

**MANAGEMENT BOARD REPORT
ON THE ACTIVITIES OF THE PROCHEM S.A.
CAPITAL GROUP IN 2022**

Warsaw, 28 April 2023

1. Principles of presentation of financial statements

Principles of preparation of the consolidated financial statements of the Prochem S.A. Capital Group for 2022 have been included in Explanatory Notes to the financial statements.

2. Overview of the basic economic and financial volumes disclosed in the annual financial statements and presentation of the development prospects of the Capital Group of Prochem S.A. in 2023

In 2022 the Prochem S.A. Capital Group achieved revenues from basic activity in the amount of PLN 222 million. They are PLN 26 million lower than those achieved in 2021. The largest decrease occurred in the execution services segment, where sales revenues were PLN 53 million lower than in the previous year. It also had a significant impact on the effects of basic activity in 2022, which closed with operating profit of PLN 4.6 million.

Companies from the Capital Group are implementing several large, long-term contracts for design services, which in 2023 will allow to maintain high revenues and a positive margin in this segment of services. Whereas, a possible decrease in new orders on implementation resulting from the coronavirus pandemic and the ongoing war in Ukraine may pose a threat to the development of the Companies from the Capital Group.

2.1 Characteristics of the structure of assets and liabilities of the consolidated balance sheet, including from the point of view of the liquidity of the Issuer's Capital Group.

As at 31 December 2022, non-current assets accounted for 30.1% of the balance sheet total, i.e. PLN 61,768 thousand, and current assets 69.9%, i.e. PLN 143,627 thousand. Compared to the previous year, there was a decrease in the value of non-current assets by PLN 47.7 million, while in current assets increase by PLN 8.5 million. The reason for the changes in assets is primarily the change in the status of Irydion Sp. z o. o. from an associate to a subsidiary, and an increase in cash as a result of the sale of Office and Service Centre Astrum.

The buy-back of own shares for redemption conducted by Prochem S.A. resulted in a decrease in the equity of the Capital Group. They decreased by PLN 10.4 million and accounted for 45.0% of the balance sheet total at the end of 2022, while total liabilities decreased by PLN 28.8 million and accounted for 55.0% of the balance sheet total. The current liquidity ratio at the end of 2022 was 1.98.

3. Description of significant risk factors and threats to the activity of the Prochem S.A. Capital Group

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

3.1 Economic fluctuations in the investment market

Some of the companies belonging to the Capital Group provide services on the investment market characterized by a large scale of fluctuations in demand, strongly related to the general macroeconomic situation of the country, which is currently strongly influenced by the coronavirus pandemic. Methods used by the Group to limit the negative impact of these factors 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 threats occurrence during the performance 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

The risk of dependence on personnel occurs especially in the parent company. Raising the quality of services provided, undertaking the implementation of complicated production technology 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 labor market can be difficult. The Company is trying to minimize such threat by raising qualifications of the staff employed and using incentive programs associating employees with the company.

3.4 Exchange rate risk

Part of contracts (mainly of the parent company) for the sale of services is concluded with foreign companies in foreign currencies (EUR, US\$). In the event of a significant appreciation of the national currency, this may have a significant impact 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.

3.5 Risk on 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 Company, and in special circumstances, may cause for the Issuer 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 2022

By Resolution No. 13/1834/2021 of the Stock Exchange Council of March 29, 2021, new corporate governance rules for companies listed on the GPW Main Market were adopted. This is another version of the set of corporate governance rules applicable to companies listed on the WSE Main Market. The new rules entered into force on July 1, 2021. In connection with the above, from July 1, 2021, the Company applies the principles contained in the document "Best Practices of Companies Listed on the Warsaw Stock Exchange 2021" ("DPSN 2021"), except for the principles: 1.3.1., 1.3.2., 1.4., 1.4.1., 1.4.2., 2.1., 2.2., 2.11.6., 4.1., 4.3., 6.2., 6.3.:

In its business strategy, the company also takes into account the subject of ESG, in particular including:

1.3.1. environmental issues, including measures and risks related to climate change and sustainable development issues;

The principle is not applied.

Company commentary :

In the course of its operations, the company takes into account modern technological solutions, also paying attention to environmental aspects. However, the Company's business strategy is not a formalized document and is not communicated to the public, therefore it is not possible to include the ESG subject in the manner indicated in the above principle.

1.3.2. social and employee matters, concerning e.g. actions taken and planned to ensure gender equality, proper working conditions, respect for employee rights, dialogue with local communities, customer relations.

The principle is not applied.

Company commentary:

The issues indicated in the above principle are important for the Company and are implemented in its current operations. The company takes care to ensure gender equality, proper working conditions, respect for employees' rights, as well as proper relations with contractors. However, the Company's business strategy is not a formalized document and is not communicated to the

public, therefore it is not possible to include the ESG subject in the manner indicated in the above principle.

1.4. In order to ensure proper communication with stakeholders, within the scope of the adopted business strategy, the company publishes on its website information on the assumptions of its strategy, measurable goals, including in particular long-term goals, planned activities and progress in its implementation, determined by means of metrics, financial and non-financial. Information on the strategy in the ESG area should, among others:

1.4.1. explain how the decision-making processes in the company and its group entities take into account issues related to climate change, pointing to the resulting risks;

1.4.2. present the value of the equal pay index paid to its employees, calculated as a percentage difference between the average monthly remuneration (including bonuses, awards and other allowances) of women and men for the last year, and provide information on actions taken to eliminate possible inequalities in this regard, together with the presentation of the related risks and the time horizon in which it is planned to achieve equality.

The principles are not applied.

Company commentary:

The principles cannot be applied by the company due to the lack of public communication of a formalized business strategy.

2.1. The company should have a diversity policy towards the management board and the supervisory board, adopted by the supervisory board or the general meeting, respectively. The diversity policy defines the goals and criteria of diversity, e.g. in such areas as gender, field of education, specialist knowledge, age and professional experience, and also indicates the date and method of monitoring the implementation of these goals. In terms of diversity in terms of gender, the condition for ensuring the diversity of the company's governing bodies is the minority share in a given governing body at a level not lower than 30%.

The principle is not applied.

Company commentary:

The company does not have a formalized diversity policy in place. The basic criterion when making decisions on the selection of persons to the Management Board and the Supervisory Board are the competences of the candidates, while recognizing the principle of non-discrimination of candidates for any non-substantive reasons.

2.2. Persons making decisions on the selection of members of the company's management board or supervisory board should ensure the versatility of these bodies by selecting persons to ensure diversity, enabling, among others, achieving the target ratio of the minimum share of minorities set at a level not lower than 30%, in accordance with the objectives set out in the adopted diversity policy referred to in principle 2.1.

The principle is not applied.

Company commentary:

The company does not have a formalized diversity policy in place. Persons making decisions on the selection of members of the Company's governing bodies are guided by the candidates' competences, their education and professional experience as well as knowledge, while recognizing the principle of non-discrimination of candidates for any non-substantive reasons.

2.11.6. information on the degree of implementation of the diversity policy in relation to the management board and the supervisory board, including the implementation of the objectives referred to in principle 2.1.

The principle is not applied.

Company commentary:

The Company has not adopted a formalized diversity policy towards the management board and the supervisory board, therefore the information indicated in the above principle cannot be included in the report of the Supervisory Board.

4.1. The company should enable shareholders to participate in the general meeting using electronic means of communication (e-general meeting), if it is justified due to the expectations of shareholders reported to the company, provided that it is able to provide the technical infrastructure necessary to conduct such a general meeting.

The principle is not applied.

Company commentary:

The Company's shareholding structure does not justify the introduction of the solutions referred to in the above principle, taking into account the proportionality and adequacy of the adopted solutions and the Company's individual needs.

4.3. The company provides publicly available transmission of general meetings in real time.

The principle is not applied.

Company commentary:

The Company's shareholding structure does not justify the introduction of the solutions referred to in the above principle, taking into account the proportionality and adequacy of the adopted solutions and the Company's individual needs.

6.2. Incentive programs should be structured in such a way that, among other things, they make the level of remuneration of members of the company's management board and its key managers dependent on the actual, long-term situation of the company in terms of financial and non-financial results and long-term increase in value for shareholders and sustainable development, as well as the stability of the company's operations.

The principle is not applied.

Company commentary:

The Company's "Remuneration Policy for Members of the Management Board and Supervisory Board" does not provide for the functioning of incentive programs in the Company. The principles for remunerating Management Board Members are set out in contracts prepared by the Supervisory Board, based on the applicable Remuneration Policy. The remuneration of key managers is determined in a way aimed at attracting, retaining and motivating these people to properly perform their duties, adequately to the tasks performed and the responsibility incurred.

6.3. If one of the incentive programs in the company is a managerial option programme, then the implementation of the option program should be conditional upon the eligible persons meeting, within at least 3 years, financial and non-financial and sustainable development goals set in advance, realistic and appropriate for the company, and the purchase price of the shares by the entitled persons or the settlement of the options may not differ from the value of the shares from the period when the program was adopted.

The principle is not applied.

Company commentary:

The Company does not use an incentive scheme based on the managerial option scheme.

The full text of the set of corporate governance principles to which the Company is subject, along with a list of principles that the Company currently does not apply and a commentary in this regard, is available on the website of Prochem S.A. – www.prochem.com.pl.

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

Internal control is one of the functions of day-to-day management of the Group, exercised directly by the Management Boards of the Companies, directors, proxies and other employees employed in managerial positions or to whom such a function was entrusted.

The companies belonging to the Capital Group have a comprehensive internal control system, the purpose of which is to ensure timely and accurate disclosure of facts regarding all significant elements of the company's operations. It contributes to obtaining full knowledge about the financial situation, operating results, the state of the Group's assets and the effectiveness of management. The scope of the control covers primarily:

- business activity of the company - basic and auxiliary,

- financial reporting and accounting settlements,
- compliance of the company's operations with applicable laws and internal regulations,
- employment and wages.

Institutional internal control examines projects already implemented and related documentation. Its main task is to conduct comprehensive inspections of the most important issues for the Group as well as to collect and compile information on the activities of the Group's organizational units, selected economic problems and other issues considered by the Management Board of the parent company to be the most important in a given period. Apart from the institutional internal control in the Group, there is also the so-called functional control, which is exercised by managers at various ranks. These managers exercise supervision over the employees subordinate to them, consisting in checking the status of the implementation of the tasks set.

Institutional internal control is carried out in the PROCHEM S.A. Capital Group. mainly by financial and accounting services and employees of the legal and organizational department. Some tasks in the field of internal control are carried out by appointed teams and committees. 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 the formal and substantive and accounting correctness bears a signature made 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.

Operating in the Capital Group PROCHEM S.A. the control system ensures the completeness of the recognition of business operations, the correct classification of source documents as well as the correct valuation of the resources held at the various stages of registration, and thus ensures the correct preparation of financial statements and allows the Management Board of the parent company to conduct the Group's operations based on verified and complete information.

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

There are the following risks in the business activity:

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

Risk management in individual areas consists in:

- monitoring of risk-generating phenomena,
- taking action to reduce the level of risk.

In terms of individual risks, the situation is as follows:

- risk of economic fluctuations in the investment market:

- the macroeconomic situation and the situation in selected industries are monitored
- objective diversification is continued (executive activity, activities in the field of technical consulting, developers activity),
- territory diversification (development of exports)
- accumulation of financial reserves

- risk of losing key employees

- monitoring of employment, remuneration and staff turnover
- monitoring of the labor market and of the level of remuneration
- maintaining of the system of training and raising of qualifications
- incentive programs for the key employees
- active recruitment system through cooperation with universities

- risk of threats occurrence during the performance of contracts

- realistic price calculation when concluding contracts,
- monitoring of the progress of contracts and disclosure of threats based on the "Service cost control" procedure implemented by the Cost Control Team,
- selection of reliable subcontractors,
- contract clauses restricting the maximum amount of contractual penalties

- foreign currency risk:

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

- risk of dependence on significant service buyers

- monitoring the implementation of contracts with major buyers of services
- contractual provisions containing the cushioning elements

- maintaining partnership relations with repeat customers

- risk of payment unreliability

- monitoring of the financial standing of key clients, both before and when the contracts are implemented

- application of specialized debt collection procedures.

Both the 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 development and diversification strategy is conducive to reducing some of the risks and leads to professionalization of the instruments used.

Note 38 to the Consolidated Financial Statements for 2022 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 of:

- risk: price changes, credit risk, significant disruptions in cash flows and loss of financial liquidity to which the Capital Group is exposed;
- the objectives and methods of financial risk management adopted by the Capital Group, including methods of hedging 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:

Name of the shareholder	Number of shares held (in pcs.)	Number of votes held	% of votes in total number of votes	% of share capital
1. Steven Tappan	1 000 000	1 000 000	42.44	42.46
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”.	284 916	284 916	12.09	12.10

Company's share capital amounts to PLN 2,355,000 and is divided into 2,355,000 shares with a nominal value of PLN 1.

Acting pursuant to resolutions Nos. 4 and 5 of the Extraordinary General Meeting of September 24, 2022 the Management Board of Prochem S.A. on November 7, 2022 announced an invitation to submit sales offers for shares in Prochem S.A. The subject of this announcement was the purchase by the Company of no more than 350,000 shares of Prochem S.A. with a nominal value of PLN 1 each, issued by the company, dematerialized and registered by the National Depository for Securities S.A. in Warsaw ("KDPW") at the price of PLN 26 per share.

The buyback of the Company's shares was settled on November 28, 2022. The Company purchased 350 000 own shares for redemption.

After the settlement of the buyback of shares 2 005 000 shares are in trade, the total number of votes from these shares is 2 006 160.

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. Description of the principles regarding the appointment and dismissal of managing persons and their rights

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 principles for amending the statute or articles of association of the Issuer

The principles 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.

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

In the period from January 1, 2022 to December 31, 2022, there were no changes in the composition of the Company's Management Board.

As at the date of preparation hereby separate financial statements, the Management Board comprises of the following persons:

Marek Kiersznicki - President of the Management Board

Krzysztof Marczak - Vice President of the Management Board

Michał Dąbrowski - Member of the Management Board

The three-year joint term of office of the company's management board began on June 25, 2021.

As at the date of preparation hereby separate financial statements, the Supervisory Board comprises of the following persons:

Marek Garliński

Andrzej Karczykowski

Jarosław Stępniewski

Wiesław Kiepiel

Karol Żbikowski

In the period from January 1, 2022 to December 31, 2022, there were no changes in the composition of the Supervisory Board.

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.

On August 25, 2020 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

Wiesław Kiepiel - Member of the Audit Committee

Mr. Karol Żbikowski and Mr. Wiesław Kiepiel 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.

Company Misters Audytor Adviser sp. z o.o. in addition to auditing financial statements, it also provides evaluation service on the report on remuneration.

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 Offering side 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 Offering side independence statement, under pain of of criminal responsibility for a false statement.
- f. Submission of the statement whether the Offering side 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 PROCHEM S.A. 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 2021 the Audit Committee held four 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 a 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 also are not a 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: designing, general contracting, project management, technical consultancy, general construction works, installation and assembly services and rental of construction equipment;
- rental of office space;
- technical consulting, development and implementation of new technologies, integration of IT systems.

Revenue from the sale of these services in 2022 was 11.2% lower than in the previous year.

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

(Revenues in PLN thousands)

DESCRIPTION	IN 2022	IN 2021
REVENUE FROM SALES OF SERVICES TOTAL	218 243	245 768
Of which:		
- sale of engineering and construction services	209 182	236 536
- space rental	4 850	4 454
- sale of other services	4 211	4 778

14. Division into sales markets for the sale of services in 2022

The share of export in the sale of services in 2022 was 0%.

The recipients of the Group's services, whose share in sales revenues in 2022 exceeded 10%, were:

- Anwil S.A. – 24% share in revenues from the sale of services;
- Bioagra S.A. - 11% share in revenues from the sale of services.

There are no other formal ties with these entities, apart from commercial agreements.

15. Information on concluded agreements significant for the operations of the Capital Group of Prochem S.A.

The main revenues of the Prochem S.A. Capital Group expected in 2023 will be obtained as a result of the implementation of contracts for the provision of execution services for Foosung Poland Sp. z o. o., Anwil S.A., Bioagra S.A. and design services for Foosung Poland Sp. z o o., ElectroMobility Poland S.A., PCC and Posco Engineering & Construction.

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 Capital Group of Prochem S.A.

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

The Issuer has no branches or establishments, but has the following direct or indirect subsidiaries as well as associates and jointly controlled entities:

Subsidiaries consolidated using the full method:

- 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%);

- Przedsiębiorstwo Konsultingowo-Inżynieryjne PREDOM Sp. z o.o. seated in Wrocław – subsidiary indirectly (91.6%);
- Prochem Zachód Sp. z o. o. seated in Słubice – subsidiary directly (80.0%);
- Elektromontaż Kraków S.A. seated in Krakow – subsidiary indirectly (92%);
- IRYDION Sp. z o. o. seated in Warsaw – subsidiary directly (100%);
- Prochem RPI Sp. z o. o. seated in Warsaw – subsidiary indirectly (100%);

Associates and jointly controlled entities consolidated using the equity method:

- ITEL Sp. z o. o. seated in Gdynia – 42.0% share (18.7% share in voting rights and capital belongs directly to Prochem S.A. and 23,3% belongs to Prochem RPI Sp. z o. o. subsidiary (in 100%).

The principle adopted for consolidation is not to include in the consolidation entities that do not conduct business - financial data of these companies 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 the consolidation were included in the consolidated financial statements starting from the date of taking control by the parent company.

17. Related party transactions

In 2022, no significant transactions were concluded between the companies of the Issuer's Capital Group on terms other than market conditions.

18. Information on credits and loans taken

Name of the bank	Seat	Loan limit	Amount engaged	Repayment date	Terms of interest	Security
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By Elektromontaż Kraków S.A.

mBank S.A.	Warszawa	1 500	-	01.03.2023	WIBOR ON + margin	Mortgage + promissory note
ING BANK Śląski	Katowice	3 000	440	19.11.2023	WIBOR for 1-month deposits in PLN + margin	Mortgage + promissory note

By Pro-Inhut sp. z o.o.

ING Bank Śląski S.A.	Dąbrowa Górnicza	734	735	17.05.2021	WIBOR for 1-month deposits in PLN + margin	Bank BGK guarantee based on a portfolio agreement. A promissory note in blank
ING Bank Śląski S.A.	Sosnowiec	400	398	30.07.2021	WIBOR for 1-month deposits in PLN + margin	Bank BGK guarantee based on a portfolio agreement. A promissory note in blank
ING Bank Śląski S.A.	Sosnowiec	200	51	30.07.2021	WIBOR for 1-month deposits in PLN + margin	Bank BGK guarantee based on a portfolio agreement. A promissory note in

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19. Information on loans granted

As at 31 December 2022, the Group has no receivables under loans granted.

20. Information on guarantees and sureties granted and received

The total value of sureties and guarantees granted by the companies from the Group related to operating activities as at 31 December 2022 is PLN 67,594 thousand, including:

- a) bank guarantees of good performance of services – PLN 66,362 thousand;
- b) guarantee of return of advance payment – PLN 69 thousand;
- c) rent payment guarantee – PLN 1,163 thousand;

The total amount of contingent receivables under guarantees of good performance and statutory warranty received as at December 31, 2022 is PLN 16,776 thousand.

In 2022, the Group companies did not provide loan repayment guarantees to related parties.

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

In 2022 the companies from the Capital Group did not issue any securities.

22. Explanation of differences between the achieved financial result and forecasts

In 2022 the Prochem S.A. Capital Group did not publish forecast of financial results.

23. Assessment of the management of financial resources

In 2021 any disruptions of financial liquidity in the Prochem S.A. Capital Group did not occur. Both the level of financial resources held by the companies from the Capital Group and the available credit lines allow for the timely fulfillment of contracted liabilities.

24. Assessment of the feasibility of investment plans

Since 2013 the subsidiary Irydion carried out the construction and commercialization of the office and service building in Warsaw under the name of Astrum Business Park. In 2022, the process of selling the office building was completed. Currently, the Issuer is analyzing the possibilities of safe investment of funds obtained as a result of the transaction.

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

The financial results achieved in 2022 were significantly affected by a strong increase in the prices of construction goods and services as a result of the war in Ukraine that began in February 2022. There were restrictions on the availability of certain goods and extension of delivery dates for equipment and materials. As a result of this situation, logistic problems occurred and a significant increase in the costs of implementation contracts conducted by the companies from the Capital Group. The losses achieved in this business segment were partly offset by the good result of the design and engineering services segment, thanks to the full use of the Group's potential in this area in 2022.

26. Characteristics of external and internal factors important for the development of the Issuer's enterprise in 2023

For the activities of the Capital Group of Prochem S.A. in 2023, the macroeconomic environment will have a significant impact, in particular the course of the war in Ukraine, the possibility of obtaining funds from the EU for the National Reconstruction Plan, interest rates on loans, the level of inflation and the related prices of energy, materials and construction services. All these factors have a significant impact on the decisions taken by potential customers of the Prochem S.A. Capital Group. (in particular industrial companies) to start new investment plans.

Management boards of companies from the Prochem S.A. Capital Group monitor the current situation with particular attention and take appropriate actions to adapt their potential and the scope of services provided to the new conditions. Currently, most of the orders held by the companies from the Issuer's Capital Group concern services for investments in the field of new technologies, electromobility, diversification of energy sources (cogeneration, hydrogen production installations), which, in the Issuer's opinion, may mitigate the negative effects of the macroeconomic situation on the entity's operations.

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

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

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

In 2022 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 2022 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 2022.

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.;

- Marek Kiersznicki – 44,327 pcs.;
- Krzysztof Marczak – 30,268 pcs.;
- Marek Garliński – 27,977 pcs.;
- Andrzej Karczykowski – 27,952 pcs.;
- Jarosław Stępniewski – 50,206 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

In companies from the Prochem S.A. Capital Group, there is no employee share program.

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

Based on the resolution of the Supervisory Board of Prochem S.A. of May 20, 2020 on the selection of the auditor, on June 9, 2020, an agreement was concluded with the entity authorized to audit financial statements, Misters Audytor Adviser sp.z o.o. for the audit and

review of separate and consolidated statements of Prochem S.A. The agreement was concluded for the audit of reports for 2020, 2021 and 2022. The total amount of remuneration of Misters Audytor Adviser sp.z o.o. resulting from the contract is PLN 30,400 net for the review of financial statements for 2022 and PLN 58,400 for the audit of financial statements for 2022. Additionally, due to the evaluation of the report on remuneration for 2022, Misters Audytor Adviser sp.z o.o. will receive a remuneration of PLN 7,800 net.

On account of the audit and review of financial statements for 2021, Misters Audytor Adviser sp. z o.o. received a remuneration of PLN 70,700 net.

Additionally, due to the evaluation of the report on remuneration for 2021, Misters Audytor Adviser sp.z o.o. received a remuneration of PLN 7,800 net.

Michał Dąbrowski

Krzysztof Marczak

Marek Kiersznicki

Member

Vice President

President

of the Management Board

of the Management Board

of the Management Board