

MANAGEMENT BOARD REPORT
ON THE ACTIVITIES OF PROCHEM S.A.
CAPITAL GROUP
IN THE FIRST HALF OF 2015

Warsaw, 28 August 2015

1. Principles of presentation of financial statements

Principles of preparation of the consolidated financial statements of PROCHEM S.A. Capital Group for the first half of 2015 have been included in Explanatory notes to financial statements.

2. Basic economic and financial values disclosed in the interim financial report and presentation of the development prospects of the Issuer Capital Group by the end of 2015.

In the first half of 2015 the Capital Group achieved revenues from sales in the amount of PLN 84.3 million. They were by over 26% higher than those achieved in the first half of 2014. The increase in revenues was recorded primarily in the parent company – PROCHEM S.A. where revenues from sale of services in the first half of 2015 after an increase of 38% amounted to almost PLN 63 million. The structure of revenues has changed - followed increase in sale of implementing topics. Impairment losses on receivables from debtors in a difficult financial situation done in PROCHEM S.A. had a significant impact on the achieved operating results. Until the end of 2015 the macroeconomic environment, as well as to a large extent a continuation of the two projects started last year: a contract for the construction in Belarus and the Center Astrum Business Park in Warsaw will continue to significantly affect the activity of the Capital Group of PROCHEM S.A.

3. Description of significant achievements or failures in the first half of 2015.

In the first half of 2015 the Group has focused its activities on topics executed, primarily on the project implemented in Belarus, and for jointly-controlled entity Irydion Sp. z o.o. (development project - the construction of the Center Astrum Business Park in Warsaw).

We continue to strive to gain new tenants to fill the surface of our new implemented office complex "Astrum Business Park" in Warsaw.

In the first half of 2015 years the Group sold an investment property which is located in Krakow for the price payable PLN 16,378 thousands (4 000 thousand. EUR), and due commission which is to be paid by the buyer after obtaining a replacing building permit amounting to PLN 4,110 thousands (EUR 1 000 thousand).

4. Description of factors and events, especially of untypical nature, having a significant impact financial results achieved.

In the first half of 2015, there were no significant events which would have to affect the financial results achieved.

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

The Companies from Capital Group of PROCHEM S.A. are exposed in its operations into the following types of risks and threats:

5.1 Economic fluctuations on the investment market

Part of the companies belonging to the Capital Group provides services to the investment market which is characterized by a large scale of fluctuations in demand strongly linked to the general macroeconomic situation of the country. The methods used by the Group to reduce the negative impact of this factor on the financial results (accumulation of financial reserves, diversification of the services provided), may not fully neutralize this risk.

5.2 Dependence on the Staff

Risk of being dependent on the 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 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 labor market can be difficult. The Group is trying to minimize this threat by raising qualifications of the employed staff and using incentive programs associating employees with the company.

5.3 Exchange rate risk

Part of the contracts (mainly of parent entity) on the sale of services is concluded with foreign companies in foreign currencies (EURO, USD). In case of significant strengthening of the national currency, this could have a unfavorable impact on the Group's results. This risk is partially mitigated in a natural way through the purchase

of equipment and services necessary for the execution of these contracts abroad as well as through purchase of adequate financial instruments.

6. Organization of the Capital Group and indication of entities subject to consolidation

The Capital Group of PROCHEM S.A. (hereinafter referred to as "the Group", "the Group"), in addition to the Parent Company comprises the following subsidiaries directly and indirectly:

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 (93.2%);
- Pro-Organika Sp. z o.o. seated in Warsaw – subsidiary directly (91.4%);
- Przedsiębiorstwo Konsultingowo-Inżynieryjne PREDOM Sp. z o.o. seated in Wrocław – subsidiary indirectly (81.1% of the capital and profit, 71.4% of votes);
- Prochem Zachód Sp. z o.o. seated in Warsaw – subsidiary directly (80.0%);
- ELPRO Sp. z o.o. seated in Kraków – subsidiary indirectly (88.7%, including 77.4% in 50% share of Elektromontaż Kraków);
- Elmont Inwestycje Sp. z o.o. seated in Kraków – subsidiary indirectly (88.7%, including 77.4% in 50% share of Elektromontaż Kraków);
- Elektromontaż Kraków S.A. seated in Kraków – subsidiary indirectly (77.4%), including 65.5% of the capital and votes belongs to company Prochem Inwestycje 100% subsidiary.
- Elektromontaż Kraków S.A. seated in Kraków – subsidiary indirectly (77.4%),
- Elmont Pomiary Sp. z o.o. seated in Kraków – subsidiary indirectly 100%,
- 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% of share belongs to company Prochem Inwestycje Sp. z o.o. 100% subsidiary);
- Prochem RPI Sp. z o.o. seated in Warsaw – subsidiary in 100% (including 3.33% of capital and votes belongs to company Prochem Inwestycje).

Jointly controlled entities and associates valued using the equity method:

- ITEL Sp. z o.o. seated in Gdynia – 42.0% share (18.7% of votes and capitals directly belongs to PROCHEM S.A., and 23.3% belongs to Prochem RPI Sp. z o.o. 100% subsidiary);

- Irydion Sp. z o.o. seated in Warszawie – 50% of share;

7. Effects of changes in the structure of the Capital Group, including as result of mergers, acquisitions or sale of the entities from issuer's capital group, long-term investments, division, restructuring and discontinued operations.

On 14 April 2015 pursuant to the sale agreement, the Company PROCHEM S.A. sold 9 790 shares in TEOMA SA in liquidation. The total sale price was set at the amount of PLN 97.90.

On 22 May 2015 based on the contract of sale, the Company Prochem Investycje Sp. z o.o., a 100% subsidiary of PROCHEM S.A. sold 196 shares (representing 89.1% of the share capital) of the company Prochem Service Sp. z o.o. seated in Warsaw. The nominal value of shares amounts to PLN 196 thousand. The total sale price was set at amount of PLN 1 300 thousand.

In the first half of 2015 years subsidiary Elektromontaż Krakow SA bought back 387 of own shares for redemption for a total amount of PLN 9 thousand. As a result of share buyback for redemption by the company Elektromontaż Krakow SA there was a change in the structure of shareholding. The share of the Parent Company increased by 0.1% percentage points. As at 30 June 2015 the Parent Company's share in the capital and voting rights of the company Elektromontaż Krakow constitutes 77.4%.

8. The Management Board's comment concerning the possibilities of accomplishment of previously published results forecasts for the given year, in the light of the results presented in the quarterly report in relation to forecasted results

The company PROCHEM S.A. did not publish any forecasts of financial results neither of the company nor of PROCHEM S.A. Capital Group for 2015.

9. 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 owned shares, their percentage of the share capital, the number of votes 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 previous quarterly report

According to the Company's knowledge at the date of this report, the following shareholders hold at least 5% of votes at the General Meeting of Shareholders:

Item No.	DESCRIPTION	NUMBER OF SHARES HELD (UNITS)	% OF VOTES IN TOTAL NUMBER OF VOTES	% OF SHARE CAPITAL
1	Porozumienie PHC including: Steven Tappan	1,179,483 510,00	30.31 13.09	30.28 13.09
2	Legg Mason TFI S.A.	560,549	14.39	14.39
3	Otwarty Fundusz Emerytalny PZU S.A. „Złota Jesień“	387,521	9.94	9.95
4	Quercus TFI S.A.	204,198	5.24	5.24

In the period since the previous report there was no change in the ownership structure of the issuer's shares by shareholders holding at least 5% of votes at the general meeting of shareholders.

10. Statement of changes in the ownership of the issuer's shares or rights to them (options) by the Management Board and the Supervisory Board, in accordance with the knowledge of the issuer, in the period since submission of the previous quarterly report

On the submission date of this report the following members of the Management Board and Supervisory Board held shares of PROCHEM S.A.:

- Jarosław Stepniewski – 80,943 units;
- Marek Kiersznicki – 70,393 units.;
- Krzysztof Marczak – 43,700 units.;
- Andrzej Karczykowski – 115,186 units.;
- Marek Garliński – 86,400 units.;
- Steven Tappan – 510,000 units.

Since the submission of the annual report for 2014 there was no change in the number of shares of the issuer owned by the members of the Management Board and the Supervisory Board.

11. 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 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) 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 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 the 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. continues to be a party to the proceedings before the court concerning the settlement of the contract which was interrupted on 10 November 2005, for the 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 under the final settlement of the contract, of which PLN 17,364 thousand is recognized in the statement of financial position as a receivable from seized guarantee deposit, and the remaining amount is the contingent receivable. 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 has ordered that the District Court will

make the accounting for the contract mentioned above pursuant to the provisions of the contract. This finding is in compliance with position in a case of PROCHEM S.A. On 12 August 2010 the hearing was held before the District Court in Warsaw, where the Court decided to appoint an expert - Warsaw University of Technology – Department of Civil Engineering, who according to the recommendations of Court of Appeal will make an ultimate accounting for in relation to the disputed contract. In April 2011, the case file was forwarded to the expert witness, who in an opinion published in May 2012 confirmed the amount of the claim of PROCHEM S.A. By order of May 31, 2012, the District Court granted the Warsaw University of Technology a remuneration for opinion in the case, in relation to which the defendant PERN lodged a complaint. According to PERN SA the prepared opinion could not be the basis of the findings of facts of the case for the Court, because it is contrary to the thesis of the Court in which was determined the basis and scope of the opinion.

The Court of Appeal in Warsaw, I Civil Division has cancelled the decision of the District Court which was contested by PERN SA and the request for remuneration of an expert for the drafting of an opinion has submitted to the District Court for reconsideration.

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 in which the final the final conclusions of evidence to complement the expert opinions will be clarified, and postponed the hearing until 16 May 2013.

By order dated February 25, 2013, the District Court in Warsaw XXVI Economic Department upheld the previous decision of the Court, and finally has awarded a remuneration for the expert for drafting the opinion. In grounds for the judgment the Court determined that, at the hearing on 5 February 2013, the certified expert has carefully explained the methodology that has been adopted for the preparation of the legal opinion and it is not inconsistent with the thesis of the Court, and there are no legitimate grounds to complaint that the methodology adopted by the experts is not correct.

On 14 May 2013, the Issuer received a notice from the District Court in Warsaw of revocation hearing scheduled for 16 May 2013 and the next date of hearing has not been appointed yet.

On 9 August 2013, the Issuer received from the District Court in Warsaw, the decision as of 1 August 2013, from closed session of the Court. At the meeting, the Court

decided to admit evidence of a supplementary opinion of research institute - Warsaw University of Technology in Warsaw, in the circumstance of determining the value of services, supplies, and other liabilities made by PROCHEM S.A. and directly related to the implementation of the agreement that have been made after the date of withdrawal from the contract on the basis of commitments contracted prior to the withdrawal from the contract. In November 2013 the experts appointed by the court have started the work associated with the preparation of the supplementary opinion.

On 25 February 2014, the Court received the supplementary opinion that confirms the amount of the claim of PROCHEM S.A.

On 24 October 2014 the court suspended of its own motion the hearing until the removal of formal obstacles that have now been removed and on February 6, 2015, a request was made to continue the proceedings and set a date for the next meeting.

On 4 March 2015 the District Court in Warsaw has scheduled a hearing for 30 April 2015.

At the hearing on 30 April 2015, the Regional Court in Warsaw has pledged experts to supplement the opinion. Date of next hearing will be appointed after the supplementation of expert opinions.

On 6 May 2015 in relation to the doubts raised against some aspects of the expert's opinions and in the interest of a faster conclusion of the case, PROCHEM limited action by the amount of PLN 139 thousand to the amount of PLN 41 162 thousand, along with statutory interest.

On 17 July 2015 the Company received a copy of the supplementary opinion expert, which in all cases had confirmed the position of PROCHEM S.A.

At the end of June 2015 the Group presents the receivables from PERN SA under seized during the execution of the contract of guarantee deposits worth PLN 17,364 thousand, which are the subject of a final settlement of the contract and the proceedings pending before the Court. These receivables are not covered by write-down because of the high probability of their recovery, according the opinion of the Board, which was also confirmed in the opinion on the settlement of a contract drawn up by an expert appointed by court. The remaining amount of the claim of PROCHEM S.A. in the amount of PLN 23,798 thousand was recognized as a contingent asset, because of the reporting date, still did not meet all the criteria for recognition as an asset in accordance with IAS 37.

In response to the claim of PROCHEM S.A. PERN SA filed a counterclaim against the Company in February 2007, demanding payment of the amount of PLN 129,444 thousand with statutory interest, as reimbursement for of remuneration, which in the opinion of PERN SA, was unduly paid to the defendant for the execution of the contract. The claim as above is also the subject of the proceedings which was described above. As at 30 June 2015 the Group did not create a provision in connection with a counterclaim from PERN SA, because the Management Board believes the risk of an adverse decision for the Group in proceedings with PERN SA is negligible.

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

12. Information on the one or more transactions concluded by the issuer or by its subsidiary with related parties, if separately or jointly they are significant 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) the material terms of the transaction with particular emphasis on financial conditions and the indication of the specific conditions determined by the parties, characteristic of this agreement, in particular differing from conditions commonly applied for such contracts.

In the first half of 2015 there were no transactions concluded on other terms than market terms.

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

In the first half of 2015 jointly-controlled company Irydion Sp. z o.o. on 20 April 2015 signed an agreement on the construction and mortgage loan up to the amount PLN 43 469 thousand for the implementation of development project (construction of office building) under the name of Astrum Business Park in Warsaw. Interest on the

loan is established as follows: in the Developer's Phase (the period for implementation of the project) according to a floating interest rate WIBOR 3M plus margin, in the investment phase (after conversion of the loan) 3M EURIBOR plus margin. The repayment date was set for September 22, 2031. The loan will be launched after the establishment of security. The established security for the loan include: the establishment of contractual mortgage, transfer of rights from the insurance policy of the project, transfer of a debt from lease contracts, the establishment of the registered pledge on all shares in the share capital by the Shareholders.

Company PROCHEM S.A. granted to the jointly controlled company Irydion Sp. z o.o. a surety under abovementioned agreement of loan up to the amount of PLN 21,735 thousand. (i.e. 50% of the amount of the loan). The guarantee was fixed up to 20 September 2016.

On April 20, 2015, the company PROCHEM S.A. entered into an agreement of registered pledge of 4 500 shares with a nominal value of PLN 1 000 each, with a total nominal value of PLN 4 500 thousand. These shares represent 50% of the share capital of the jointly controlled entity and give the right to 4,500 votes at the company's shareholders' meeting. Registered pledge on the shares is to constitute the collateral of the loan as above.

14. Other information that in the issuer's opinion is essential 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 capital group of the Issuer does not indicate a risk of the lack of possibility to fulfil its liabilities, which makes it a credible partner in economic turnover.

15. 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

The results in subsequent quarters will mainly depend on the possibility of gaining of new contracts on sale of services by the companies from the Capital Group. A large impact on the results of the Capital Group will have the continuation of two projects which were started last year: the contract in Belarus and the construction of Center Astrum Business Park in Warsaw.

Krzysztof Marczak
Vice President
of the Management Board

Marek Kiersznicki
Vice President
of the Management Board

Jarosław Stępniewski
President
of the Management Board