

**REPORT OF MANAGEMENT BOARD ON ACTIVITIES
OF PROCHEM S.A. CAPITAL GROUP
IN THE FIRST HALF OF 2013**

Warsaw, 30 August 2013

1. Principles of presentation of financial statements

Description of the rules according to which consolidated financial statements of PROCHEM SA Capital Group for the first half of 2013 have been prepared was included in Notes to the statements.

2. Key economic and financial volumes disclosed in interim financial statements and the presentation of the development prospects of Issuer's Capital Group until the end of 2013

In the first half of 2013 Capital Group achieved revenues from sales in the amount of PLN 62.1 million. They were more than 19% lower than those achieved in the first half of 2012. The decrease in revenues was primarily recorded in the parent company - PROCHEM SA where revenues from sale of services in the first half of 2013 after the reduction of 41% were over PLN 31 million. However, due to the fact that the structure of revenues has been changed - own sales increased - an improvement in achieved business results took place both at the level of operating profit and profit for the period.

Macroeconomic environment still will have a significant impact on the operations of PROCHEM SA Capital Group until the end of 2013, and to a large extent the continuation of the contract in Belarus which was launched in the first half of the current year.

3. Key risks and threats to the activity of Issuer's Capital Group

Companies belonging to PROCHEM S.A. Capital Group are exposed to the following kinds of risks and threats:

3.1 Economic fluctuations on the investment market

Some of the companies belonging to the Group provide services on the investment market which is characterized by a large scale of fluctuations in demand strongly associated with the overall macroeconomic situation of the country. The methods of limiting the adverse impact of this factor on financial results (concentrating reserves, diversification of provided services) applied by the Company may not fully neutralize this risk.

3.2 Dependence on the staff

The risk of dependence on the staff occurs especially in the parent company. Raising the quality of provided services, undertaking the completion of complicated technological projects, using modern computer systems and the work for customers of high reputation requires the highest professional qualifications from employees. Recruiting this sort of persons, peculiarly 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 applying incentive programs associating employees with the company.

3.3 Exchange rate risk.

Part of contracts (mainly the parent company) on sale of services is concluded with foreign companies in foreign currencies (EUR, USD). In case of a significant stiffening of domestic currency it may adversely affect the Group's results. Partly this risk is eliminated naturally through the purchase of equipment and services necessary for the execution of these contracts abroad, as well as through the purchase of the relevant financial instruments.

3.4 The risk of an adverse settlement of litigation with PERN SA

In view of the substantial extension of legal proceedings in a dispute with PERN S.A. which began in 2006, and currently is conducted before the District Court in Warsaw on the

accounting for the contract interrupted on 10 November 2005 for the general implementation of an investment project under the name „Pipeline in a section from the ST-1 Adamowo – to Plebanka raw material base” exist the need to fulfill in 2013 by PROCHEM the commitments concerning seized guarantee deposits of subcontractors, before they are recovered from PERN SA. Management Board of PROCHEM SA considers the need to accumulate adequate funds for this purpose.

4. Organization of the Capital Group, with a consolidated entities.

PROCHEM SA Capital Group consists of the following subsidiaries directly and indirectly and associates:

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 (93.4%);
- Pro-Organika Sp. z o.o. seated in Warsaw – subsidiary directly (91.4%);
- Prochem Serwis Sp. z o.o. seated in Warsaw – subsidiary indirectly (89.1%);
- PREDOM Sp. z o.o. seated in Wrocław – subsidiary indirectly (81.1% share in the capital and profit, 69.4% of votes);
- Prochem Zachód Sp. z o.o. seated in Słubice – subsidiary directly (60.0%);
- ELPRO Sp. z o.o. Kraków – subsidiary indirectly (85.1%, including 70.3% in the 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o.o. Kraków – subsidiary indirectly (85.1%, including 70.3% in the 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. – subsidiary indirectly (70.3%), including 31.6% share in the capital and the voting rights belongs to company Prochem Investments 100% subsidiary. Company Elektromontaż Kraków S.A. prepares consolidated financial statements, which contains data of a 100% subsidiary: ELMONT-POMIARY Sp. z o.o. seated in Kraków and two associates ELPRO Sp. z o.o. and Elmont-Inwestycje Sp. z o.o.;
- IRYD Sp. z o.o. seated in Warsaw – 100% subsidiary indirectly;
- ATUTOR Integracja Cyfrowa Sp. z o.o. seated in Warsaw – subsidiary indirectly (87.3% share owned by company Prochem Inwestycje Sp. z o.o. 100% subsidiary);
- Prochem RPI Sp. z o.o. seated in Warsaw – 100% subsidiary directly and indirectly;
- PRO PLM Sp. z o.o. in liquidation seated in Warsaw – subsidiary directly and indirectly (50% share held by the company Prochem Investments Sp. z o.o. 100% subsidiary).

Jointly controlled entities and associated companies consolidated by the equity method:

- ITEL Sp. z o.o. Gdynia – 42% share -(18.7% of share in voting rights and capital owns directly Prochem SA and 23.3% has Prochem RPI Sp. z o.o. 100% subsidiary)
- Irydion Sp. z o.o. seated in Warsaw – 50% of share;

The rule adopted in the consolidation is that the entities which do not operate are not included into consolidation - financial data of these companies will not distort information about the financial results of PROCHEM SA Capital Group. The Company which was not covered by consolidation and for which write-down was created:

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

Subsidiaries and associated entities covered by consolidation were included into consolidated financial statements from the date of obtaining control by parent company.

5. The effects of changes in the Capital Group structure, including amalgamations, acquisition or sale of the entities belonging to issuer's group, long-term investments, division, restructurings, and discontinued operations.

On January 7, 2013, the company PRO-INHUT Ltd. (indirect subsidiary) pursuant to Resolution of the Extraordinary General Meeting of the company has increased the capital by PLN 3 thousand through the creation of six new shares that were subscribed by minority shareholders. As a result of changes in the articles of association, the indirect share of the Issuer decreased by 5.6%, to 93.4%.

On 13 February 2013, the company Prochem Inwestycje sp. z o.o. (100% subsidiary of the Issuer) on the basis of the agreement for the sale of shares for redemption, has sold part of its share in PROMIS for redemption for the amount of PLN 270 thousand. The nominal value of the share was PLN 110 thousand. Associated company ZI Promis Sp. z o.o. was excluded from consolidation from the date of sale.

On 28 February 2013 the Shareholders Meeting adopted a resolution on the dissolution and opening of liquidation of the company PRO-PLM Sp. of o.o. 100% subsidiary directly and indirectly.

On 3 April 2013 the General Meeting of Shareholders of the subsidiary IRYDION Sp. z o.o. resolved to increase the share capital by amount of PLN 4 500 thousand through the issuance of 4 500 new shares with a nominal value of PLN 1 000 each. The new shares were subscribed as follows:

- 4 499 shares at the issue price of PLN 14 996.5 thousand were acquired by Look Finansowanie Inwestycji S.A. seated in Wrocław,
- 1 share at an issue price of PLN 3.5 thousand was acquired by PROCHEM S.A.

After the increase the share capital of company Irydion sp. z o.o. amounts to PLN 9 000 thousand. After the change in the article of association the share of Issuer in the capital and voting rights decreased to 50%.

6. The position of Management Board regarding the feasibility of the previously published forecasts for the year, in the light of the results presented in the interim report in relation to the forecasts

PROCHEM S.A. did not publish any financial forecasts neither of the company nor of PROCHEM SA Capital Group for 2013.

7. 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 quarterly report, including the number of owned shares, its percentage share in the share capital, the number of votes from shares and its percentage share in the total number of votes at the general meeting, and changes in the ownership structure of large blocks of shares in the period since the previous report

According to the knowledge of the Company at the date of this report, the shareholders with at least 5% of votes at the general meeting of shareholders:

Ite m No.	DESCRIPTION	NUMBER OF SHARES (UNITS)	NUMBER OF VOTES	% OF VOTES IN TOTAL NUMBER OF VOTES	% OF SHARE CAPITAL
1	Prochem Holding M. Garliński Spółka Komandytowa	941,213	941,213	24.15	24.17
2	Steve Tappan	382,751	382,751	9.82	9.83

3	ING Towarzystwo Funduszy Inwestycyjnych SA	358,312	358,312	9.19	9.20
4	PTE PZU SA	387,000	387,000	9.93	9.94
5	Legg Mason Zarządzanie Aktywami S.A.	603,682	603,682	15.48	15.50

In the period since the previous report, the Issuer was notified that the number of shares owned by PTE PZU SA increased by 18,000.

8. Statement of changes in ownership of the issuer's shares or rights to shares (options) by managing and supervising persons of the Issuer, according to Issuer's knowledge, in the period since the previous report.

As at the date of the report following members of the Management Board and Supervisory Board held PROCHEM shares:

- Jarosław Stępniewski – 37,787 units;
- Marek Kiersznicki – 17,500 units;
- Krzysztof Marczak – 9,030 units;
- Andrzej Karczykowski – 20,000 units;
- Marek Garliński – 35,548 units;

In the period since the previous report, there was no change in the ownership structure of the issuer's shares by current members of the Management Board and the Supervisory Board.

9. Proceedings pending before the court, competent authority for arbitration or public administration including information on:

a) proceedings relating to liabilities or receivables of the Issuer or its subsidiary whose value is at least 10% of the equity of the Issuer, with the specification of the subject case, the amount in dispute, date of initiation of proceedings, the parties to the proceedings and the position of the Issuer,

b) two or more proceedings relating to liabilities and receivables with a total value respectively of at least 10% of the equity of the Issuer, stating the total value of proceedings separately in the group of liabilities and group of receivables together with the position of the issuer in this case and, for the most significant procedures in group of liabilities and group of receivables - an indication of their subject, the amount in dispute, date of initiation of proceedings and the parties to the proceedings

PROCHEM S.A. is still a party to the proceedings before the court for settlement of the interrupted on 10 November 2005 contract for construction management of an investment project under the name "Pipeline in a section from the ST- 1 Adamowo - to raw material base Plebanka" concluded with PERN S.A. PROCHEM S.A. filed a lawsuit to the court for payment of PLN 41,301 thousand for a final settlement of contract, of which PLN 17 364 thousand were presented in the statement of financial position as receivable from the seized deposits, and remaining amount as contingent receivables. On 18 January 2008 District Court in Warsaw issued a judgment in this case considering claim of PROCHEM S.A. as to be right in principle, while stating that this obligation is not yet due.

On 26 August 2008 the Court of Appeal in Warsaw issued a final judgment on the appeal lodged by PROCHEM S.A. from the a/m judgment of the District Court, recognizing in it that the claim filed by PROCHEM S.A. regarding accounting for the contract is not premature and at the same time ordered the District Court to make accounting for the mentioned above

contract pursuant to the provisions of the contract. This finding is in compliance with position in a case of PROCHEM S.A.

On August 12, 2010 a hearing was held before the District Court in Warsaw, where the court decided to appoint an expert who according to recommendations of the Court of Appeal finally will settle the disputed contract. Expert opinion was submitted to the Court on May 15, 2012.

On 5 February 2013 before the District Court in Warsaw, a hearing was held with the participation of experts, after which the court decided to oblige the parties to submit the pleadings clarifying the final conclusions of evidence. On 9 August 2013, the Issuer received from the District Court in Warsaw the decision that they asked the experts to prepare complementary opinion to determine the value of services, supplies, and other liabilities made by PROCHEM SA and directly related to the implementation of the agreements that have been made after the date of withdrawal from the contract on the basis of commitments made prior to the withdrawal. This is in accordance with application submitted to the Court by PROCHEM SA

The value of this procedure exceeds 10% of the equity of the Issuer.

Furthermore, the total value of other proceedings separately for groups of liabilities and as well as group of receivables does not exceed 10% of the equity of the Issuer.

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

- a) the subject of the transaction,
- b) the relationship of the issuer or its subsidiary with entity who is a party to the transaction,
- c) the material terms of the transaction, with particular emphasis on financial conditions and the indication of the specific conditions specified by parties, characteristic of this agreement, in particular which differ from those commonly used for such contracts..

In the first half of 2013 years, there were no significant transactions with related parties within the Capital Group of PROCHEM SA concluded on terms other than market conditions.

11. Information on the surety for loan or borrowing or guarantees given by the issuer or its subsidiary - jointly to one entity or its subsidiary, if the total value of existing guarantees is equivalent to at least 10% of the Issuer's equity

None of the companies belonging to the Group gave guarantee or surety for the credit or loan of this value to another entity.

12. Other information which is material to the assessment of human resources, financial result and their changes and information that is relevant for assessing the feasibility of the obligations by the companies belonging to Capital Group of the Issuer.

The level of indebtedness and liquidity ratio of companies belonging to the Capital Group of the Issuer does not indicate a risk of lack of capacity to meet obligations, which makes it a reliable partner in business.

13. Factors that in the Issuer's assessment will have an impact on its financial performance in the prospect for at least the next quarter.

The results in subsequent quarters will depend mainly on the possibility of obtaining by the companies belonging to the Group of new contracts for sale of their services. Large impact on the results of the Issuer Group will have a continuation of the contract in Belarus which was launched in the first half of the current year.

Krzysztof Marczak
Vice Chairman of the Board

Marek Kiersznicki
Vice Chairman of the Board

Jarosław Stępniewski
Chairman of the Board