

**MANAGEMENT BOARD REPORT ON THE  
ACTIVITIES OF THE PROCHEM S.A. CAPITAL  
GROUP IN THE FIRST HALF OF 2021**

Warsaw, September 27, 2021

### **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 2021 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 2021 the Prochem S.A. Capital Group achieved revenues from basic activity in the amount of PLN 106 million. They are almost PLN 60 million lower than those achieved in the first half of 2020. The portfolio of orders we have allows to forecast that this level of sales will be maintained in the following periods. It seems that a similar tendency should have been 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 the threat occurrence at execution 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, USD). In case of a significant strengthening of the domestic currency, it may have an unfavourable 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, indicating the entities subject to consolidation**

In the Capital Group of Prochem S.A. (referred to as the "Capital Group", "Group"), in addition to the data of the Parent Entity, there are the following direct and indirect subsidiaries:

### 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%);
- PREDOM Sp. z o.o. seated in Wrocław – subsidiary indirectly (81.7% share in capital and profit, 72.3% share in votes);
- Prochem Zachód Sp. z o.o. seated in Warsaw – subsidiary directly (80.0%);
- Elektromontaż Kraków S.A. seated in Krakow – subsidiary indirectly (91.07%), including 56.59% share in capital and votes belongs to company Prochem Inwestycje subsidiary in 100%. Company Elektromontaż Kraków S.A. prepares consolidated financial statements, which contain data of the subsidiary in 100%: ELMONT-POMIARY Sp. z o.o. seated in Krakow.;
- ATUTOR Integracja Cyfrowa Sp. z o.o. seated in Warsaw – subsidiary indirectly (50.14% share belongs to 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% share in capital and voting right belongs to Prochem Inwestycje).

### Jointly-controlled entities and associated entities valued with the equity method:

- Irydion Sp. z o.o. seated in Warsaw – 50% share jointly-controlled company

Subsidiaries included in the consolidation were included in the consolidated financial statements from the date of taking control until the date of loss of control by the Parent Entity, and jointly controlled and associated entities from the date of commencement of joint control and exertion of significant influence.

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

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

Company Pro-Inhut Sp. z o.o. seated in Dąbrowa Górnicza is subject to arrangement proceedings

ITEL Sp. z o.o. seated in Gdynia – 42.0% of share (18.7% of share in voting rights and capital belongs directly to Prochem S.A., and 23.3% holds Prochem RPI Sp. z o.o. subsidiary in 100%) covered by a write-down - the company does not operate.

On February 4, 2021, on the basis of a share sale agreement, the company Prochem S.A. purchased 20,234 series A registered shares of Elektromontaż Kraków S.A. based in Kraków, with a nominal value of PLN 5 each. The parties agreed purchase price of shares at PLN 50 per share, the total purchase price was PLN 1,021,939. Before the transaction, the company Prochem S.A. had a direct and indirect share in the voting right in the amount of 85.4%, and after the transaction, the share in the voting right is 93.8%.

AGM of Elektromontaż Kraków S.A. on June 15, 2021 agreed to buy back its own shares for redemption. The maximum number of shares purchased for this purpose by the company is 96,000 at the price of PLN 105 per share. The total nominal value of the purchased shares is PLN 480,000. Before the transaction of purchase of shares for their redemption, the Capital Group had a direct and indirect share in the voting right in the amount of 91.07%.

On June 16, 2021, on the basis of the agreement of sale of shares for redemption, Prochem Inwestycje Sp. z o.o. sold 94,000 of registered shares series A, with a nominal value of PLN 5 each of Elektromontaż Krakow S.A. based in Krakow. The share purchase price was set at PLN 105 per share, the total sale price was PLN 9,870,000.

On April 8, 2021, by the decision of the District Court for Kraków-Śródmieście in Kraków, IX Commercial Division of the National Court Register was liquidated and removed from the National Court Register, indirect subsidiary Elmont Inwestycje sp.z o.o..

On June 28, 2021, by the decision of the District Court for Kraków-Śródmieście in Kraków, XI Commercial Division of the National Court Register was liquidated and removed from the National Court Register, indirect subsidiary Elpro sp.z o.o .

**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 2021.

**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 date of submitting 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:

<b>Name of the shareholder</b>	<b>Number of shares hold (in pcs.)</b>	<b>Number of votes hold</b>	<b>% of votes in the total number of votes</b>	<b>% share in share capital</b>
1. Steven Tappan	975 250	975 250	33.21	33.22
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”.	284 900	284 900	9.70	9.71

On August 27, 2021, the Management Board of PROCHEM S.A. with its seat in Warsaw (hereinafter referred to as the "Issuer", "Company") received information from Mr. Andrzej Karczykowski about the reduction of his share in the share capital of Prochem and in the total number of votes in Prochem, respectively to the level of approx. 3.81% and approx. 3, 80% as a result of a share sale transaction for the redemption of 171,699 shares. As a result, Mr. Andrzej Karczykowski decreased his share in the capital by 5.85% and by 5.85% in the total number of votes. Before the transaction, the share in the capital and voting rights amounted to 9.66%

On August 31, 2021, the Management Board of PROCHEM S.A. with its seat in Warsaw (hereinafter referred to as the "Issuer", "Company") received information from APUS S.A. based in Warsaw and a related entity - Jean-Jacques Alphandery based in Switzerland - about the reduction of his share in the share capital of Prochem and in the total number of votes in Prochem, respectively to the level of approx. 4.97% and approx. 4.97% as a result of sale of shares for redemption in the amount of 224,381 shares. As a result, APUS S.A. decreased its share in the capital by 7.65% and by 7.65% in the total number of votes. Before the transaction, the share in the capital and voting rights amounted to 10.62%

**9. List of changes in the ownership of the issuer's shares or rights to them (options) by persons managing and supervising the issuer, in accordance with the issuer's information, in the period from the submission of the previous report**

As at the date of publication of this report, the following members of the Management Board and Supervisory Board of the company held PROCHEM SA shares:

- Marek Kiersznicki – 44,327 pcs.;
- Krzysztof Marczak – 30,268 pcs.;

- Marek Garliński – 49,929 pcs.;
- Andrzej Karczykowski – 111,692 pcs.;
- Jarosław Stępniewski – 50,206 pcs.;

The nominal value of 1 share is PLN 1.

The change in the number of shares held by managing and supervising persons results from the sale of shares for redemption.

- Marek Kiersznicki - decrease in the number of shares held by 15 147 pcs.;
- Krzysztof Marczak – decrease in the number of shares held by 12 118 pcs.;
- Marek Garliński – decrease in the number of shares held by 34 067 pcs.;
- Andrzej Karczykowski – decrease in the number of shares held by 171 699 pcs.;
- Jarosław Stępniewski – decrease in the number of shares held by 18 177 pcs.;

**10. Indication of proceedings pending before a court, an authority competent for arbitration proceedings or a public administration body. taking into account the information in the scope:**

- 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, specifying: the subject of the proceedings, the value of the subject of dispute, the date of initiation of the proceedings, the 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, 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, the value of the subject of the dispute, the date of initiation of the proceedings and the parties to the proceedings initiated

Companies from the PROCHEM S.A. Capital Group are not a party to 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) relations between the issuer or its subsidiary and the entity that is a party to the transaction,
- c) significant terms of the transaction, with particular emphasis on the financial terms and an indication of specific terms and conditions specified by the parties, specific to this contract, in particular different from the terms commonly used for a given type of contract.

In the first half of 2021, 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 its subsidiary, if the total value of the existing sureties or guarantees is equivalent at least to 10% of the issuer's equity**

In the first half of 2021, 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 personnel, property, financial standing, financial result and their changes, and information that is significant for the assessment of the ability of companies from the issuer's group to meet their obligations.**

The level of debt and the financial liquidity ratio of the 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 transactions.

**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 next quarter.**

For the operations of the Capital Group of Prochem S.A. in 2021, the macroeconomic environment will have a significant impact, in particular the condition of the Polish economy, which has a significant impact on decisions taken by potential clients of the companies from the Prochem S.A. Capital Group (industrial companies in particular) decisions to start new investment plans. The issuer participates in tender procedures, which, if successful, may lead to the signing of several significant orders, and as a result, in the following quarters, may cause improvement both in the revenue from the sale of services and the results on the business. Completion of the commercialization of the Astrum Business Park project in Warsaw will also have a significant impact on the financial situation of the Issuer and the Capital Group.

At the end of 2019, news from China regarding the coronavirus appeared for the first time. In 2020, the virus spread worldwide and its negative impact gained momentum. It was expressed in an increase in the sense of uncertainty and an upset of the market situation in the macroeconomic environment in which the Capital Group operates. This was related to, among others, postponing investment decisions by clients, a decrease in the number of inquiries and tougher competition.

Companies belonging to the Prochem S.A. Group have taken a number of steps in connection with the COVID-19 pandemic. When the first cases of COVID-19 appeared in the country, Prochem S.A. has developed action plans to ensure business continuity and the provision of key services provided by the company. Similar procedures were also implemented in the remaining companies of the Group. They are constantly adapted to the changing environmental conditions.

With reference to the contracts in progress, the Group has implemented additional measures to mitigate the risk of potential breaches of the terms of the contracts signed by contractors as a result of changes in the economic situation. In particular, in the area of construction and assembly contracts and deliveries, additional procedures were implemented in the field of ongoing monitoring of compliance with the terms and deadlines of contracts and the contractor's financial situation. The risk of losing financial liquidity by key suppliers is analysed on an ongoing basis and, if necessary, appropriate actions are taken, including shortening payment terms in individual cases.

In the first half of 2021, the impact of the COVID-19 epidemic on the increase in the prices of building materials services and their lack on the market was noticeable, which in turn led to a decrease in the profitability of operations. This situation is monitored on an ongoing basis so that, if necessary, appropriate steps are taken regarding the organization of work in order to fulfil the accepted obligations on time. The execution of orders continued without downtime, in a manner that did not deviate from the norm.

Actions were also taken to stabilize the financial and operational stability of the Group's companies by accumulating the necessary financial reserves and using appropriate tools and IT solutions, which enable to maintain the project potential (e.g. creating remote work opportunities).

In addition, the Group has taken a number of preventive measures to limit the possibility of spreading the virus and protect employees by introducing procedures to limit direct contact and equipping employees with protective measures (protective masks, gloves), disinfection.

As at the date of these interim condensed consolidated financial statements, the Group's financial position is stable. As a result of the analysis, the Management Board of the Parent Entity of the Capital Group Prochem S.A. sees no need for any changes or adjustments in the financial statements resulting from the negative effects of COVID-19.

Michał Dąbrowski

Member of the Management  
Board

Krzysztof Marczak

Vice President of the  
Management Board

Marek Kiersznicki

President of the  
Management Board