

MANAGEMENT BOARD REPORT
ON THE ACTIVITIES OF THE PROCHEM S.A.
CAPITAL GROUP IN THE FIRST HALF OF 2023

Warsaw, 29 September 2023

1. Principles of presentation of financial statements

Principles of preparation of the consolidated financial statements of the Prochem S.A. Capital Group for the first half of 2023 have been included in Explanatory Notes to the financial statements.

2. Brief description of significant achievements or failures of the Issuer in the period covered by the report, together with a list of the most important events concerning the Issuer

In the first half of 2023 the Prochem S.A. Capital Group achieved revenues from basic activity in the amount of PLN 181 million. They are PLN 78 million higher than those achieved in the first half of 2022. Despite a significant increase in sales, the Capital Group recorded a net loss on operations of PLN 14.6 million. This result is the result of the General Contracting segment losing profitability. In the Design and Engineering Services segment, sales increased by 22% in the first half of 2023 and profitability remained at the current level.

3. Indication of factors and events, including those of unusual nature, having a significant impact on the condensed financial statements

Results of the Prochem S.A. Capital Group reflect the problems currently faced by the construction industry in Poland. The most important include: increase in costs (energy, raw materials, construction materials, wages, transport) and difficulties with contract valorizing. The termination of general contracting contracts before February 2022 contributed to the weaker results in the first half of the year.

4. Description of significant risk factors and threats to the activity of the Issuer's Capital Group

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

Economic fluctuations in the investment market

Part of the companies from the Capital Group provide services in the investment market, characterized by a large scale of fluctuation in demand, strongly related to the overall macroeconomic situation of the country and which is currently very strongly affected by the coronavirus pandemic. Methods used by the Group to limit the negative impact of this factor on financial results (accumulation of financial reserves, diversification of services provided, using appropriate IT tools and solutions), may not fully neutralize this risk.

Possibility of the threat occurrence at execution 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.

Dependence on the staff

The risk of becoming dependent on the staff occurs especially in the parent company. Raising the quality of services provided, undertaking the implementation of complicated technological 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 treat by raising qualifications of the staff employed and using incentive programs associating employees with the company.

Exchange rate risk

Part of contracts for the sale of services (mainly of the Parent Entity) is concluded with foreign companies in foreign currencies (EUR, USD). In case of a significant strengthening of the domestic currency, it may have an unfavorable effect 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.

Risk of 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 companies, and in special circumstances, may cause for the companies 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.

5. Description of the organization of the capital group, indicating consolidated entities

In the Capital Group of Prochem S.A. (referred to as the "Capital Group", "Group"), in addition to the data of the Parent Entity, there are the following direct and indirect subsidiaries:

Subsidiaries covered by full consolidation:

- Prochem Inwestycje Sp. z o.o. seated in Warsaw – subsidiary directly (100.0%);
- PKI PREDOM Sp. z o.o. seated in Wrocław – subsidiary indirectly (91.4% share in capital and profit, 91.4% of shares);
- Prochem Zachód Sp. z o.o. seated in Warsaw – subsidiary directly (80.0%);
- Elektromontaż Kraków S.A. seated in Krakow – subsidiary indirectly (91.8%), including 57.49% of share in capital and in voting right belongs to Prochem Inwestycje subsidiary in 100%.
- Prochem RPI Sp. z o.o. seated in Warsaw – subsidiary in 100% (including 3.3% share in capital and voting rights belongs to Prochem Inwestycje).
- Irydion Sp. z o.o. seated in Warsaw – subsidiary directly (100%).

Jointly-controlled entities and associated entities valued with the equity method:

- ITEL Sp. z o.o. seated in Gdynia – 42.0% of share (18.7% of 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%) – value covered by a write-down – the company does not conduct business.

Subsidiaries covered by consolidation were included in the consolidated financial statements from the date of taking control until the date of loss of control by the Parent Company, and jointly controlled and associated entities from the date of exercising joint control and exercising significant influence.

Company Predom Projektowanie Sp. z o. o. with a capital of PLN 53 thousand was excluded from consolidation. The company has not commenced operations.

6. Indication of the effects of changes in the structure of the capital group, including as a result of a merger of business units, takeover or sale of units of the issuer's capital group, long-term investments, division, restructuring and discontinuation of operations

On June 23, 2023, Prochem Inwestycje Sp. z O. O. 100% subsidiary of Prochem S.A. sold shares of Pro-Inhut Sp. z O. O. in bankruptcy. The subject of the transaction was 96 shares in the Pro-Inhut company with a nominal value of PLN 515 each, with a total nominal value of PLN 49,440. The selling price for the sale of 96 shares was agreed by the parties at PLN 1.

On April 14, 2023, the Ordinary Meeting of Shareholders adopted a resolution regarding consent to the acquisition by PKI Predom Sp. z o. o. own shares in the share capital for the purpose of their redemption. The maximum number of shares that can be purchased is 5,494 with a total nominal value of PLN 274,700. The purchase price of own shares of PKI Predom Sp. z o. o. was set at PLN 182 per share. The value of funds allocated to purchase own shares will not exceed PLN 999,908.

On May 25, 2023, based on the above-mentioned resolution, Prochem Inwestycje (a 100% subsidiary of Prochem S.A.) signed an Agreement for the sale of 4,349 shares of Predom for the purpose of their redemption, with a total nominal value of PLN 217,450, for a total remuneration of PLN 791,518.

On May 25, 2023, based on the above-mentioned resolution, Prochem S.A. signed an Agreement for the sale of 680 shares of Predom for the purpose of their redemption, with a total nominal value of PLN 34,000, for a total remuneration of PLN 123,760.

7. The position of the Management Board regarding the possibility of meeting the previously published forecasts of results for a given year, in the light of the results presented in the interim report in relation to the forecast results

Company Prochem S.A. did not publish forecasts of the financial results of the company or the Prochem S.A. capital group for 2023.

8. Shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the issuer's general meeting as at the date of submitting the quarterly report, along with an indication of the number of shares held by these entities, their percentage share in the share capital, the resulting number of votes and their percentage share in the total number of votes at the general meeting, and an indication of changes in the ownership structure of significant blocks of the issuer's shares in the period from the date of submitting of the previous report

According to the information available to the Company as at the date of submitting this report, the following shareholders hold at least 5% of the votes at the general meeting of shareholders:

Name of the shareholder	Number of shares held (in pcs.)	Number of votes held	% of votes in the total number of votes	% share in share capital
1. Steven Tappan	1 002 450	1 002 450	49.97	50.00
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”	284 916	284 916	14.20	14.21

Change of rights from shares of Prochem S.A. :

1. On August 9, 2023 the Company received information from the Company's shareholder, Mr. Steven Tappan, about the change in the share held so far in the total number of votes at the Company's general meeting. The change in the share in total number of votes at the Company's general meeting is the consequence of the reduction of the Company's share capital from PLN 2 355 000 to PLN 2 005 000 i.e. by PLN 350,000 through the redemption of 350 000 shares of the Company with a nominal value of PLN 1 each, which corresponds to 350,000 votes. Before the change Mr. Steven Tappan held 1 002 450 shares of the Company, which constituted 42.57% of the share capital and had 1 002 450 votes from these shares, which constituted 42.55% of the total number of votes at the General Meeting. After the change Mr. Steven Tappan holds 1 002 450 shares of the Company, which constitutes 50.00% of the share capital and holds 1 002 450 votes from these shares, which constitutes 49.97% of the total number of votes at the General Meeting. There are no entities dependent on the shareholder making the notification holding shares of PROCHEM S.A., and there are no persons referred to in Art. 87 section 1 item 3 of the Act on public offering and conditions for introducing financial instruments to organized trading and on public companies.

2. On August 8, 2023 the Company received from Powszechne Towarzystwo Emerytalne PZU S.A. acting on behalf of the Otwarty Fundusz Emerytalny PZU „Złota Jesień” ("OFE PZU"), notification of a change in the share in the total number of votes held so far by OFE PZU at the general meeting of the Company. The change in the share in total number of votes at the Company's general meeting is the consequence of the reduction of the Company's share capital from PLN 2,355,000.00 to PLN 2,005,000.00, i.e. by PLN 350,000 through the redemption of 350 000 shares of the Company with a nominal value of PLN 1 each, which corresponds to 350,000 votes. The Company's share capital currently amounts to PLN 2,005,000.00 and is divided into 2,005,000 shares with a nominal value of PLN 1.00 each, giving a total right to 2,006,160 votes. Before the change of OFE PZU held 284 916 Company's shares, which

constituted 12.098 % of the share capital and had 284 916 votes from these shares, which corresponded to 12.092% of the total number of votes at the General Meeting. After the change, OFE PZU holds 284 916 Company's shares, which constitutes 14.210 % of the share capital and holds 284 votes from these shares, which corresponds to 14.202 % of the total number of votes at the General Meeting. OFE PZU also informed that:

- does not have any subsidiaries holding shares of PROCHEM S.A,
- the situation indicated in Art. 69 section 4 item 6 of the above Act does not occur,
- it also does not have the financial instruments referred to in Art. 69b section 1 item 1) and 2) of above Act.

9. Summary of changes in the ownership of the issuer's shares or rights to them (options) by persons managing and supervising the issuer, in accordance with the information available to the issuer, in the period since the submission of the previous report

As at the date of submitting hereby report, the following members of the Management Board and Supervisory Board of the company held shares of PROCHEM SA:

- Marek Kiersznicki – 44,327 pcs.;
 - Krzysztof Marczak – 30,268 pcs.;
 - Marek Garliński – 27,977 pcs.;
 - Jarosław Stępniewski – 50,206 pcs.;
- The nominal value of 1 share is PLN 1.

In the first half of 2023, there were no changes in the number of shares held by managing and supervising persons.

10. Indication of proceedings pending before a court, an authority competent for arbitration proceedings or a public administration body. taking into account the information in the scope:

- a) proceedings concerning liabilities or receivables of the issuer or its subsidiary, the value of which is at least 10% of the issuer's equity, specifying: the subject of the proceedings, the value of the subject of dispute, the date of initiation of the proceedings, the parties to the proceedings and the issuer's position,
- a) two or more proceedings regarding liabilities and receivables, the total value of which is respectively at least 10% of the issuer's equity, specifying the total value of proceedings separately in the group of liabilities and receivables together with the issuer's position in this matter and, in relation to the largest proceedings in the group of liabilities and the group of claims - with an indication of their subject matter, the value of the subject of the dispute, the date of initiation of the proceedings and the parties to the proceedings initiated

Companies from the PROCHEM S.A. Capital Group are not a party to proceedings or two or more proceedings concerning liabilities or receivables of the issuer or its subsidiary, the total value of which is at least 10% of the issuer's equity.

11. Information on the conclusion by the issuer or its subsidiary of one or more transactions with related entities, if they are individually or jointly significant and were concluded on terms other than market terms:

- a) the subject of the transaction,
- b) relations between the issuer or its subsidiary and the entity that is a party to the transaction,
- c) significant terms of the transaction, with particular emphasis on the financial terms and an indication of specific terms and conditions specified by the parties, specific to this contract, in particular different from the terms commonly used for a given type of contract.

In the first half of 2023, there were no significant transactions with related entities in the Prochem S.A. Capital Group. concluded on terms other than market conditions.

12. Information on granting by the issuer or its subsidiary sureties for a credit or loan or granting a guarantee – jointly to one entity or its subsidiary, if the total value of the existing sureties or guarantees is equivalent at least to 10% of the issuer's equity

In the first half of 2022, the companies of the Capital Group did not grant any sureties or guarantees.

13. Other information that, in the issuer's opinion, is significant for the assessment of the personnel, property, financial standing, financial result and their changes, and information that is significant for the assessment of the ability of companies from the issuer's group to meet their obligations

The level of debt and the financial liquidity ratio of the companies from the Issuer's capital group do not indicate the risk of the inability to meet obligations, which makes them reliable partners in business turnover.

14. Indication of factors which, in the issuer's opinion, will affect the results achieved by the capital group in the perspective of at least the next quarter

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

The company is currently conducting advanced negotiations with clients regarding the indexation of remuneration for contracts that were concluded before 2022 and, due to unforeseeable changes in the economic situation, are no longer profitable. The success of these

talks should have a positive impact on the financial results of the Capital Group in the consecutive periods.

Michał Dąbrowski
Member
of the Management Board

Krzysztof Marczak
Vice President
of the Management Board

Marek Kiersznicki
President
of the Management Board