

MANAGEMENT BOARD REPORT
ON THE ACTIVITIES OF THE PROCHEM S.A.
CAPITAL GROUP IN THE FIRST HALF OF 2024

Warsaw, September 27, 2024

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 2024 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 2024 the Prochem S.A. Capital Group achieved revenues from basic activity in the amount of PLN 85 million. They are PLN 96 million lower than those achieved in the first half of 2023. As a result of the decline in sales revenues, the Capital Group recorded a net loss on operating activities in the amount of PLN 5.2 million.

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

The results of the Prochem S.A. Capital Group reflect the problems currently faced by the construction industry in Poland. The most important ones include: cost increases (energy, raw materials, construction materials, wages, transport) and difficulties with contract indexation. The weaker results in the first half of the year were caused by the completion of contracts concluded under the general contracting formula before February 2022, as well as the postponement of decisions by the Capital Group's clients to start new investments resulting from the uncertain situation in the economic environment caused by the coronavirus pandemic and the effects of the ongoing war in Ukraine.

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 votes);
- Prochem Zachód Sp. z o.o. seated in Warsaw - subsidiary directly (100.0%);

- 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% share (18.7% of share in voting rights and capital belongs directly to Prochem S.A., and 23.3% holds 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.

Spółka 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 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 January 10, 2024, Prochem S.A. acquired 32 shares of Prochem Zachód Sp. z o. o. with its registered office in Warsaw from the bankruptcy trustee of Przedsiębiorstwo Usługowe Interbud West spółka z o. o. with its registered office in Gorzów Wielkopolski. The value of the transaction amounted to PLN 203 thousand. As a result of the transaction, Prochem S.A. became the sole shareholder of Prochem Zachód Sp. z o.o.

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 neither of the financial results of the company nor the Prochem S.A. Capital Group for 2024.

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	1 002 500	1 002 500	50.00	50.00
2. Otwarty Fundusz Emerytalny PZU „Złota Jesień”	284 916	284 916	14.21	14.21

In the first half of 2024, there were no changes in the number of shares held by shareholders with at least 5% of votes at the general meeting of shareholders.

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 2024, 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,
- b) 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 2024, 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 2024, 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 companies from the Issuer's capital group do not indicate the risk of inability to meet obligations, which makes them reliable partners in economic transactions.

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 2024, 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 companies from Capital Group have several large, long-term design and implementation contracts (cooperation on a nuclear power plant project, an electric car factory project, design and implementation of a factory producing components for electric car batteries), which are in the initial implementation phase and will enable them to increase revenues and achieve a margin on their operations in the near future.

Companies from the Capital Group also participate in tender procedures and in the preparation of projects submitted for financing from the National Reconstruction Plan in the field of improving energy efficiency, electromobility, renewable energy sources and the circular economy. The launch of financing for these projects will significantly improve the results of operations of companies from the Prochem S.A. Capital Group.

Michał Dąbrowski

Management Board
Member

Krzysztof Marczak

Vice President
of the Management Board

Marek Kiersznicki

President
of the Management Board