

Warsaw, 30 August 2010

**REPORT OF THE MANAGEMENT BOARD
ON THE BUSINESS ACTIVITY OF THE
PROCHEM S.A. CAPITAL GROUP IN THE
FIRST HALF OF 2010**

1. Description of principles of drawing up the financial statement

The description of principles according to which the interim shortened individual financial statement of the parent company Prochem S.A. and interim shortened consolidated financial statement of Prochem S.A. Capital Group for the first half of 2010 were drawn up was placed in the additional information to this report.

2. Review of economic-financial basic volumes revealed in the interim financial statement and the presenting prospects of the development of the Issuer's Capital Group up to the end of 2010

In the first half of 2010 Capital Group achieved revenues of PLN 52 million. Revenues on basic activity i.e. sales of services constitute 95% of total revenue and are PLN 55 million lower than those achieved in the first half of 2009. The comparable drop in income was also recorded in the parent entity – Prochem S.A. where revenue on sales of services in the first half of 2010 amounted to only PLN 19 million. Such a situation is a result of the persistence of the difficulty in acquiring of orders by the Capital Group companies from the prospective customers which as a result of the financial crisis postponed planned investments in the time and indeed reduced costs of current activity. This fact has also reflecting the obtained results of activities both on the level of operating performance as well as net result.

For the operations of PROCHEM S.A. Capital Group up to the end of 2010 macroeconomic surrounding of the company will have the significant effect, particularly expected slow starting investments frozen for the duration of the crisis.

3. Description of essential risk factors and threats to activity of the Issuer's Capital Group

The companies belonging to PROCHEM S.A. Capital Group are exposed in their activity to the following kinds of risks and threats:

3.1. Economic fluctuations on the investment market

Part of companies belonging to the capital group provides services on the investment market, being characterized by a large scale of hesitations of the demand strongly connected with the general macroeconomic situation of the country. Methods used by the company of limiting the adverse impact of this factor on financial results (concentrating reserves, diversification of provided services), cannot fully neutralize this risk.

3.2. Dependence on the staff

The risk of making conditional on the staff is appearing particularly in the parent entity. The refinement of provided services, undertaking the completion of complicated technological projects, using modern computer systems and the work for highly-regarded customers 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 of parent entity) for sale of services is concluded with foreign companies in foreign currencies (EUR, USD). In case of the considerable hardening of domestic currency it can have the adverse influence on performance of the group. Partly this risk is being eliminated in the natural way through the purchase of devices and the services necessary for the accomplishment of these contracts abroad, as well as through the purchase of relevant financial instruments.

3.4. Risk of dependence on important buyers of services

Such risk is appearing particularly in the company belonging to capital group, which is carrying out activity covering maintenance of installations and industrial plants. Such activity requires capital outlays to be borne for every contract for purchase of spare parts, devices and employing skilled staff. Loss of the big buyer of services can lead to temporary financial difficulties of this company. Relevant stipulations of a contract protect to a large extent against such a risk, by virtue of which the customer is obliged to refund of the incurred capital outlays connected with the fulfilment of an order.

3.5. Risk of disadvantageous deciding a dispute with PERN S.A.

In the face of considerable extending of judicial proceedings in the dispute with PERN SA which was begun in 2006 and is pending currently in the District Court in Warsaw concerning accounting for the contract given up on 10 November 2005 for construction management of an investment project under the name „Pipeline in a section from the ST- 1 Adamowo - to raw material base Plebanka", a risk exist of the necessity to fulfil obligations by PROCHEM S.A. in 2011 towards sub-suppliers concerning seized guarantee deposits before regaining them from PERN SA. Such a risk according to the opinion of the Company is minimal however the Management Board of PROCHEM S.A. is taking into account the need to accumulate adequate financial means for this purpose.

4. Description of the organization of the capital group showing entities subject to consolidation

The following directly and indirectly subsidiaries and associated companies are included in a capital group:

Subsidiaries covered by full consolidation:

- Prochem Inwestycje Sp. z o.o. with registered office in Warsaw – subsidiary directly (100%)
- Irydion Sp. z o.o. with registered office in Warsaw - subsidiary directly (100%)
- PRO-INHUT Sp. z o.o. with registered office in Dąbrowa Górnicza - subsidiary indirectly (99%)
- Pro-Organika S.A. with registered office in Warsaw - subsidiary directly (91.4%)

- Prochem Serwis Sp. z o.o. with registered office in Warsaw - subsidiary indirectly (90%)
- PREDOM Sp. z o.o. with registered office in Wrocław - subsidiary indirectly (81.1 % of capital and profit, 69.4% of votes)
- ASI Polska Sp. z o.o. with registered office in Gliwice - subsidiary indirectly (90 %)
- Prochem Zachód Sp. z o.o. with registered office in Słubice - subsidiary directly (60%)
- PROTRADE Sp. z o.o. with registered office in Gdynia – subsidiary indirectly (72%) (ASI Polska Sp. z o.o. subsidiary in 90% holds 80%)
- ELPRO Sp. z o.o. Kraków - subsidiary indirectly (77.9%, including 55.9% share in 50% share of Elektromontaż Kraków)
- Elmont Inwestycje Sp. z o.o. Kraków – subsidiary indirectly (77.9%, including 55.9% share in 50% share of Elektromontaż Kraków
- Elektromontaż Kraków S.A. - subsidiary directly (55.9%) – the company is drawing up consolidated financial statement, which contains data of the subsidiary in 100 %:
ELMONT-POMIARY Sp. z o.o. with registered office in Kraków and two associates ELPRO Sp. z o.o. and Elmont Inwestycje Sp. z o.o.
- IRYD Sp. z o.o. with registered office in Warsaw – subsidiary indirectly 100%
- ATUTOR Integracja Cyfrowa Sp. z o.o. with registered office in Warsaw – subsidiary indirectly (97.2% shares holds company Prochem Inwestycje Sp. z o.o. subsidiary in 100%)
- Prochem RPI Sp. z o.o. with registered office in Warsaw - subsidiary directly and indirectly 100%

Associated entities covered by consolidation under the equity pick-up method

- PRO PLM Sp. z o.o. with registered office in Warsaw – associated indirectly (50% of shares holds company Prochem Inwestycje Sp. z o.o. subsidiary 100%)
- PROMIS Sp. z o.o. with registered office in Warsaw – associated indirectly (45% right of vote and 97.6% of share capital holds company Prochem Inwestycje Sp. z o.o. subsidiary 100%)
- ITEL Sp. z o.o. Gdynia – 42 % of shares (18.7% right of vote and capital holds directly Prochem S.A. , and 23.31% holds Prochem RPI Sp. z o.o. subsidiary 100%)
- TEOMA S.A. with registered office in Warsaw – associated indirectly (12.9% of shares, including Prochem Inwestycje Sp. z o.o. subsidiary in 100% holds 5% of shares).

Subsidiaries covered by consolidation were included in the consolidated financial statement starting from the day of exercising the control by the parent company, and associated from the day of exerting the significant effect.

5. Indication of effects of changes in the capital structure, including as a result of merging an economic entities, the takeover or the sale of entities of the capital group of the issuer, long-term investments, the division, the restructuring and the discontinuing of activities.

No events of this type appeared in the first half of 2010.

6. Position of the Management Board concerning the possibility of realization of earlier published forecast of results of given year in the light of the results presented in the interim report in relation to forecasted results.

The company Prochem S.A. didn't publish forecasts of financial results of the company or the Prochem S.A. Capital Group for 2010.

7. The shareholders having directly or indirectly by subsidiaries at least 5 % of total number of votes at the General Meeting of the issuer as at the day of submitting the quarterly report and showing the number of shares held by these entities, and their percentage share in the share capital, number of votes resulting from them and of their percentage participation in the total number of votes at the General Meeting and showing the changes in the structure of the ownership of considerable share packets of the issuer in the period from transmitting the last report

Based on the information held by the Company as at the day of submitting this report the shareholders with more than 5 % votes on the General Meeting of Shareholders are as follows:

Item No	Detailed list	Qty of shares (in pcs)	% of votes in total qty of votes	% of share capital
1.	PROCHEM Holding Sp. z o.o.	962,341	24,65	24,68
2.	Steve Tappan	382,751	9,80	9,81
3.	ING Towarzystwo Funduszy Inwestycyjnych SA	358,312	9,18	9,19
	of which:			
	ING Parasol Specjalistyczny Fundusz Inwestycyjny Otwarty	228,950	5,86	5,87
4.	Union Investment Towarzystwo Funduszy Inwestycyjnych S.A.	345,000	8,84	8,85
5.	PTE PZU S.A.	325,521	8,34	8,35
6.	Legg Mason Zarządzanie Aktywami S.A.	269,820	5,17	5,18

In the period from transmitting the last report a change in the structure of the ownership of considerable share packets of the issuer didn't take place

8. Statement of changes in the state of holding shares of the issuer or entitlements to them (of option) by managing and supervising persons of issuer, according to the information had by the issuer, in the period from transmitting the last report

As at the day of drawing this financial statement up the following persons of the Management Board and Supervisory Board hold shares of PROCHEM S.A.:

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 from transmitting the last report a change in the structure of the ownership of the share of Issuer by persons at present being included in Management Board and Supervisory Board didn't take place, however in June 2010 Mr Steven Tappan was dismissed from the composition of Supervisory Board of Prochem SA whose possessions of shares of Issuer was described in item 7 of this report.

9. Records of proceedings at law, competent authority for the arbitration or administrative body with considering the information in the scope:

- a) of proceedings concerning obligations or the debt of the issuer or its subsidiary of the value constituting at least 10 % equity capitals of the issuer, showing the subject matter of the proceedings, the value of subject matter of litigation, the date of the instituting of proceedings, parties in proceeding and the position of the issuer,
- b) two or more proceedings concerning obligations and debts with total value constituting appropriately at least 10 % equity capitals of the issuer, with determining the total value of proceedings separately in the group of obligations and the group of the debt - with showing the matter, values of the subject matter of litigation, dates of the instituting of proceedings and parties in proceedings.

PROCHEM SA is still a party in the lawsuit regarding accounting for the contract given up on 10 November 2005 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 suit demanding the payment of PLN 41,301 thousand as the final settlement of the contract. On 18 January 2008 District Court in Warsaw delivered a judgment regarding this case, admitting a claim as being rightful as for the principle, at the same time stated that this liability wasn't still due.

On 26 August 2008 Court of Appeal in Warsaw delivered valid judgment regarding an appeal lodged by PROCHEM S.A. from a/m judgment of District Court, admitting in it, that claim of PROCHEM S.A. concerning the final settlement of contract is not premature ordering simultaneously the District Court to make accounting for the contract mentioned above pursuant to the provisions of the contract. This establishment is in compliance with position in a case of PROCHEM S.A.

On 12 August 2010 the case held before the Court District in Warsaw, during which the Court decided about appointing the expert, who will make final accounting for arguable contract according to recommendations of the Court of Appeal.

The value of these proceedings exceeds the 10 % of equity of the Capital Group of the Issuer.

Apart from that total value of other proceedings separately for the group of obligations as well as the group of the debts, doesn't exceed the 10% of equity of Capital Group of Issuer.

10. Information on concluding one or many transactions by the issuer or its subsidiary with affiliated entities, if being single or jointly they are essential and they were concluded on other conditions than on market conditions:

- a) subject of a transaction,
- b) connections of the issuer or its subsidiary with the entity being a party to a transaction,
- c) substantial terms and conditions of the transaction with special taking into account of financial conditions and showing the peculiar conditions determined by parties, characteristic of this agreement, in particular diverging from universally used conditions for the given type of agreements.

In the first half of 2010 significant transactions with affiliated entities included in Prochem S.A. Capital Group concluded on other conditions than market conditions didn't take place.

11. Information on granting by the issuer or by its subsidiary guarantees of credit or loan or providing a warranty - including for one subject or its subsidiary, if total value of existing guarantees and warranties is equivalent to at least 10 % equity capitals of the issuer

None of companies of the capital group gave to other entity the guarantee or guarantees of credit or the loan of this value.

12. Other information which are according to the issuer are essential for the evaluation of personnel, property, financial situation and financial result and its changes, and the information which are essential for the assessment of the possibilities of the carrying out commitments, by companies from the capital group of the issuer

The debt level and the rate of the financial liquidity of companies from the capital group of the Issuer are not pointing out to the risk of the lack of possibility of the carrying out commitments what he causes, that it is a credible partner in business trading.

13. Factors which in the evaluation of the issuer will have an effect on results achieved by the capital group in prospect of at least for consecutive quarter

Results of consecutive quarters will depend mainly on the possibility of acquiring new contracts by companies from the capital group for sale of their services. Also acquiring the financing of property projects which were begun by the capital group will be essential. Macroeconomic surroundings determining investment projects of prospective customers of the companies belonging to capital group will have the significant effect on performance of issuer's capital group and evaluation of personnel, property, financial and capital situation. In the management board of the issuer estimation the persisting low demand, fluctuations of rates of exchange, difficulty in acquiring financing from the bank could affect adversely current and future sale of companies from the capital group of the issuer.

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Management Board Member
Krzysztof Marczak

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Vice Chairman of the Board
Marek Kiersznicki

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Chairman of the Board
Jarosław Stępniewski