

**REPORT OF THE MANAGEMENT BOARD
ABOUT ACTIVITY OF THE CAPITAL GROUP
OF PROCHEM S.A.
IN FIRST HALF OF THE YEAR 2011**

Warsaw, 31 August 2011

1. Description of principles of drawing up the financial statement

The description of principles according to which the consolidated financial statement of the Capital Group of Prochem S.A. for the first half of 2011 was drawn up, was placed in Notes to this Report.

2. Review of economic and financial basis volumes revealed in the interim financial statement and the presentation of prospects of the development of the Capital Group of the Issuer until the end of 2011

In the first half of 2011 Capital Group achieved income from sales in the amount of PLN 58.5 million. They were over 13% higher than achieved in the first half of 2010. Considerable higher growth of the income was recorded in the dominant entity - Prochem S.A. where the revenue from sales of services in the 1st half of 2011 after the increase by the 80% amounted to above PLN 34 m. In spite of it, the problems in obtaining orders by companies belonging to Capital Group from prospective customers who are still planning new investments with the great carefulness are yet maintaining. This fact is reflected in get results of the activities both on level of the operating results as well as net.

The macroeconomic surrounding will still have the significant effect on the activity of the Capital Group of PROCHEM S.A. until the end of 2011, in particular expected starting the investments in power production and the widely comprehended sector of the environmental protection.

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

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

3.1 Economic fluctuation on the investment market

Part of companies being included in a 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 of limiting the adverse impact of this factor on financial results (concentrating reserves, diversification of provided services) applied by the Group may not fully neutralize this risk.

3.2 Dependence on staff.

The risk of making conditional on the staff is appearing particularly in the dominant entity . The refinement 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 Risk of rate of exchange

Part of contracts (mainly in the dominant entity) for sale of services is concluded with foreign companies in foreign currencies (EURO, US\$). In case of the considerable stiffening of a domestic currency it can have an adverse influence on Group results. Partly this risk is wiped out 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 disadvantageous settling the litigation with PERN S.A.

In the face of considerable extending of judicial proceedings in the dispute with PERN S.A. which was begun in 2006 and is conducted currently by the District Court in Warsaw concerning settlement of accounts for the contract given up on 10 Nov. 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, exist a risk of the necessity to fulfill 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 with pointing out to entities being subject to consolidation

Prochem S.A. Capital Group comprises the following subsidiaries directly or indirectly and associated companies::

Subsidiaries covered by full consolidation:

- Prochem Inwestycje Sp. z o.o. with registered office in Warsaw – subsidiary directly (100.0%);
- Irydion Sp. z o.o. with registered office in Warsaw – subsidiary directly (100.0%);
- PRO-INHUT Sp. z o.o. with registered office in Dąbrowa Górnicza – subsidiary indirectly (99.0%);
- Pro-Organika Sp. z o.o. with registered office in Warsaw – subsidiary directly (91.4%);
- Prochem Serwis Sp. z o.o. with registered office in Warsaw – subsidiary indirectly (90.0%);
- PREDOM Sp. z o.o. with registered office in Wrocław – subsidiary indirectly (81.1% of capital and profit, 69.4% in votes);
- ASI Polska Sp. z o.o. with registered office in Gliwice – subsidiary indirectly (90.0%) – company covered by consolidation until 28 February 201;
- Prochem Zachód Sp. z o.o. with registered office in Słubice – subsidiary directly (60.0%);

- PROTRADE Sp. z o.o. with registered office in Gdynia – subsidiary indirectly (72%) (ASI Polska Sp. z o.o. subsidiary in 90.0% holds 80.0%) – company covered by consolidation until 28 February 2011;
- ELPRO Sp. z o.o. Kraków – subsidiary indirectly (82.98%, including 61.98% of share in 50% share of Elektromontażu Kraków)
- Elmont Inwestycje Sp. z o.o. Kraków – subsidiary indirectly (82.98%, including 61.98% of share in 50% of share of Elektromontażu Kraków)
- Elektromontaż Kraków S.A. – subsidiary directly (61.96%) – the company is drawing up consolidated financial statement containing data of the subsidiary in 100%:
- ELMONT-POMIARY Sp. z o.o. with registered office in Kraków and two associated companies 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% of shares belongs to 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 in 100%,
- PRO PLM Sp. z o.o. with registered office in Warsaw – subsidiary directly and indirectly o (50% of shares belongs to company Prochem Inwestycje Sp. z o.o. subsidiary in 100%),

Associated entities covered by consolidation under the equity method:

- PROMIS Sp. z o.o. with registered office in Warsaw – associated indirectly (45% of right of vote and 97.6% share in share capital belongs to company Prochem Inwestycje Sp. z o.o. subsidiary in 100%),
- ITEL Sp. z o.o. Gdynia – 42% of shares -(18.7% of right of vote and capitals belongs directly to Prochem S.A., and 23.31% belongs to Prochem RPI Sp. z o.o. subsidiary in 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).

The principle adopted at the consolidation provides that entities not conducting activity are not included in the consolidation – financial data of these companies isn't distorting information on financial results of Group of Prochem S.A. Companies being not covered by consolidation and covered by revaluating write off:

- Predom Projektowanie Sp. z o.o. with registered office in Wrocław – subsidiary
- Pasterex sp. z o.o. with registered office in Warsaw – associated company

Subsidiaries and associates covered by consolidation were included into consolidated financial statement from the day of taking over the control by the parent company.

5. Effects of changes in the structure of the Capital Group , including amalgamation of companies, the takeover or the sales of entities belonging to capital group of the issuer, long-term investments, division, restructuring and discontinuing activity

In 1st quarter of 2011 all shares in companies ASI Sp. z o.o. and Protrade Sp. z o.o. belonging to Prochem SA were sold.

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

Company Prochem S.A. didn't publish forecasts of financial results of the company or Prochem S.A. Capital Group for 2011.

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 being in possession of 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	DESCRIPTION	Qty of shares (units)	Qty of votes	% of votes in total qty of votes	% of share capital
1	Prochem Holding Sp. z o.o	962,341	962,341	24.68	24.71
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
5	PTE PZU SA	325,521	325,521	8.35	8.36
6	Legg Mason Zarządzanie Aktywami S.A.	603,682	603,682	15.48	15.50

In the period from transmitting the last report:

- Union Investment TFI S.A. reduced their involving in shares of Prochem SA below the 5%;

- Legg Mason Zarządzanie Aktywami S.A. increased their involving in shares of PROCHEM SA up to the 15.48% of the share capital.

8. Statement of changes in the possessions of shares of the issuer or entitlements to them (of option) by managing and supervising persons of issuer, according to the information possessed 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 any change in the structure of the ownership of the shares of Issuer by persons at present being included in Management Board and Supervisory Board didn't take place

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 legal 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 the position of the issuer in this case and in relation to the biggest proceedings in the group of obligations and the group of debts - with showing the subject matter, values of the subject matter of litigation, dates of the instituting of legal 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 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, big 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.

Krzysztof Marczak
Member of the
Management Board

Marek Kiersznicki
Vice Chairman
of the Management Board

Jarosław Stępniewski
Chairman
of the Management Board