

Company: Inpro Spółka Akcyjna
Number: 2/2016
Date: 2016-05-18 10:36:29
Market types: CORPORATE GOVERNANCE – the regulated market
Title: Inpro Spółka Akcyjna – Report on the scope of application of the Best Practice

Contents:

On the basis of clause 29 par. 3 of the Warsaw Stock Exchange Rules, Inpro Spółka Akcyjna submits a report on non-application of the detailed principles contained in the "Best Practice for GPW Listed Companies 2016."

Disclosure Policy, Investor Communications

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

The Company does not follow the above principle.

The above principle will not be 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.

Not applicable.

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.

Management Board and Supervisory Board

II.Z.4. 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.

The Company's comments on the way of compliance with the above principle.

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. 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.

The Company does not follow the above principle.

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.

The Company does not follow the above principle.

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.

Internal Systems and Functions

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.

The Company does not follow the above principle.

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: 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 in, among other things, accounting, the Company's reporting, the Group's consolidated reporting, 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. 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 (approval for payment). 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. During the year, the plan is analysed and updated on an ongoing basis (including from the point of view of the reports by Production and Sales Departments). 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 capital 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 period comprised by it, the way of keeping the books of accounts (the chart of accounts, a schedule of the books of accounts, the description of the data processing system), the definition of the system designed for the protection of data and their sets including accounting vouchers, the books of accounts and other documents forming the basis of making entries in them. 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. 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.

The Company does not follow the above principle.

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.

The Company does not follow the above principle.

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.

The Company does not follow the above principle.

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. The Company does not follow the above principle.

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.

General Meeting, Shareholder Relations

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

Not applicable.

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.

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 obligation 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.

The Company's comments on the way of compliance with the above principle.

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 (that principle was not followed in that regard previously and information on that was given in the report of 01/01/2016). 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.

The Company does not follow the above principle.

The Company informs that as at the date of entry into force of the "Best Practice for GPW Listed Companies 2016," that being an appendix to Resolution No. 26/1413/2015 of the Stock Exchange Council of 13 October 2015, i.e. as at 1 January 2016, the Company will not have a list of internal regulations meeting the requirements of the regulation described above. 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.

Remuneration

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.

Not applicable.

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.

Not applicable.

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.