

MANAGEMENT BOARD REPORT
ON THE ACTIVITIES OF
PROCHEM S. A. CAPITAL GROUP
IN THE FIRST HALF OF 2020

Warsaw September 25, 2020

1. Principles of presentation of financial statements

Principles of preparation of the consolidated financial statements of the Prochem S. A. Capital Group for the first half of 2020 have been included in Explanatory notes to the financial statements.

2. Brief description of significant achievements or failures of the Issuer in the period covered by the report, together with a list of the most important events concerning the Issuer

In the first half of 2020 the Prochem S. A. Capital Group achieved revenues from basic activity in the amount of PLN 166 million. They are almost 70% higher than those achieved in the first half of 2019. The portfolio of orders held allows to forecast that this level of sales will be maintained in the following periods. A similar tendency should also be maintained in terms of the profitability of the basic activities of both the Issuer and the companies from the Capital Group.

3. Indication of factors and events, including those of an unusual nature, having a significant impact on the condensed financial statements.

In the first half of the year, there were no unusual factors or events that would materially affect the condensed financial statements.

4. Description of significant risk factors and threats to the operations of the Issuer's Capital Group

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

Economic fluctuations in the investment market

Part of the companies from the Capital Group provide services in the investment market, characterized by a large scale of fluctuation in demand, strongly related to the overall macroeconomic situation of the country and which is currently very strongly affected by the coronavirus pandemic. Methods used by the Group to limit the negative impact of this factor on financial results (accumulation of financial reserves, diversification of services provided, using appropriate IT tools and solutions), may not fully neutralize this risk.

Possibility of threats during the performance of contracts

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

Dependence on the staff

The risk of becoming dependent on the staff occurs especially in the parent company. Raising the quality of services provided, undertaking the implementation of complicated technological projects, the use of modern IT systems, and the work for the renowned clients require from the staff the highest professional qualifications. Acquiring such people, especially in the situation of the liberalization of the European labor market can be difficult.

The Company is trying to minimize such treat by raising qualifications of the staff employed and using incentive programs associating employees with the company.

Exchange rate risk

Part of contracts for the sale of services (mainly of the Parent Entity) is concluded with foreign companies in foreign currencies (EUR, US Dollars). In the event of a significant strengthening of the national currency, this may have an adverse effect on the Group's results. This risk is partially mitigated in a natural way i. e. through the purchase of equipment and services necessary for the execution of these contracts abroad.

Risk of dependence on significant service buyers

The execution of contracts for implementation with a significant value by the companies from the Group requires significant expenditures to be incurred on the purchase of services and equipment, which are then sold to the customer in the form of a ready facility. Lack of proper correlation between the expenditure incurred and proceeds from the execution of a contract with a customer may involve necessity of the use of external financing by the companies, and in special circumstances, may cause for the companies even temporary loss of a financial liquidity. Such risk is largely hedged by appropriate provisions in the contract with the client, under which the client is obliged to successively return the expenses incurred during the execution of the order.

5. Description of the organization of the Capital Group with indication of entities subject to consolidation

The Prochem S. A. Capital Group (referred to as „Capital Group“, „Group“), in addition to the data of the Parent Company comprises the following subsidiaries directly and indirectly:

Subsidiaries covered by full consolidation:

- Prochem Inwestycje Sp. z o. o. seated in Warsaw – subsidiary directly (100.0%);
- PRO-INHUT Sp. z o. o. seated in Dąbrowa Górnicza – subsidiary indirectly (93.2%)- covered by the arrangement proceedings;

- PREDOM Sp. z o. o. seated in Wrocław – subsidiary indirectly (81.7% of share in capital and profit, 72.3% of votes);
- Prochem Zachód Sp. z o. o. seated in Warsaw – subsidiary directly (80.0%);
- ELPRO Sp. z o. o. in liquidation seated in Krakow – subsidiary indirectly (92.7%, including 85.4% share in 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o. o. seated in Krakow, in liquidation – subsidiary indirectly (92.7%, including 85.4% share in 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S. A. seated in Krakow – subsidiary indirectly (85.4%), including 73.0% of share in capital and voting rights belongs to company Prochem Inwestycje subsidiary in 100%. Company Elektromontaż Kraków S. A. prepares consolidated financial statements, which comprises data of subsidiary in 100%: ELMONT-POMIARY Sp. z o. o. seated in Krakow and two associated companies ELPRO Sp. z o. o. in liquidation and Elmont-Inwestycje Sp. z o. o.
- ATUTOR Integracja Cyfrowa Sp. z o. o. seated in Warsaw – subsidiary indirectly (50.14% of share holds company Prochem Inwestycje Sp. z o. o. subsidiary in 100%);
- Prochem RPI Sp. z o. o. seated in Warsaw – subsidiary in 100% (including 3.3% of share in capital and voting right belongs to company Prochem Inwestycje).

Jointly-controlled entities and associated entities valued using the equity method:

- ITEL Sp. z o. o. seated in Gdynia – 42.0% of share (18.7% of share in voting right and capitals belongs directly to Prochem S. A., and 23.3% holds Prochem RPI Sp. z o. o. subsidiary in 100%);
- Irydion Sp. z o. o. seated in Warsaw – 50% of share, jointly-controlled company.

Consolidated subsidiaries were included in the consolidated financial statements from the date of including the control until the date of loss of control by the Parent Company, and the jointly-controlled entities and associated entities from the date of exercising of joint control and of exertion of significant influence.

Company Predom Projektowanie Sp. z o. o. with capital of PLN 53 thousand was excluded from consolidation. The company did not start operations.

Company Pro-Inhut Sp. z o. o. seated in Dąbrowa Górnicza is covered by the arrangement proceedings.

6. Indication of the effects of changes in the structure of the capital group, including as a result of a merger of business entities, takeover or sale of entities of the issuer's capital group, long-term investments, division, restructuring and discontinuing of activity

In the first half of 2020:

Company Pro-Inhut Sp. z o. o. seated in Dąbrowa Górnicza is covered by the arrangement proceedings.

By order of the District Court for the City of St. Warsaw in Warsaw, XIII Commercial Division of the National Court Register, IRYD sp. z o.o with its registered office in Warsaw, 100% indirect subsidiary was liquidated and removed from the National Court Register.

Following the resolution of the Shareholders' Meeting of June 23, 2020, it was decided to dissolve and open liquidation of the subsidiary Elmont Inwestycje sp.z o.o. seated in Krakow.

In accordance with the provision in the Notarial Deed of June 23, 2020, the subsidiary Elpro sp.z o. o. seated in Krakow was dissolved and its liquidation has been opened.

7. The position of the Management Board regarding the possibility of meeting the previously published forecasts of results for a given year, in the light of the results presented in the interim report in relation to the forecast results

Company Prochem S.A. did not publish forecasts of the financial results of the company or the Prochem S.A. Capital Group for 2020.

8. Shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the issuer's general meeting as at the date of submitting the quarterly report, along with an indication of the number of shares held by these entities, their percentage share in the share capital, the resulting number of votes and their percentage share in the total number of votes at the general meeting and an indication of changes in the ownership structure of significant blocks of the issuer's shares in the period from the submission of the previous report

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

Item No.	DESCRIPTION	NUMBER OF SHARES HELD (in PCS)	NUMBER OF VOTES HELD	% OF VOTES IN TOTAL NUMBER OF VOTES	% OF SHARE CAPITAL
1	Steven Tappan	975,250	975,250	33.22	33.23
2	APUS S.A.	311,769	311,769	10.62	10.62
3	Otwarty Fundusz Emerytalny PZU S.A. „Złota Jesień”	284,900	284,900	9.70	9.71
4	Andrzej Karczykowski	283,391	283,391	9.66	9.66

On August 18, 2020, Mr. Steven George Tappan, as a result of the settlement of the transaction for the acquisition of shares covered by subscriptions submitted in the period from July 30, 2020 to August 12, 2020 inclusive, under a tender offer announced by Mr. Steven George Tappan on July 10, 2020 to subscribing for the sale of Prochem shares, increased his share in the share capital of Prochem and in the total number of votes in Prochem, respectively to the level of approx. 33.228% and approx. 33.215% ("Transaction"). As a result, Mr. Steven George Tappan exceeded the threshold of 33% of the total number of votes at the general meeting of Prochem. As at the date of submitting this report, Mr. Steven George Tappan directly holds 975,250 shares, constituting approx. 33.23% of the share capital of Prochem, entitling to 975,250 votes at the general meeting of Prochem, constituting approx. 33.22% of the total number of votes at the general meeting of Prochem.

9. Statement of changes in the ownership of the issuer’s shares or rights to them (options) by managing persons and supervising persons of the issuer, according to the information held by issuer, in the period from the submission of the previous report

As at the date of the financial statements hereby, the following members of the Management Board and Supervisory Board of the company held shares of PROCHEM S.A:

- Jarosław Stępniewski – 68,383 pcs.;
- Marek Kiersznicki – 59,474 pcs;

- Krzysztof Marczak – 38,936 pcs;
- Marek Garliński – 83,996 pcs;
- Andrzej Karczykowski – 201,882 pcs;

On August 4-5, 2020, the Vice-President of the Management Board, Mr. Krzysztof Marczak, purchased 2,028 shares of Prochem S.A. Before the transaction, Mr. Marczak owned 36,908 shares.

10. Indication of proceedings pending before a court, an authority competent for arbitration or a public administration authority, including information on:

- a) proceedings concerning liabilities or receivables of the issuer or its subsidiary, the value of which is at least 10% of the issuer's equity, with specifying: the subject of the proceedings, the value of the dispute, the date of initiation of the proceedings, parties to the proceedings and the issuer's position,
- b) two or more proceedings regarding liabilities and receivables, the total value of which is respectively at least 10% of the issuer's equity, with specifying the total value of proceedings separately in the group of liabilities and receivables together with the issuer's position in this matter and, in relation to the largest proceedings in the group of liabilities and the group of claims - with an indication of their subject matter, value in dispute, date of initiation of the proceedings and the parties to the proceedings.

Companies from the PROCHEM S.A. Capital Group are not a party to any proceedings or two or more proceedings concerning liabilities or receivables of the issuer or its subsidiary, the total value of which is at least 10% of the issuer's equity.

11. Information on the conclusion by the issuer or its subsidiary of one or more transactions with related entities, if they are individually or jointly significant and were concluded on terms other than market terms:

- a) the subject of the transaction,
- b) connections of the issuer or its subsidiary with the entity that is a party to the transaction,
- c) material terms of the transaction, with particular emphasis on the financial terms and an indication of the specific terms and conditions specified by the parties, specific to this contract, in particular different from terms commonly used for a given type of contract.

In the first half of 2020, there were no significant transactions with related entities in the Prochem S.A. Capital Group concluded on terms other than market conditions.

12. Information on granting by the issuer or its subsidiary sureties for a credit or loan or granting a guarantee - jointly to one entity or a subsidiary of this entity, if the total value of the existing sureties or guarantees is equivalent to at least 10% of the issuer's equity

In the first half of 2020, the companies of the Capital Group did not grant any sureties or guarantees.

13. Other information that, in the issuer's opinion, is significant for the assessment of the staffing, property, financial situation, financial result and their changes, and information that is significant for the assessment of the ability to meet obligations by companies from the issuer's capital group

The level of debt and the financial liquidity ratio of companies from the Issuer's capital group do not indicate the risk of the inability to meet obligations, which makes them reliable partners in business

14. Indication of factors which, in the issuer's opinion, will affect the results achieved by the capital group in the perspective of at least the subsequent quarter

Macroeconomic surrounding will have the significant effect on the activities of the Prochem S. A. Capital Group in 2020, in particular, the condition of the Polish economy which in material way influences the undertaking of decisions on the starting of the new investment objectives by potential clients of companies from the Prochem S. A. Capital Group (in particular by industrial companies). The portfolio of orders of the companies allows us to assume that the financial results in 2020 will continue to be at a satisfactory level.

At the end of 2019, news from China about the coronavirus first appeared. In the first months of 2020, the virus spread around the world, and its negative impact gained momentum. This is expressed in increasing the feeling of uncertainty and in disturbances in the market situation in the macroeconomic environment in which the Capital Group operates. It involves, among other, with postponing investment decisions by clients, a decrease in the number of inquiries and tougher competition. Although this situation is still changing at the time of publishing these financial

statements, this has not had an impact on the consolidated sales or supply chain so far, however the future effects cannot be predicted. Therefore, a review of contracts performed by individual companies from the Group was made. On the basis of the above review as well as on the basis of customers declarations, the Management Boards from the Group stated that currently implemented orders are not threatened and are expected to be completed in accordance with the signed contracts.

The Management Boards of the Prochem S.A. Capital Group with particular attention monitor the current situation. A number of measures have been taken to limit the negative impact of the pandemic on the functioning of the entities in the Capital Group. In accordance with governmental guidelines, appropriate procedures and protection measures have been implemented to protect employees against infection. Actions were also taken to stabilize the financial and operational stability of the Group's companies by collecting the necessary financial reserves and using appropriate tools and IT solutions allowing to maintain the design potential (e.g. creating remote work opportunities). Due to the meeting the conditions set out in the relevant act (e.g. due to the decline in economic turnover), two companies from the Group also took advantage of the available support programs and received loans from the Government Development Fund in the total amount of PLN 3.5 million. If necessary, the Management Boards of the Companies are prepared to take further actions aimed at adjusting their potential to the new conditions in order to mitigate any negative effects.

Krzysztof Marczak
Vice President of the
Management Board

Marek Kiersznicki
Vice President of the
Management Board

Jarosław Stępniewski
President of the
Management Board