

**REPORT OF THE SUPERVISORY BOARD OF PROCHEM S.A.
ON THE EXERCISING OF SUPERVISION OVER THE COMPANY'S
ACTIVITIES FOR THE FINANCIAL YEAR 2017**

In 2017, the Supervisory Board of PROCHEM S.A. of the 10th term of office has been working in the following composition:

- since proceedings of the General Meeting of Shareholders on June 10, 2017:
 1. Marek Garliński - Chairman of the Supervisory Board
 2. Karol Żbikowski - Vice Chairman of the Supervisory Board
 3. Andrzej Karczykowski
 4. Krzysztof Obłój
 5. Marcin Pędziński
- from January 1, 2017 to June 10, 2017, the Supervisory Board of the ninth term has been working in the following composition:
 1. Karol Żbikowski - Chairman of the Supervisory Board
 2. Andrzej Karczykowski
 3. Krzysztof Obłój
 4. Marcin Pędziński
 5. Michał Suflida

The Supervisory Board has supervised the Company's activity in the whole range of the enterprise's operations in accordance with art. 382 of the Code of Commercial Companies, the Statute of the Company PROCHEM S.A. and with the Bylaws of the Supervisory Board.

In 2017 the Supervisory Board held 6 meetings. At the meetings of the Supervisory Board were mainly discussed economic and financial and strategic issues for PROCHEM S.A. and the PROCHEM S.A. Capital Group, current and expected state of contracting, as well as other matters significant for the Company's operation. The Supervisory Board of the 9th term also performed the duties of the Audit Committee. The Supervisory Board of the 10th term at the first meeting on 7 July 2017 appointed the Audit Committee in the following composition:

1. Karol Żbikowski - Chairman of the Committee
2. Marek Garliński
3. Marcin Pędziński

In the range of economic - financial matters:

- ongoing evaluation of financial situation of the Company and the PROCHEM S.A. Capital Group was carried out,
- the economic results of the operations of the Company and the Capital Group in the subsequent quarters of 2017 were analysed in detail,
- on the basis of detailed materials prepared by the Management Board the following have been examined systematically: income statement and the balance sheet of the Company, receivables and liabilities, cash flow analysis, ratio analysis (profitability ratios, financial liquidity ratio, solvency ratio and capital ratios), analysis of cost of sales, and also was analysed the situation in the field of state of contracting and of the degree of the implementation of the plan,
- assumptions to the economic and financial plan - for the financial year 2016 were discussed,
- the efficiency of operations of the companies from the PROCHEM S.A. Capital Group was analysed
- the strategy and possible directions of the company's development were discussed.

In the scope of execution of main projects implemented by the Company:

- the progress in the lease process of the ASTRUM Business Park office building in Warsaw was analysed and assessed,
- monitoring of activities related to restructuring and reduction of the Company's operating costs was carried out,
- analysis and assessment of the dynamics of risks related to the activities of PROCHEM S.A. and the Capital Group companies were carried out.

The Audit Committee

In August 2017, the Supervisory Board approved the following documents:

- Regulations of the Audit Committee and the Audit Committee procedures for cooperation with the auditor,
- the policy of choosing an audit firm to conduct the audit,
- the procedure for the choosing of an audit firm by the company,
- the policy of providing permitted services which are not an audit by the auditing company performing the audit, and also by entities related to this auditing company and by the member of the network of auditing company.

The Audit Committee Report is an attachment to the Supervisory Board Report.

Conclusion

Acting on the basis of art. 382 § 3 of the Commercial Companies Code and Statutes of the Company, the Supervisory Board performed an analysis and evaluation of the documents listed below with respect to their compliance with the books and documents, and with the actual state:

- separate financial statements of PROCHEM S.A. for the financial year 2017 along with the opinion and report of the independent auditor,
- consolidated financial statements of the PROCHEM S.A. Capital Group for financial year 2017 along with the opinion and report of the independent auditor,
- Management Board Report on the activities of PROCHEM S.A. and PROCHEM S.A. Capital Group for the financial year 2017,
- Management Board's proposal concerning the distribution of net profit for 2017.
- report of the Audit Committee.

The aforementioned financial statements for 2017 have been subject to a study by BDO Sp. z o. o. with headquarters in Warsaw. Reports from this study and expert opinions, constituting their synthesis, were the basic analytical material subjected to assess by the Supervisory Board.

Therefore, recognizing the findings and assessments contained in the said source materials as competent and comprehensive, the Supervisory Board concluded that the financial statements for 2017 were prepared in all material respects in accordance with applicable law, accounting principles and standards, as well as the actual state which was disclosed in the accounting books. The Supervisory Board recommends to the General Meeting of Shareholders the approval of the financial statements of PROCHEM S.A. for the financial year 2017 and the consolidated financial statements of PROCHEM SA Capital Group for the same period.

The Supervisory Board also analysed the Management Board Report on the economic activities in 2017. The Supervisory Board stated that this report fairly presents the economic activities being undertaken and also allows for the assessment of the financial and property condition of the Company.

At the same time, the Supervisory Board recommends that the General Meeting approve the resolution regarding the allocation of profit for 2017 to reserve capital.

The Supervisory Board recommends granting exoneration to all members of the Management Board for 2017.

Information required by the Best Practice of Companies Listed on the Warsaw Stock Exchange, effective from January 1, 2016.

Assessment of meeting the independence criteria by Members of the Supervisory Board (II.Z.6)

Members of the Supervisory Board: Karol Żbikowski and Marcin Pędziński made statements about the fulfilment of the criteria of independence, in accordance with the obligation specified in the rule II.Z.5 of Best Practices of WSE Listed Companies 2016. Krzysztof Obłój has declared that performs the function of a member of the Supervisory Board of PROCHEM S.A. for more than 3 terms of office, however, taking into account the so far manner of fulfilment the duties of a member of the Supervisory Board, in particular, adherence to, among others obligations described in point 2 of Annex II to the Recommendation of the European Commission of February 15, 2005, 2005/162 / EC, when being a member of the Supervisory Board he remains independent of PROCHEM S.A. Members of the Supervisory Board Andrzej Karczykowski and Marek Garliński stated that they do not meet the independence criteria. Upon analyzing the statements and circumstances indicated in them, the Supervisory Board takes that the Supervisory Board Members Karol Żbikowski and Marcin Pędziński meet the independence criteria in relation to the company PROCHEM S.A., what meets the point II.Z.3 of Code of Best Practices of WSE Listed Companies 2016. The Supervisory Board actively fulfilled its obligations and monitored the situation of the Company on an ongoing basis by taking adequate actions.

Assessment of the way of fulfilment of the Company's disclosure obligations regarding the application of the principles of corporate governance set out in the Rules of the Stock Exchange and in regulations concerning current and periodic information provided by issuers of securities (II.Z.10.3)

The Supervisory Board accepted information presented by the Management Board concerning the application of Best Practices of WSE Listed Companies 2016 by the Company in 2017 with special regard to the explanations related to recommendations and

principles, which are not applied by the Company, as well as ones which do not relate to the Company.

The company properly and in compliance with applicable regulations submits current and periodic information. The Supervisory Board assesses that the Company correctly fulfilled its disclosure obligations.

Sponsoring activity, charity, or other of a similar nature (II.Z.10.4)

Pursuant to the stipulations of the principle II.Z.10.4 of Best Practices of WSE Listed Companies 2016, the Supervisory Board informs that the Company does not have policy on sponsorship activity, charitable, or any other with a similar nature.

Signatures of the Members of the Supervisory Board:

1. Marek Garliński

2. Karol Żbikowski

3. Andrzej Karczykowski

4. Krzysztof Obłój

5. Marcin Pędziński
