Assessment of the situation of PROCHEM S.A. in 2025 including the assessment of the internal control system and the risk management system

Assessment of PROCHEM S.A. for 2025 was made in three aspects:

- results of operating activities,
- situation of the Company,
- functioning of the internal control and risk management system.

I. ASSESSMENT OF THE COMPANY'S RESULTS FOR 2025

The Company in the scope of its basic activity – sales of engineering and construction services – achieved PLN 64.2 million and this is 0.5 million higher than in 2024. Sales of design and engineering services increased by 17%, while sales of construction services decreased.

The company reported an operating loss and a net loss of PLN 14.7 million and PLN 5.8 million.

The Capital Group reported revenues from its basic activity of PLN 133 million, which is PLN 7 million lower than in 2024.

The Capital Group's operating activities resulted in a loss of PLN 9.6 million, and the net loss amounted to PLN 14.5 million.

To sum up, it should be said that 2025 was another very difficult year, and the financial results achieved, although better than in the previous year, are very unsatisfactory.

The main reasons for the losses incurred were the insufficient number of new orders and the materialization of risks related to long-term, lump-sum contracts for execution concluded in previous years.

The Company's situation in 2024 was influenced by both macroeconomic factors and also factors resulting from the specificity of the company's portfolio of implemented contracts.

II. THE COMPANY'S SITUATION

The Company's situation in 2025 was influenced by both macroeconomic factors and also factors resulting from the specificity of the company's portfolio of implemented contracts.

The year 2025 in the construction and assembly industry can be described as a transition year between stagnation and recovery. The average annual production dynamics remained weak, but the trend is improving noticeably with the launch of public investments and EU funds. The investment rate in Poland remained low at 16.9% of GDP in 2025, compared to the EU average of 21.2% of GDP. Investment in the private sector is performing particularly poorly.

This did not favour the emergence of new investment projects, the implementation of which is the main activity of Prochem S.A.

Investment decisions by investors, especially private ones, are still hampered by expensive credit that increases the cost of financing investments, economic and geopolitical uncertainty related to, among others, the war in Ukraine, trade tensions, wage pressure and unstable costs of raw materials and consumables.

Another negative factor influencing the investment market in 2025 was the slow release of EU funds, especially from the National Reconstruction Plan (KPO).

To sum up this part of the assessment, it should be stated that in 2025 external factors did not favour obtaining a sufficient number of new orders by companies operating in the design and construction services sector.

In 2025, Prochem S.A. continued to suffer the consequences of a sharp deterioration in the profitability of large, long-term, lump-sum implementation contracts concluded in years in which there were rapid changes in the prices of materials, energy and labour, and supply chains were broken.

The lack of investor willingness to valorise prices resulted in losses on basic business activities.

The situation of Prochem S.A. and the entire industry in 2026 should improve due to the accelerating absorption of EU funds from the KPO and the SAFE programme.

We are observing the launch of large investments in the areas of conventional energy, nuclear energy, energy transformation, and the arms industry.

Prochem has the competences and capabilities to operate in the above fields, which creates a chance to regain profitability in 2026.

III. ASSESSMENT OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The scope of the inspection includes 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.

Specificity of PROCHEM S.A. activity is related to the implementation of complex investment projects for clients.

The company has and uses systems for planning and controlling the projects being implemented. They are adjusted based on experience from completed contracts.

Recently, the need to detail standard budget preparation templates has been identified. A detailed standard for developing summary tables at the level of settlements of individual subcontracts has been introduced. These actions are intended to reduce the possibility of making mistakes.

The main task of institutional control is to carry out comprehensive control in the scope of the most important issues for the company and to collect and development of information on the activities of the organizational units of the company, selected economic issues and other issues being recognized by the Company’s Management Board as the most essential in the given period. Apart from the institutional internal control, there is also the so-called functional control in the Company, which is exercised by managers at various ranks. Such managers supervise the employees subject to them, which involves checking the status of the implementation of the tasks set.

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.

In PROCHEM S.A. there is no separate, organizationally separated risk management structure. Risk areas are identified and assessed by the Company's services appropriate for a given type of risk. They are also responsible for defining the actions necessary to mitigate the risk.

Supervision as well as key decisions regarding the scale of risk exposure are made by the Company's Management Board. Risk analysis at PROCHEM S.A. has systemic character, included in various types of procedures regarding individual risks.

Last year, the Supervisory Board took note of and analyzed, as part of its annual assessment, current information on the company's internal control, risk management and internal audit systems.

The following risks have been identified in Prochem's operations:

1. The risk of economic fluctuations

The company is highly susceptible to fluctuations in the construction industry and is strongly dependent on the demand for engineering services, which is cyclical and also subject to occasional events.

In order to limit the impact of this risk on the results and situation of the Company:

- the macroeconomic situation and the situation in selected industries are monitored
- objective diversification is continued (executive activity, activities in the field of technical consulting, developer's activity),
- the level of financial reserves is being optimized.

2. The risk of loss of key employees

The Company's activity is based on a well-educated and qualified staff of employees who are also an attractive target for recruitment by competitors.

In order to mitigate this risk, in Company the following are applied :

- 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

3. The risk of threats occurrence during the execution of contracts

The types of activity conducted at PROCHEM S.A. – preparing and managing investment projects for clients – mean that this is a constant risk, which has been particularly significant in recent years due to high inflation.

In order to mitigate this risk, in PROCHEM S.A. the following are applied:

- form of contract performance adequate to the type of project and the scale of the risk,
- realistic price calculation when concluding contracts, taking into account the inflation forecast,
- monitoring the progress in execution of contracts and disclosure of threats,
- selection of reliable subcontractors,
- contract clauses restricting the maximum amount of contractual penalties.

4. The risk of payment unreliability

Instruments, that mitigate this constantly occurring type of risk are:

- monitoring of the financial standing of clients before and during the execution of contracts,
- application of specialized debt collection procedures,
- optimization of payment structures.

5. The foreign currency risk

Instruments, that mitigate this constantly occurring type of risk are:

- monitoring and forecasting of currency exchange rates,
- forward type currency transactions,
- purchase of equipment and services in the currency of the contracts

6. The risk of dependence on significant buyers of services

The instruments that mitigate this type of risk are:

- monitoring of contracts with the significant suppliers
- contractual provisions containing the cushioning elements
- maintaining of the partnership relations with repeat customers

SUMMARY

Both in terms of the control system and risk management, the systemic and personnel changes made in previous years allow for maintaining an appropriate level of security in the Company's operations and reduced the risk of failing to notice a significant threat to the Company's basic business.

Signatures of the Members of the Supervisory Board:

1. Jarosław Stępniewski ______________________________

2. Karol Żbikowski ______________________________

3. Marek Garliński ______________________________

4. Wiesław Kiepiel ______________________________

5. Steven Tappan ______________________________