June 2016	28	Popular flats
Gdańsk, the Osiedle Leszczynowe estate, building No. 18	October 2016	28	Popular flats
Gdańsk, the Osiedle Leszczynowe estate, building No. 19	December 2016	24	Popular flats

Sales (understood as the number of preliminary sales agreements gross) at various projects in 2016:

Table 11. Sales by INPRO SA with PB DOMESTA Sp. z o.o. by project in 2016

Project	Number of flats sold gross	Kind of project
Gdańsk, Wróbla Staw single-family houses Stages B, C, D, H	4 (100% accumulative)	Single-family houses
Tuchom, Golf Park, stages A, B and C	6 (66.1% accumulative)	Single-family houses
Gdańsk, City Park, buildings E - F	1 (100% accumulative)	Upper-end flats
Gdańsk, Chmielna Park, building A	4 (98.3% accumulative)	Upper-end flats
Gdańsk, Chmielna Park, building B	12 (89.7% accumulative)	Upper-end flats
Gdańsk, Chmielna Park, building C	61 (90.3% accumulative)	Upper-end flats
Wróbla Staw multi-family buildings, stage III	10 (100% accumulative)	Upper-end flats
Wróbla Staw multi-family buildings, stage II	15 (100% accumulative)	Upper-end flats
Wróbla Staw multi-family buildings, stage I	26 (99.2% accumulative)	Upper-end flats
Gdańsk, Kwartał Uniwersytecki	117 (88% accumulative)	Upper-end flats
Gdańsk, Harmonia Oliwska, stage I	58 (26.5% accumulative)	Upper-end flats
Gdańsk, Optima, stage I	22 (8.5% accumulative)	Popular flats
Gdańsk, the Osiedle Leszczynowe estate, buildings 12, 14, 16, 17, 18, 19, 20, 21 (DOMESTA)	135	Popular flats
Gdańsk, the Osiedle Leszczynowy Staw estate, buildings 1, 2, 4 (DOMESTA)	18	Popular flats
Gdańsk, the Osiedle Nowa Niepołomicka estate, building No. 1 (DOMESTA)	3	Popular flats
TOTAL GROSS SALES	**336 pcs (Inpro) +156 pcs (Domesta) = 492 pcs**	

25. Important development factors and prospects

The most important internal factors influencing the current activity include:

- attractive and diversified housing offer targeted at several customer segments, including premises comprised by the Flat for Young People programme,
- the quality and timely performance of housing projects,
- offer concerning various customer financing programmes for the purchase of premises,
- the marketing policy,
- the flexibility in pricing the premises, in the layout of buildings, additional services (interior design, deficiencies etc.),
- long-term cooperation with banks (ease of obtaining finance and signing an open escrow account).

The following may be counted among the most important external factors affecting the Group:

- the macroeconomic situation in Poland and in the world,
- the development of the property development market with special consideration for its competitiveness (a growing offer of flats),
- regulatory activities of the government, in particular the influence of the "Flat for Young People" programme, and work on the update of the property development act, the adoption of the 500+ programme, and work on the National Housing Programme, adoption of the Agricultural Land Trade Act,
- the possibility of procurement of various administrative decisions and permits,
- the policy of the National Bank of Poland concerning interest rates on the banking market,
- the policy pursued by the banks financing the developers and flat buyers,
- improvement of the situation in the hotel trade.

The forecasts about the Group's development taking into account the factors mentioned above and the risks relating to the property development activity as described in item 5 indicate that the sales level achieved by both the Group and the Issuer in 2017 will be lower than in 2016. This is because of the number and value of projects planned to be placed in service as part of INPRO SA's activity.

In accordance with the Company's strategy, further expansion is assumed onto the market of flats in good locations, of good quality and at a reasonable price, which market has turned out to be better adapted to the recently observed fluctuations of the business outlook.

The Company reviewed building permit designs of the proposed projects; the demand for cheaper two-room flats in is the greatest, although a growing interest in three- and four-room apartments can be seen.

In 2016 the Company completed its land bank with plots of land of the total area of over 33,000 m^2, and PB Domesta Sp. z o.o. purchased land of the total area of nearly 5,000 m^2. Those plots will enable a greater diversity of the Group's offer in the nearest years of its activity. At the same time, work is being carried out on the procurement of new attractive sites ensuring the further development of the enterprise.

In 2017 the INPRO SA Group intends to introduce into its offer both new interesting locations and further stages of the projects now under way:

- Harmonia Oliwska, stage II, in Gdańsk (84 premises),
- Kwartał Uniwersytecki, stage II, in Gdańsk (96 premises),
- Osiedle Debiut in Pruszcz Gdański, stage I (105 premises),
- Azymut in Gdynia (200 premises),
- Golf Park, stage D (22 single-family houses),

- Osiedle Nowa Niepołomicka in Gdańsk, buildings No. 2 (37 premises) and No. 3 (47 premises),
- Osiedle Leszczynowy Staw in Gdańsk, buildings No. 3 (31 premises) and No. 5 (31 premises),
- Osiedle Jaśkowa Dolina in Gdańsk (65 premises).

The Group is planning to introduce 718 new flats and houses into its offer in 2017.

26. Changes in the basic rules of enterprise management

No substantial changes in the basic rules of enterprise management occurred at the INPRO Corporate Group or in INPRO itself during 12 months of 2016.

27. Agreements entered into with managers, which provide for compensation

As at 31/12/2016 the Vice-President of the Management Board, Krzysztof Maraszek, was employed on the basis of the management contract, and the remuneration of the other members – President of the Management Board, Piotr Stefaniak, and Vice-President of the Management Board, Zbigniew Lewiński, is fixed during their term of office by the Company's Supervisory Board.

In accordance with the provisions of the management contract of Mr Krzysztof Maraszek, in the event of the termination of the contract by either of the parties with notice specified in the contract and in the event of the termination of the contract with immediate effect by the Member of the Management Board for reasons described in the contract, the Company is obliged to pay the Board Member the severance pay in the amount of PLN 1,200,000 gross. Mr Krzysztof Maraszek is obliged to abstain from competitive business during the term of the contract and for 12 months after its end. For the period in which the restriction continues to be in force after the end of the contract, the Company undertook to pay the Member of the Management Board the monthly compensation equal to 75% of the basic remuneration for the last full calendar month of the fulfilment of the function.

In conformity with the resolutions of the Company's Supervisory Board, in the event of Mr Piotr Stefaniak's / Mr Zbigniew Lewiński's dismissal by the Company's Supervisory Board from the function of the President / Vice-President of the Management Board or their resignation from the functions in the Company's Management Board, the Company is obliged to pay a Member of the Management Board a severance pay in the amount of PLN 1,200,000. The above-mentioned severance pay shall not be due if the dismissal from the function of a Member of the Management Board takes place because of gross negligence, as a result of which the Company suffered real damage significantly affecting its financial liquidity or in the event of a Member of the Management Board committing an offence ascertained by a legally valid court judgement and preventing him, in compliance with the absolutely binding provisions of law, from further fulfilling the functions of the Member of the Management Board. At the same time, the Supervisory Board resolved that Messrs Piotr Stefaniak and Zbigniew Lewiński are banned from competitive business during the term of the mandates and for 12 months after their end. For the period in which the restriction continues to be in force after the end of the term of office, the Company undertook to pay those Members of the Management Board the monthly compensation equal to 75% of the basic remuneration for the last full calendar month of the fulfilment of the function.

28. Remuneration, prizes and benefits for each of the persons managing and supervising the Company

In 2016 the value of the remuneration, prizes and benefits paid, due or potentially due separately to each of the persons managing and supervising the Company is as follows:

Table 12. Remuneration paid to the members of governing bodies of INPRO SA in 2016 (PLN)

	REMUNERATION OF THE MANAGEMENT BOARD OF INPRO SA			
		Remuneration in relation to the employment relationship with INPRO SA	**Dividends paid in 2016**	**In other entities in the Group**
1	**MANAGEMENT BOARD – fixed remuneration**			
	Piotr Stefaniak	840 000.00		
	Krzysztof Maraszek	840 000.00		
	Zbigniew Lewiński	840 000.00		
	TOTAL	**2 520 000.00**		
2	**MANAGEMENT BOARD – variable remuneration**			
	Piotr Stefaniak	126 418.00	2 538 000.00	
	Krzysztof Maraszek	145 127.02	3 003 000.00	
	Zbigniew Lewiński	126 418.00	2 838 000.00	
	TOTAL	**397 963.02**	**8 379 000.00**	
3	**SUPERVISORY BOARD IN THE GROUP**			
	Piotr Stefaniak			55 600
	Krzysztof Maraszek			55 600
	Zbigniew Lewiński			55 600
	TOTAL			**166 800**
	TOTAL FOR THE MANAGEMENT BOARD	**2 917 963.02**	**8 379 000.00**	**166 800**

	REMUNERATION OF THE SUPERVISORY BOARD OF INPRO SA				
		In the Company – for the sessions of the Supervisory Board	**Remuneration in relation to the employment relationship with INPRO SA**	**Dividends paid in 2016**	**In other entities in the Group**
4	**SUPERVISORY BOARD OF INPRO SA**				
	Jerzy Glanc	40 904.39			
	Krzysztof Gąsak	29 950.58			
	Łukasz Maraszek	10 500.00			
	Wojciech Stefaniak	18 949.55			
	Szymon Lewiński	18 949.55	33 024.30		
	TOTAL	**119 254.07**	**33 024.30**		
	TOTAL	**119 254.07**	**33 024.30**	**-**	**-**

29. Remuneration policy

In view of the size and kind of its activity, the Company does not have a formalised remuneration policy. In conformity with the Company's Statutes, the remuneration of the Supervisory Board members is fixed by the General Meeting and the remuneration of the Management Board members by the Supervisory Board. Moreover, each year the Company publishes information on the remuneration of the members of governing and managing bodies in compliance with the binding provisions of law. The remuneration of the managers is fixed on the basis of the Remuneration Rules prepared in conformity with the requirements of the Labour Code.

As described in item 28 above, as at 31/12/2016 the Vice-President of the Management Board, Krzysztof Maraszek, was employed on the basis of the management contract, and the remuneration of the other members – President of the Management Board, Piotr Stefaniak, and Vice-President of the Management Board, Zbigniew Lewiński, is fixed during their term of office by the Company's Supervisory Board.

During the entire year, the level of the remuneration of each Member of the Management Board has remained unchanged, irrespective of the method of employment, and has been PLN 70,000 gross monthly for each person.

The right to additional annual remuneration subject to the Company achieving profit for a given calendar year and to the approval of the financial statements by the General Assembly was an element of the remuneration of each member of the Management Board, too. The amount of that remuneration element is determined each time by way of a resolution of the Supervisory Board.

The Members of the Management Board and key managers are not entitled to any significant non-financial remuneration components other than those included in the in-work benefit package as a standard, such as: medical care and a company car also used for private purposes.

In view of the fact that the Management Board includes the Company's main shareholders, the remuneration system adopted by the Company ensures full transparency and guarantees the efficient and correct functioning of the Company and motivates the Management Board to work on the continuous growth of the value of the enterprise.

30. Total number and nominal value of all stock (shares) in the Company and of stock and shares in related entities, held by persons managing and supervising the Company

The shareholdings of the members of the Management Board and Supervisory Board of INPRO SA as at 31/12/2016 were as follows:

Table 13. Members of the Management Board holding shares of INPRO SA as at 31/12/2016

	Shares Number of shares	**Shares Nominal value PLN**
Management Board		
Piotr Stefaniak – President of the Management Board	8 460 000	846 000.00
Zbigniew Lewiński – Vice-President of the Management Board	9 460 000	946 000.00
Krzysztof Maraszek – Vice-President of the Management Board	10 010 000	1 001 000.00
Total	**27 930 000**	**2 793 000.00**

The members of the Management Board did not hold stock (shares) in other entities of the Group.
To the best of the Company's knowledge, the members of the Supervisory Board did not hold stock (shares) in any entity of the Group.

It should be noted that the entities related to INPRO SA as at 31/12/2016 are as follows:

- Hotel Oliwski Sp. z o.o., a company personally related through Mr Piotr Stefaniak – 162 shares of the nominal value of PLN 10,000 each.

31. Information on agreements known to the Company as a result of which changes in the proportion of shares held by current shareholders may take place in the future

The Company is not aware of any agreements as a result of which changes in the proportion of shares held by current shareholders may take place in the future.

32. Information on the employee share control system

There is no employee share ownership plan at the Company or in subsidiaries.

33. Disclosure of non-financial and diversity information

The Company and entities within the Corporate Group do not meet the criteria set out in Directive 2014/95/EU obliging companies to disclose non-financial and diversity information.

34. Sponsoring, charity and other similar policies

In the reporting year, INPRO SA transferred approximately PLN 127 k for charity purposes, both to natural persons and to approximately 10 various organisations such as schools, volunteer fire brigade as well as prosocial organisations and foundations.

Decisions on any activities of sponsoring and charitable character are taken by the Company's Management Board on the basis of case-specific financing requests filed by the entities concerned.

Relevant assistance is rendered on a local scale.

35. Information on agreements with an entity authorised to audit and review financial statements

On 23/06/2016 INPRO SA entered into an agreement for the following with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw – an entity authorised to audit financial statements:

a) the review of the interim separate financial statements of INPRO SA for the period 01/01/2016-30/06/2016; remuneration: PLN 22,000.00,
b) the review of the interim consolidated financial statements of the INPRO SA Group for the period 01/01/2016-30/06/2016; remuneration: PLN 4,000.00,
c) the audit of the separate financial statements of INPRO SA for the period 01/01/2016-31/12/2016; remuneration: PLN 32,000.00,
d) the audit of the consolidated financial statements of the INPRO Group for the period 01/01/2016-31/12/2016; remuneration: PLN 4,000.00.

Moreover, the following agreements were concluded with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw for the audit of the financial statements of subsidiaries comprised by the Group:

a) inBet Sp. z o. o. – on 23/06/2016 for the audit of the annual financial statements as at 31/12/2016, made to the Polish Accounting Standards; remuneration: PLN 10,000.00,
b) Dom Zdrojowy Sp. z o. o. – on 23/06/2016 for the audit of the annual financial statements as at 31/12/2016, made to the Polish Accounting Standards; remuneration: PLN 10,000.00,

c) PB Domesta Sp. z o. o. – on 16/06/2016 for the audit of the annual financial statements as at 31/12/2016, made to the Polish Accounting Standards; remuneration: PLN 14,000.00,
d) Hotel Mikołajki Sp. z o. o. – on 23/06/2016 for the audit of the annual financial statements as at 31/12/2016, made to the Polish Accounting Standards; remuneration: PLN 9,000.00,

On 27/10/2016, PB DOMESTA Sp. z o.o entered into an agreement for the preparation and adjustment of the specimen separate financial statements in accordance with Polish Accounting Standards in the XLSM format with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw for PLN 15,500.

On 08/06/2015 INPRO SA entered into an agreement for the following with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw, an entity authorised to audit financial statements:

a) the review of the interim separate financial statements of INPRO SA for the period 01/01/2015-30/06/2015; remuneration: PLN 22,000.00,
b) the review of the interim consolidated financial statements of the INPRO SA Group for the period 01/01/2015-30/06/2015; remuneration: PLN 4,000.00,
c) the audit of the separate financial statements of INPRO SA for the period 01/01/2015-31/12/2015; remuneration: PLN 32,000.00,
d) the audit of the consolidated financial statements of the INPRO Group for the period 01/01/2015-31/12/2015; remuneration: PLN 4,000.00.

The subsidiaries entered into an agreement with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw in 2015 for the audit of the annual financial statements as at 31/12/2015 on the same price conditions as in 2016.

All the amounts given above are net.

36. Achievements in research and development

The Group did not pursue any activities in research and development in the period in question.

37. Acquisition of own shares

During 12 months of the financial year 2016, INPRO SA did not effect any transaction concerning the acquisition of own shares.

38. Description of significant off-balance sheet items

In the reporting period, there were no significant off-balance sheet items other than those described above.

39. Material events after the balance sheet date

a) On 03/01/2017 PB DOMESTA Sp. z o.o. signed annexe No. 6 to the overdraft agreement for PLN 1,000 k with Bank Polska Kasa Opieki SA with its registered office in Warsaw. Based on the annexe, the term of the credit agreement was extended until 31/12/2017.
b) On 11/01/2017 inBet Sp. z o.o. signed annexe No. 1 to the lease agreement of 28/11/2016 with PEKAO Leasing Sp. z o.o. for the purchase of four single-girder

overhead travelling cranes. Based on the annexe, the purchase price was changed from PLN 355 k to PLN 385 k.

c) On 31/01/2017 PI ISA Sp. z o.o. concluded annexe No. 24 to an overdraft agreement for PLN 300,000 with Bank Millennium SA with its registered office in Warsaw, on the basis of which annexe the loan term was extended until 04/02/2018.

d) On 15/02/2017 INPRO SA obtained a building permit for the construction of stages II, III and IV of the Harmonia Oliwska estate in Gdańsk, Opacka Street.

e) On 24/02/2017 INPRO SA obtained a building permit for the construction of stage II of the Kwartał Uniwersytecki estate in Gdańsk, Szczecińska Street.

f) On 15/03/2017 INPRO SA signed a purchase agreement for land at Szczecińska Street in Gdańsk. The purchase price of the land does not exceed 10% of the Issuer's equity.

Gdańsk, 21/03/2017