

**MANAGEMENT BOARD REPORT**  
**ON THE ACTIVITIES OF THE PROCHEM S.A.**  
**CAPITAL GROUP IN THE FIRST HALF OF 2019**

Warsaw, 19 September 2019

## **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 2019 have been included in Explanatory notes to the financial statements.

## **2. Brief description of the Issuer's significant achievements or failures in the period covered by the report together with the list of the most important events concerning the Issuer**

In the first half of 2019 the Prochem S.A. Capital Group Prochem S.A. achieved revenues from basic activity in the amount of PLN 98 million. They are almost twice higher than those achieved in the first half of 2018. Thanks to new contracts recently signed, this trend will also be maintained in the following periods. A similar increase should also occur in the profitability of the basic activity of both the Issuer and companies from the Capital Group.

## **3. Indication of factors and events, including those of unusual nature, having significant influence on the condensed financial statements**

In the first half of the year, there were no factors or events of an unusual nature having a significant impact on the condensed financial statements.

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

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

### **Economic fluctuations in the investment markets**

Part of the companies included in the Capital Group provide services in the investment market, characterized by a large scale of fluctuations in demand strongly associated with the overall macroeconomic situation of the country. Methods used by the Group to limit the negative impact of this factor on financial results (accumulation of financial reserves, diversification of services provided) may not fully neutralize this risk.

### **Possibility of threats 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 strong price competition, cause that there is a constant risk of an occurrence of the technical problems and financial problems.

### **Dependence on the staff**

The risk of dependence on staff in particular occurs in the Parent Company. Raising the quality of services provided, undertaking the implementation of complicated technological projects, the use of modern information systems, and the work for the renowned clients require from workers the highest professional qualifications. Acquiring of such persons, especially in the situation of the liberalization of the European labour market can be difficult. The company is trying to minimize this threat by raising qualifications of the employed staff and using incentive programs associating employees with the company.

### **Exchange rate risk**

Part of contracts (mainly of the Parent Entity) for the sale of services is concluded with foreign companies in foreign currencies (EUR, USD). In the event of a significant strengthening of the exchange rate of the domestic currency, it 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 purchasers of services**

Execution by the companies from the Group of contracts for the implementation with a significant value requires significant expenditure to be incurred on the purchase of services and equipment, which subsequently, in the form of a finished object are sold to the customer. Lack of proper correlation between the expenditure are being borne and proceeds from the implementation of a contract with a customer may involve necessity of the use by the companies of external financing, and in special circumstances, may cause even a temporary loss of financial liquidity. Such risk is largely hedged through appropriate provisions of the agreement with the customer in pursuance of which the client

is obliged to the successive reimbursement of the outlays being borne during execution of order.

## **5. Description of the organization of the Capital Group, indicating the entities subject to consolidation**

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

### Subsidiaries covered by the full method 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%);
- Przedsiębiorstwo Konsultingowo-Inżynieryjne PREDOM Sp. z o. o. seated in Wrocław – subsidiary indirectly (80.7% share in capital and profit, 71.1% share in votes);
- Prochem Zachód Sp. z o. o. seated in Słubice – subsidiary directly (80.0%);
- ELPRO Sp. z o. o. seated in Krakow – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o. o. seated in Krakow – subsidiary indirectly (92.7%, including 85.4% share in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. seated in Krakow – subsidiary indirectly (85.4%), including 73.0% share in capital and voting rights belongs to company Prochem Inwestycje subsidiary in 100%. Company Elektromontaż Kraków S.A. prepares consolidated financial statements, which contain data of a subsidiary in 100%: ELMONT-POMIARY Sp. z o. o. seated in Krakow and two associated companies ELPRO Sp. z o. o. and Elmont-Inwestycje Sp. z o. o.;
- IRYD Sp. z o. o. seated in Warsaw – subsidiary indirectly 100%;
- ATUTOR Integracja Cyfrowa Sp. z o. o. seated in Warsaw – subsidiary indirectly (87.3% share holds company Prochem Inwestycje Sp. z o. o. subsidiary in 100%);
- Prochem RPI Sp. z o. o. seated in Warsaw – subsidiary directly and indirectly in 100%;

### Associated entities and jointly-controlled entities covered by consolidation with the equity method :

- IRYDION Sp. z o. o. seated in Warsaw – 50.0% share in voting rights and share capital,

- ITEL Sp. z o. o. seated in Gdynia – 42.0% of share (18.7% of voting rights and capitals belong directly to Prochem S.A. and 23.3% holds Prochem RPI Sp. z o. o. subsidiary (in 100%).

The principle adopted at consolidation is that entities not conducting activity are not included into consolidation - the financial data of these companies do not distort information about the financial results of the Group of Prochem S.A.

Subsidiaries, associates and jointly-controlled companies covered by consolidation were included in the consolidated financial statements from the date of including of control by the parent company.

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

In the first half of 2019, there were no changes in the structure of the Capital Group.

**7. Position of the Management Board regarding the possibility of meeting previously published forecasts of results for a given year in the light of the results presented in the interim report in relations to the forecasted results**

Company Prochem S.A. did not publish any forecasts of financial results neither for the company nor for the Capital Group of Prochem S.A. for 2019.

**8. Indication of shareholders having directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Issuer at the date of the quarterly report, including the number of shares owned by those entities, their percentage of the share capital, the number of votes resulted from them and their percentage share in the total number of votes at the general meeting, and changes in the ownership of large blocks of shares of the Issuer since the publication of previous report.**

According to the information held by the Company as at the date of submitting 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 IN SHARE CAPITAL
1	Steven Tappan	965,000	965,000	32.87	32.88
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	201,882	201,882	6.88	6.88

On May 9, 2019 the Management Board of PROCHEM S.A. received information from APUS S.A. on purchase of 168 646 pcs of the Issuer's shares. As a result of the transaction, the threshold of the holding of shares in PROCHEM S.A. was exceeded over 10% of the total number of votes.

Prior to the change APUS S.A., held 143,123 of Company's shares, representing 4.88 % of share capital and held 143,123 votes from these shares, which constitutes 4.87 % of the total number of votes at the General Meeting. After the transaction of purchase APUS S.A. holds 311,769 of Company's shares, which represents 10.62 % of Company's share capital. These shares give 311,769 votes at the Company's General Meeting, which constitutes 10.62 % of the total number of votes at the General Meeting.

On May 9, 2019 the Management Board of PROCHEM S.A. received information from ESALIENS Parasol Fundusz Inwestycyjny Otwarty, ESALIENS Senior Fundusz Inwestycyjny Otwarty (hereinafter as „Funds”) on sale of 168 646 pcs of Issuer's shares.

Prior to the day of transaction on the accounts of ESALIENS Parasol Fundusz Inwestycyjny Otwarty, ESALIENS Senior Fundusz Inwestycyjny Otwarty (hereinafter as „Funds”) were 168,646 of Company's shares, which represented 5.75 % of Company's share capital, entitling to 168,646 votes from these shares, which constituted 5.74% of total number of votes at the Company's General Meeting. Currently, the Funds do not hold any shares of the Company.

**9. Statement of changes in the shareholding of the issuer's shares or rights to them (options) by the managing and supervising persons of the issuer, in accordance with information held by 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 of the Supervisory Board held shares of PROCHEM SA:

- Jarosław Stępniewski – 68,383 pcs;
- Marek Kiersznicki – 59,474 pcs.;
- Krzysztof Marczak – 36,908 pcs;
- Marek Garliński – 83,996 pcs;
- Andrzej Karczykowski – 201,882 pcs;

On June 4, 2019, a member of the Supervisory Board Mr. Marek Garliński purchased 10,000 shares of Prochem S.A. before the transaction, Mr. Garliński owned 73,966 shares.

**10. Information on proceedings pending before the court, competent authority for arbitration proceedings or for public administration body, including information on:**

- a) proceedings relating to liabilities or receivables of the issuer or of its subsidiary, which value is at least 10% of the equity of the issuer, with the specification of: the subject of the case, the amount in dispute, date of initiation of proceedings, the parties to the proceedings and the position of the issuer,
- b) of two or more proceedings relating to liabilities and receivables with a total value, respectively of at least 10% of the equity of the Issuer, with determining total value of proceedings separately in the group of liabilities and in the group of receivables, with the position of the issuer in this case, and in relation to the most significant proceedings in the group of liabilities and in the group of receivables – with an indication of their subject, the amount in dispute, date of initiation of proceedings, as well as parties participating in the such proceeding.

Companies from the PROCHEM S.A. Capital Group are not a party to the proceedings or two or more proceedings regarding the obligations or claims of the issuer or its subsidiary, the total value of which constitutes at least 10% of the issuer's equity.

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

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

In the first half of 2019 there were no material transactions with related entities in the Prochem SA Capital Group concluded on other terms than market terms.

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

In the first half of 2019 the companies of the Capital Group did not grant sureties or guarantees.

**13. Other information that in the issuer's opinion is material to the assessment of the human resources, financial position, financial results and changes in them, and information that is essential to assess the possibility of fulfilment the obligations by the companies from the issuer's capital group.**

The level of debt and the financial liquidity ratio of the companies from the Issuer's capital group do not indicate the risk of being unable to meet their obligations, which means that they are reliable partners in the economic trade.



**14. Factors which in the opinion of the issuer will have an impact on the financial performance achieved by the capital group in the prospect of at least the subsequent quarter.**

On the activities of the Prochem S.A. Capital Group in 2019, the implementation of the recently concluded and continuation of existing contracts for the sale of services of companies from the Capital Group of Prochem S.A. will have a significant impact. Their size and scope require undertaking by the Management Boards of companies from the Capital Group of Prochem S.A. appropriate actions to increase its potential to new opportunities.

Krzysztof Marczak  
Vice President  
of the Management Board

Marek Kiersznicki  
Vice President  
of the Management Board

Jarosław Stępniewski  
President  
of the Management Board