

**MANAGEMENT BOARD REPORT**  
**ON THE ACTIVITIES OF THE PROCHEM S.A.**  
**CAPITAL GROUP IN THE FIRST HALF OF 2022**

Warsaw, September 27, 2022

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

Principles of preparation of consolidated financial statements of the Prochem S.A. Capital Group for the first half of 2022 have been included in Explanatory Notes to hereby 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 2022 the Prochem S.A. Capital Group achieved revenues from basic activity in the amount of PLN 103 million. They are PLN 3 million lower than those achieved in the first half of 2021. The portfolio of orders we have allows to forecast that this level of sales will be maintained in the following periods. 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 2022, the associated company Irydion Sp. z o. o. sold an office and service building in Warsaw under the name of Astrum Business Park. The obtained funds were used to repay bank loans and borrowings from shareholders incurred for the implementation of this project, as well as a dividend of PLN 29 million was paid to the parent company.

### **4. Description of significant risk factors and threats to the activity 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 unfavorable 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% of share in capital and profit, 7.3% of votes);
- Prochem Zachód Sp. z o.o. seated in Warsaw – subsidiary directly (80.0%);
- Elektromontaż Kraków S.A. seated in Krakow – subsidiary indirectly (91.97%), including 5.49% share in capita and voting rights hold Prochem Inwestycje subsidiary in 100%. Spółka Elektromontaż Kraków S.A. prepares consolidated financial statements, which contain data of subsidiary in 100%: ELMONT-POMIARY Sp. z o.o. seated in Krakow;

- Prochem RPI Sp. z o.o. seated in Warsaw – subsidiary in 100% (including 3.3% share in capital and voting rights hold Prochem Inwestycje).

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

- Irydion Sp. z o. o. seated in Warsaw – 50% of 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 Prodom 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% share in voting rights and capitals hold directly 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 June 23, 2022, on the basis of an agreement of sale of shares, Prochem Inwestycje Sp. z o. o. purchased 1,300 shares of Elektromontaż Kraków S.A. at PLN 5 each. The parties set the purchase price of the shares at PLN 105 per share, the total purchase price was PLN 136,500.

As a result of the acquisition of shares in Elektromontaż Kraków S.A. and a decrease in the share capital on February 2, 2022 in the National Court Register, Prochem S.A. holds direct and indirect shares in the share capital of the company in the amount of 91.97%, and in voting rights in the amount of 91.97%.

On June 29, 2022, Prochem Inwestycje Sp. z o. o. sold 178 shares it held in Atutor Integracja Cyfrowa Sp. z o.o. with its registered office in Warsaw, with a nominal value of PLN 1,000 for the total price of PLN 210,000.

**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 2022.

**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 held (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	1 000 000	1 000 000	42.44	42.46
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”	284 916	284 916	12.09	12.10
3. APUS S.A.	145 965	145 965	6.20	6.20

Change of rights from shares of Prochem S.A. in the first half of 2022:

1. On August 16, 2022, the Management Board of Prochem S.A. (hereinafter referred to as the Company) obtained information about from Powszechne Towarzystwo Emerytalne PZU S.A. acting on behalf of the Otwarty Fundusz Emerytalny PZU "Złota Jesień" ("OFE PZU") on the change of the share held so far in the total number of votes at the general meeting of the Company. The change is a consequence of reducing the share capital from PLN 2,935,000 to PLN 2,355,000 by redeeming 580,000 shares of the Company with a nominal value of PLN 1 each.

Before the change, OFE PZU owned 284,916 shares of the Company, which constituted 9.708% of the share capital and had 284,916 votes from these shares, which constituted 9.704% of the total number of votes at the General Meeting .

After the change, OFE PZU holds 284,916 shares of the Company, which constitutes 12.10% of the share capital and has 284,916 votes from these shares, which constitutes 12.09% of the total number of votes at the General Meeting.

2. On August 19, 2022, the Management Board of Prochem S.A. (hereinafter referred to as the Company) received information from the Company's shareholder, Mr. Steven Tappan, about a change in the share held so far in the total number of votes at General Meeting of the Company. The change is a consequence of reducing the share capital from PLN 2,935,000 to PLN 2,355,000 by redeeming 580,000 shares of the Company with a nominal value of PLN 1 each. Before the change, Mr. Steven Tappan owned 1,000,000 shares of the Company, which constituted 34.07% of the share capital and held 1,000,000 votes from these shares, which constituted 33.1% of the total number of votes at the General Meeting.

After the change, Mr. Steven Tappan holds 1,000,000 shares of the Company, which constitutes 42.46% of the share capital and has 1,000,000 votes from these shares, which constitutes 42.4% of the total number of votes at the General Meeting.

3. On August 19, 2022, the Management Board of Prochem S.A. (hereinafter referred to as the Company) received information from the shareholder of the Company, Mr. Jean Jaques Alphandera and APUS S.A. on the change of the share held so far in the total number of votes at the general meeting of the Company. The change is a consequence of reducing the share capital from PLN 2,935,000 to PLN 2,355,000 by redeeming 580,000 shares of the Company with a nominal value of PLN 1 each.

Before the change, Mr. Jean Jaques Alphandery and APUS S.A. owned 145 965 shares of the Company, which constituted 4.97% of the share capital and held 145 965 votes from these shares, which constitutes 4.97% of the total number of votes at the General Meeting .

After the change, Mr. Jean Jaques Alphandery and APUS S.A. hold 145 965 shares of the Company, which constitutes 6.20% of the share capital and have 145 965 votes from these shares, which constitutes 6.20% of the total number of votes at the General Meeting.

#### **9. List of changes in the ownership of the issuer's shares or rights to them (options) by the issuer's managing and supervising persons, according to the information available to the issuer, 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.

In the first half of 2022, there were no changes in the number of shares held by managing and supervising persons.

#### **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 2022, 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 2022, 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**

Based on the portfolio of orders currently held by the Group companies, a significant increase in revenues in the engineering and design services segment is expected in 2022. On the other hand, a possible decrease in new inquiries resulting from the coronavirus pandemic and the ongoing war in Ukraine may pose a threat to the development of the Capital Group

companies. These events led to a serious increase in inflation, in particular an increase in the prices of energy raw materials and construction materials, which may significantly affect the decisions taken by potential customers of companies from the Prochem S.A. Capital Group. (in particular industrial companies) decisions to start new investment projects.

Michał Dąbrowski

Member

of the Management Board

Krzysztof Marczak

Vice President

of the Management Board

Marek Kiersznicki

President

of the Management Board