

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

Warsaw, 24 April 2020

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

Principles of preparation of the consolidated financial statements of the Prochem S.A. Capital Group for 2019 have been included in Explanatory notes to the financial statements.

## **2. Overview of basic economic and financial data disclosed in the annual financial statements and presentation of development prospects of the Prochem S.A. Capital Group in 2020**

In 2019 the Prochem S.A. Capital Group achieved revenues from basic activity in the amount of PLN 323 million. They are PLN 170 million higher than those achieved in 2018. The largest increase took place in the segment of implementation services, where sales revenue were two times higher than in the previous year. It also had a significant impact on the effects of basic activity in 2019, which closed with profit from operating activity in the amount of PLN 6.5 million.

The Group companies are implementing several large, long-term contracts, from which significant revenues are expected in 2020. On the other hand, a possibly decline in new inquiries resulting from a potential crisis caused by the coronavirus pandemic may pose a threat to the development of their business.

### **2.1 Characteristics of the assets and liabilities structure of the consolidated balance sheet, including from the point of view of the liquidity of the Issuer's capital group**

As at 31 December 2019 non-current assets constituted 43.8% of the balance sheet total, i.e. an amount of PLN 113,488 thousand, and current assets 56.2%, i.e. PLN 145,887 thousand. Compared to the previous year, there was an increase in the value of non-current assets by 30.8% and current assets by 131.6%. The increase in the value of non-current assets consists of an increase in the value of shares in the jointly controlled entity Irydion Sp. z o. o. and establishing a security deposit for bank guarantee lines. The change in the value of current assets is the result of an increase in the turnover of the Capital Group, and thus an increase in the balance of receivables from customers, and the receipt of high advances from customers for the implementation of contracts. The events described above also caused changes in the liabilities of the consolidated balance sheet. Equity increased in 2019 by 9.1% and represented 38.0% of the balance sheet total, and total liabilities increased by 170.8% and constituted 62.0% of the balance sheet total. The current liquidity ratio at the end of 2019 was 1.23.

## **3. Significant risk factors and threats to the Prochem S.A. Capital Group**

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

### **3.1 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.

### **3.2 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.

### **3.3 Dependence on the staff**

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 labour 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.

### **3.4 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 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, as well as acquisition of appropriate financial instruments.

### **3.5 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.

#### **4. Statement of application of principles of corporate governance in the Company Prochem S.A. in 2019**

In connection with the entry into force on 1 January 2016 of "Good practices of companies listed on the WSE 2016" introduced by the resolution of the Warsaw Stock Exchange Council of October 13, 2015 (hereinafter referred to as DPS 2016), the Management Board of Prochem S.A. informs that has introduced for application DPS 2016 from January 1, 2016, except for the principle

**I.Z.1.20. Record of the proceedings of the general assembly, in form of audio or video,** Principle is not applied.

**Issuer's commentary:** the structure of the Company's shareholding does not justify the generally available broadcast from the proceedings of General Meeting. The Company also does not record the proceedings of the General Assembly in the form of audio or video. As a result, the Company does not have at its disposal the recordings that could be made available.

In connection with the principle I.Z.1.15 Good Practices for WSE Listed Companies GPW 2016, the Company declares that does not apply diversity policy. The basic criterion for making decisions about the selection of persons for the Company's managing bodies and when appointing key managers are the competencies of the candidates.

The full text of the corporate governance principles to which the Company is subject, together with a list of principles which the Company does not apply and a commentary in this regard is available on the website of Prochem S.A. – [www.prochem.com.pl](http://www.prochem.com.pl).

#### **5. Description of the internal control system in the Capital Group**

Internal control is one of the functions of the ongoing management of the Group. Such control is being exercised directly by the Management Boards of the companies, directors, proxies and other employees and other employees employed in managerial positions or entrusted with such a function.

The Companies from the Capital Group have a comprehensive system of internal control, with the aim of to ensure timely and accurate disclosure of facts concerning all material elements of the company's operations. That contributes to obtain a complete knowledge of the financial position, results of operations, the Group's property and management efficiency. The scope of control includes above all:

- business activities of the company, basic and auxiliary,
- financial reporting and accounting settlements,
- compliance with the company activity with the applicable laws, and with internal regulations,
- employment and wages.

Institutional internal control analyses the accomplished undertakings and documentation related to it. The main task of it is to carry out comprehensive checks in respect of the most important issues for the Group and collecting and elaboration of the information on the activities of the organizational units of the Group, selected economic problems and other issues that in the given period were regarded as the most relevant by the Management Board of the Parent Entity. Apart from the institutional internal control, there is also the so-called functional control in the Group which is exercised by managers of various ranks. Managers perform the supervision over the employees subject to them, consisting in the checking of the state of accomplishment of tasks set.

Institutional internal control is exercised in the PROCHEM S.A. Capital Group mainly by services from financial and accounting departments, and also by the employees of the legal and organizational department. Part of the tasks of the internal control is carried out by teams and commissions appointed for this purpose.

Control activities are carried out in all phases of activity in the form of the preliminary control, current and next. Financial and accounting documents are subject to substantive, formal and accounting control. Information on formal and substantive correctness and calculation correctness bears signature in an identifiable manner (full name and surname), or bears the personal stamp of the authorized person and the date of approval of the document.

The internal control system which is functioning in the PROCHEM S.A. Capital Group ensures completeness of the recognizing of the economic operations, and the proper qualification of source documents as well the correct valuation of the resources had at disposal at particular stages of the registration, and thus ensures the correctness of preparation of the financial statements and enables the Management Board of the Parent Entity to carry out the Group's activities based on a verified and complete information.

## **6. Description of the risk management system in the Capital Group**

In the activity the following risks exist:

- risk of economic fluctuations in the investment market,
- risk of losing key employees,
- risk of threats occurrence during execution of the contracts,
- currency risk,
- risk of dependence on significant buyers of services,
- risk of payment unreliability,

**Risk management in particular areas consists in:**

- monitoring of the phenomena generating the risk,

- undertaking the activities aiming at the reducing the level of a risk.

In the scope of individual risks the situation is as follows:

- The risk of economic fluctuations in the investment market:

- monitoring of the macroeconomic situation and in the selected industries
- scope diversification (development of the activities being alike to engineering services such as maintenance, developer's activity)
- field diversification (development of exports)
- accumulation of the financial reserves

- The risk of loss of key employees

- monitoring of the level of employment, remuneration and staff fluctuation
- monitoring of the labor market and of the level of the remuneration in the market
- maintaining the training system and raising qualifications
- incentive programs for key employees
- active recruitment system – cooperation within the environment and maintaining of relations with Universities

- The risk of threats occurrence at execution of the contracts

- realistic price calculation when concluding contracts,
- monitoring the progress in execution of contracts, and disclosure of threats on the basis of the “Control of Service Costs” procedure introduced by Cost Control Team,
  - selection of reliable subcontractors,
  - contract clauses restricting the maximum amount of contractual penalties

- The foreign currency risk:

- monitoring and forecasting of currency exchange rates
- forward type currency transactions
- purchase of equipment and services in the currency of the contract
- maintaining a high level of domestic sales

- The risk of dependence on significant buyers of services

- monitoring the execution of contracts for the significant buyers of services
- contractual provisions containing the cushioning elements
- maintaining of the partner relations with recurring customers

- The risk of payment unreliability

- monitoring the financial standing of key clients before and during the execution of contracts
- the use of specialized recovery procedures

Identification of risk factors, their monitoring as well as the system of risk mitigation measures used are in the PROCHEM S.A.Capital Group. at a good level, and the implemented strategy of development and diversification is conducive to reducing some of the risks and leads to professionalization in the field of applied instruments.

Note No. 38 of the Consolidated Financial Statements for 2019 contains a description of significant off-balance sheet items in terms of subject, object and value as well as a description of financial instruments in the scope:

- risks: changes in prices, credit risk, significant disruption in cash flows and loss of financial liquidity to which the Capital Group is exposed;
- financial risk management objectives and methods adopted by the Capital Group, including methods of securing significant types of planned transactions for which hedge accounting is applied.

## 7. Information on shareholders holding large blocks of shares of the Issuer

According to the knowledge of the Company as at the date of hereby report, the following shareholders hold at least 5% of votes at the general meeting of shareholders:

Item No.	DESCRIPTION	NUMBER OF SHARES HELD (PCS)	NUMBER OF VOTES HELD	% OF VOTES IN TOTAL NUMBER OF VOTES	% OF 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 „Złota Jesień”.	284 900	284 900	9.70	9.71
4	Andrzej Karczykowski	283 391	283 391	9.66	9.66

Company's share capital amounts to PLN 2,935,000 and is divided into 2,935,000 shares with a nominal value of PLN 1.

There are no securities that would give special control rights in relation to the Issuer.

There are no restrictions on the transfer of ownership of the Issuer's securities.

**8. Principles governing the appointment and dismissal of the Management Board members and their powers**

Persons serving in the Issuer's Management Board are appointed by its Supervisory Board. The term of office of the Issuer's Management Board lasts three years. Powers of the managing persons are defined by the Statute of Prochem S.A. and they do not go beyond the framework set by the Commercial Companies Code. In particular, the right to decide on the issue or redemption of shares has only a General Meeting of Shareholders.

**9. Description of the rules for amending the statute or articles of association of the Issuer**

The rules of amendment the statute or the articles of association of the Issuer are determined in accordance with the provisions of the Code of Commercial Companies.

**10. Procedure of the General Meeting of Shareholders of Prochem S.A.**

Procedure of the General Meeting of Shareholders of Prochem S.A. and its basic powers, and descriptions of the rights of shareholders and the way of their exercising are contained in the Statutes of Prochem S.A. and in the Bylaw of the General Meeting of Prochem S.A. Above mentioned documents are available on the website of Prochem S.A. [www.prochem.com.pl](http://www.prochem.com.pl).

**11. The composition and the changes that occurred during the last fiscal year, and a description of the activities of the Management Board, Supervisory Board or administrative authorities of the Issuer and of their committees**

On June 12, 2018 the Supervisory Board of Prochem S.A. appointed the Management Board of Prochem S.A. for the next term of office in unchanged composition.

The composition of the Management Board of Prochem S.A. as at the date of hereby financial statements includes the following persons:

- Jarosław Stępniewski - President of the Management Board
- Marek Kiersznicki - Vice President of the Management Board
- Krzysztof Marczak - Vice President of the Management Board

As at the date of preparation hereby financial statements the Supervisory Board comprises of:

- Marek Garliński
- Andrzej Karczykowski
- Krzysztof Oblój
- Marcin Pędziński
- Karol Żbikowski



The above mentioned members of the Supervisory Board were appointed for a new term of office by Resolutions of the General Meeting of June 10, 2017.

Description of the operation of the Management Board is contained in the Bylaw of the Management Board, and description of the operation of the Supervisory Board in the Bylaw of the Supervisory Board. These documents are available on the website of the Issuer [www.prochem.com.pl](http://www.prochem.com.pl).

On July 7, 2017 the Issuer's Supervisory Board appointed an audit committee composed of:

Karol Żbikowski – Chairman of the Audit Committee

Marek Garliński – Member of the Audit Committee

Marcin Pędziński – Member of the Audit Członek Komitetu Audytu

Mr. Karol Żbikowski and Mr. Marcin Pędziński meet the statutory independence criteria and, due to their education and professional experience, have the necessary knowledge and skills in accounting.

Mr. Marek Garliński due to his education and professional experience (Mr. Garliński performed the function of the President of the Management Board of Prochem S.A. for 11 years) has the necessary knowledge and skills in the industry in which the Issuer operates.

Misters Audytor Adviser sp.z o.o. did not provide to Prochem S.A. other services not being auditing financial statements.

**Main assumptions of the audit company's selection policy for the audit and audit policy of the audit company conducting the audit, by entities related to this audit company and by a member of the network of audit firms of permitted non-audit services:**

1. According to § 22 section 2 item 9 of the Statutes of the Company, the audit company is selected to audit financial statements by the Supervisory Board.
2. The Supervisory Board, when setting the policy of selecting an audit company, is primarily aimed at the high quality of financial information, which is addressed to the Company's stakeholders.

While accomplishing above objective, the Supervisory Board and the Audit Committee which was selected from its composition perform the tasks of supervising the accounting system, internal control and risk management as well as selecting an audit company and monitoring the financial audit process.

3. The audit company is selected for a period not shorter than 2 years and not longer than 5 years. The decision on such the period selected is taken by the Supervisory Board.

4. When submitting the offer, the auditing companies are bound to meet the following formal requirements:
  - a. Documentary evidence for an entry in the list of audit companies kept by the National Council of Statutory Auditors as well as in the list of audit companies carrying out statutory audits in the public interest entities in the previous year together with the information referred to in Art. 16 section 3 letter a) of Regulation No. 537/2014.
  - b. Documentary evidence of having a third party liability insurance.
  - c. Submission of a statement on having an internal quality control system with the commitment to develop and made available by the Offerer of a policy of quality control of the order execution in case of selecting a company to audit financial statements of Prochem S.A.
  - d. Submission of a statement of no obstacles in carrying out the audit of financial statements of Prochem S.A. which were marked in Art. 69 sections 7 and 9 of the Act of May 11, 2017 on statutory auditors, audit companies and public supervision (hereinafter: the Act), in the event when this company is selected.
  - e. Submission of the Offerer's independence statement, under pain of criminal responsibility for a false statement.
  - f. Submission of the statement whether the Offerer was punished for violation of the provisions of the Act or Regulation No. 537/2014
5. The evaluation of offers submitted by audit companies is based on the following criteria:
  - a. The amount of remuneration for auditing financial statements of the Company PRO-CHEM SA and its subsidiaries.
  - b. The number of statutory auditors employed by the audit company and their professional qualifications, and in particular, is the qualifications of statutory auditor who will perform the function of a key statutory auditor.
  - c. Experience in auditing financial statements of companies listed on the regulated market of the Warsaw Stock Exchange S.A.
  - d. Industry specialization.
  - e. The description of the audit methodology presented by the company,
  - f. The schedule of audits carried out by the auditing company.
6. The Audit Committee may set additional selection criteria.

The recommendation to select an audit company to conduct the audit has met the applicable conditions and was prepared following the selection procedure organized by the Issuer that met the applicable criteria.

In 2019 the Audit Committee held five meetings.

## 12. Proceedings pending before the court, competent authority for arbitration or public administration body

Companies from the PROCHEM S.A. Capital Group are not party to any proceedings before the court, competent authority for arbitration or public administration body, which value constitutes at least 10% of its equity.

Companies from the PROCHEM S.A. Capital Group are also not party to two or more any proceedings before the court, competent authority for arbitration or public administration body, which total value constitutes at least 10% of its equity.

## 13. Information on basic products and services of the Prochem S.A. Capital Group

The subject of activity of the companies belonging to the PROCHEM S.A. Capital Group is the provision of services and the sale of materials and goods related to:

- construction industry: design, general contracting, project management, technical consulting, general construction, installation and assembly services as well as rental of construction equipment;
- rental of office space;
- technical consulting, development and implementation of new technologies, integration of information systems.

Revenues from sale of these services in 2019 were 112.4% higher than those achieved in the previous year.

Breakdown of revenues by separate types of activity and their structure is shown below:

(Revenues in PLN thousands)

DESCRIPTION	IN 2019	IN 2018
TOTAL REVENUES FROM SALE OF SERVICES	319 203	150 287
of which:		
- sale of engineering services and construction services	309 350	140 801
- rental of space	4 711	4 899
- sale of other services	5 142	4 639

#### **14. Breakdown into Breakdown into sales markets for the sale of services in 2019**

The share of exports in sales of services in 2019 was 0.3%.

The only recipient of the Group's services whose share in sales revenue in 2019 exceeded 10% was:

- Bioagra S.A. – 68% share in sales revenue - there are no other formal connections with this entity other than trade agreements.

#### **15. Information on concluded contracts significant for the operations of the Prochem S.A. Capital Group**

Main revenues of the Prochem S.A. Capital Group anticipated in 2020 will be obtained as a result of the implementation of contracts for the provision of services for Bioagra S.A. and Anwil S.A.

The Issuer is not aware of any agreements concluded between the shareholders of Prochem S.A. that would be significant for the business activity of the Prochem S.A. Capital Group

#### **16. Information on organizational or capital connections of the Prochem S.A. Capital Group and major capital investments made within the Capital Group.**

The Issuer does not have branches and plants, but has the following subsidiaries, directly or indirectly, as well as associated and jointly- controlled entities:

Subsidiaries covered by full consolidation:

- Prochem Inwestycje Sp. z o. o. seated in Warsaw – subsidiary directly (100.0%);
- PRO-INHUT Sp. z 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 in Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o. o. seated in Krakowie – subsidiary indirectly (92.7%, including 85.4% share in the 50% share in Elektromontaż Kraków);
- Elektromontaż Kraków S.A. seated in Krakow – subsidiary indirectly (85.4%), including 73.0% share in capital and votes belongs to company Prochem Inwestycje subsidiary in 100%. Elektromontaż Kraków S.A. prepares consolidated financial statements, which contain data of 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 (50.1% of share holds Prochem Inwestycje Sp. z o. o. subsidiary in 100%);
- Prochem RPI Sp. z o. o. seated in Warsaw – subsidiary directly and subsidiary indirectly in 100%;

Associates and jointly-controlled entities covered by consolidation using 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% share (18.7% of voting rights and capitals holds directly Prochem S.A. and 23.3% holds Prochem RPI Sp. z o. o. subsidiary (in 100%).

The principle adopted in the consolidation consists in not including entities in the consolidation that are not operating - the financial data of these entities do not distort information on the financial results of the Prochem S.A. Group. Companies not included in consolidation:

- Predom Projektowanie Sp. z o. o. seated in Wrocław – subsidiary

Subsidiaries, associates and jointly controlled entities included in consolidation have been included in the consolidated financial statements from the date of including the control by the parent company.

## 17. Related party transactions

In 2019, no significant transactions were concluded between companies from the Issuer's Capital Group on terms other than market terms.

## 18. Information on loans and borrowings incurred

Name of the bank	Seat	Loan limit	Amount of engagement	Repayment date	Terms of interest	Security
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By Prochem S.A.

mBank SA	Warsaw	8.000 Credit in overdraft on current bank account	0	November 29, 2020	WIBOR for O/N deposits in PLN + margin	Promissory note in blank, court pledge on shares in Elektromontaż Kraków S.A.,
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By Elektromontaż Kraków S.A.

mBank SA	Warsaw	500	450	February 28, 2020	WIBOR ON + margin	Mortgage + promissory note
ING BANK Śląski	Kraków	2 500	774	November 19, 2020	WIBOR for 1-months deposits in PLN + margin	Mortgage + promissory note

By Atutor Integracja Cyfrowa sp. z o. o.

Bank Millennium S.A.	Warsaw	150	145	April 15, 2020	WIBOR 1 month plus margin	Authorizing the bank to collect and pay from the accounts and block funds if the loan is not repaid on time
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By Pro-Inhut sp. z o. o.

ING Bank Śląski S.A.	Dąbrowa Górnicza	734	734	May 17, 2020	WIBOR for 1-month deposits in PLN + margin	BGŻ Bank guarantee based on a portfolio agreement. Promissory note in blank.
ING Bank Śląski S.A.	Sosnowiec	400	400	July 30, 2020	WIBOR for 1-month deposits in PLN + margin	BGŻ Bank guarantee based on a portfolio agreement. Promissory note in blank.
ING Bank Śląski S.A.	Dąbrowa Górnicza	200	57	July 30, 2020	WIBOR for 1-month deposits in PLN + margin	lack

## 19. Information on loans granted

In 2019, the Issuer did not grant any loans.

## 20. Information on guarantees and sureties granted and received

The total value of sureties and guarantees related to operating activities granted by the companies of the Capital Group as at December 31, 2019 amounts to PLN 60,302,000 of which :

- Bank guarantees of the good performance of services – PLN 51,383,000;
- Guarantee of return of advance payment – PLN 7,869,000;
- Rent payment guarantee – PLN 1,050,000;

The total amount of contingent receivables under guarantees of the good performance and statutory warranty received as at December 31, 2019 is PLN 10,515,000.

In 2019 the Companies from the Group did not grant sureties and guarantees to related entities.

## 21. Description of the use of the proceeds from the issue

In 2019 the Companies from the Capital Group did not issue any securities.

## 22. Explanation of differences between the achieved financial results and forecast

In 2019 the Prochem S.A. Capital Group did not publish forecast of financial results.

## 23. Assessment of the management of financial resources

During 2019, in the Capital Group of Prochem S.A. did not occur any disruptions of financial liquidity. Both the state of the financial resources held by the Capital Group companies and available credit lines allow for timely fulfillment of incurred obligations.

#### **24. Assessment of the possibility of implementation of investment objectives**

Since 2013, the jointly-controlled company Irydion has been building and commercializing an office and service building in Warsaw under the name Astrum Business Park. The sale of the office building is expected to be completed in 2020.

#### **25. Assessment of factors and unusual events affecting the financial results achieved**

A significant impact on the financial results achieved in 2019 was the increase in the number of orders executed by the Capital Group in the second half of the year, in particular for the company Bioagra. This resulted in full use of the potential of the companies from the Capital Group, and thus maintaining the profitability of its basic activity.

#### **26. Characteristics of external and internal factors important for the development of the Prochem S.A. Capital Group in 2020**

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 to assume that the financial results in 2020 will continue to improve.

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. The Management Board of Prochem S.A. considers this situation to be an event that does not result in adjustments to the financial statements for 2019, but as an event after the balance sheet date. Although this situation is still changing at the time of publication of these financial statements, so far the companies from the Capital Group have not noticed a noticeable impact on the sales or supply chain, but no future effects can be predicted. In connection with this, the review was conducted of the contracts being executed by individual Group companies. 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 and, if necessary, are prepared to take appropriate actions to adapt its potential to new conditions in order to alleviate any negative effects.

**27. Characteristics of the policy regarding development directions of the Prochem S.A. Capital Group**

Prochem S.A. policy focuses on further consolidation of the Capital Group and adapting its activities to very rapidly changing market requirements.

**28. Changes in the basic principles of management of the Issuer and of its Capital Group**

In 2019, there were no significant changes affecting the principles of management of the Issuer and of its Capital Group.

**29. Description of the agreements concluded between the Issuer and managing persons providing for compensation**

Contracts of employment concluded by the Issuer with the managing persons provide for compensation in the amount of remuneration for six months in case of dismissing from office of a member of the Management Board, except when the dismissal resulted from reasons attributable to the managing person's obvious fault.

**30. Value of remuneration for the Issuer's managing persons and supervising persons**

The remuneration paid in 2019 in the Issuer's enterprise to the members of the Management Board and the Supervisory Board was presented in the explanatory notes to the separate financial statements for 2019.

**31. The total number of shares of the Issuer and related entities held by the persons managing and supervising the Issuer**

As at the date of the financial statements the following members of the Company's Management Board and the Supervisory Board held shares in Prochem S.A. ;

- Jarosław Stępniewski – 68,383 pcs.;
- Marek Kiersznicki – 59,474 pcs.;
- Krzysztof Marczak – 36,908 pcs.;
- Marek Garliński – 83,996 pcs.;
- Andrzej Karczykowski – 283,391 pcs.;

The nominal value of 1 share is PLN 1.

Managing persons and supervising persons do not hold any shares in related entities.



**32. Information on contracts that may result in changes in the proportions of shares held by existing shareholders**

The Issuer is not aware of any agreements that may result in changes in the proportions of shares held by existing shareholders.

**33. Information on the system of controlling employee share programs**

There is no employee share program in the companies belonging to the Prochem S.A. Capital Group.

**34. Information on the agreement with the entity authorized to audit the Issuer's financial statements**

The agreement with the entity authorized to audit financial statements, the company Mistery Auditor Adviser sp. z o. o. for the audit and review of separate financial statements and consolidated financial statements of Prochem S.A, was concluded on August 9, 2018. The agreement was concluded for the examination of financial statements for 2018 and 2019. Total remuneration amount of the company Mistery Auditor Adviser sp. z o. o. under the agreement amounts to PLN 30,400 net for the review of financial statements for 2019 and PLN 40,300 for auditing of financial statements for 2018

For performing the audit and review of financial statements for 2018 the company Mistery Auditor Adviser sp. z o. o. received the remuneration in the amount of PLN 70,000 net.

Krzysztof Marczak

Marek Kiersznicki

Jarosław Stępniewski

Vice President  
of the Management Board

Vice President  
of the Management Board

President  
of the Management Board