

**REPORT OF THE SUPERVISORY BOARD OF PROCHEM S.A.
ON THE EXERCISING OF SUPERVISION OVER THE COMPANY'S ACTIVITIES
FOR THE FINANCIAL YEAR 2016**

In 2016 the Supervisory Board of PROCHEM S.A. of the 9th term of office has exercised their duties in the following composition:

- since 28 October 2016 :

1. Karol Żbikowski Chairman of the Supervisory Board
2. Andrzej Karczykowski
3. Krzysztof Obłój
4. Marcin Pędziniński
5. Michał Suflida

- from 11 June 2016 to 28 October 2016

1. Marek Garliński Chairman of the Supervisory Board
2. Andrzej Karczykowski
3. Krzysztof Obłój
4. Michał Suflida
5. Karol Żbikowski

- till the proceedings of AGM on 11 June 2016 :

1. Marek Garliński Chairman of the Supervisory Board
2. Steven Tappan Vice Chairman of the Supervisory Board
3. Andrzej Karczykowski
4. Wiesław Kiepiel
5. Krzysztof Obłój

The Supervisory Board exercised supervision over the Company's activities in all areas of the company's operations in accordance with Art. 382 of the Code of Commercial Partnerships and Companies, with the Statutes of PROCHEM S.A. and with the Rules of the Supervisory Board.

In 2016 the Supervisory Board held 7 meetings. At the meetings of the Supervisory Board were discussed primarily economic and financial and strategic issues for

PROCHEM S.A. and the PROCHEM S.A. Capital Group, the current and expected status of contracting, as well as other significant matters for the Company's operation. The Supervisory Board also performs the duties of the Audit Committee.

In the scope of issues – economic and financial:

- the financial situation of the Company and of the PROCHEM S.A. Capital Group was being evaluated on an ongoing basis,
- the economic results of the activities of the Company and of the Capital Group in the subsequent quarters of 2016 were analyzed in detail,
- on the basis of detailed materials prepared by the Management Board it 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 analyzed the situation in the field of acquiring of new orders and the degree of the implementation of the plan,
- were discussed assumptions to the financial and the economic plan - for the financial year 2016,
- was analyzed effectiveness of activities of the companies belonging to PROCHEM S.A. Capital Group.

Within the scope of realization of the main projects implemented by the Company:

- the status of contract performance in Belarus was analyzed and evaluated, as well as the reasons for the increase in costs incurred on the performance of this contract, which in significant way had a negative impact on the results of the Company,
- the progressing in the scope of the lease of the ASTRUM Business Park office building in Warsaw, was analyzed and evaluated,
- monitoring of restructuring activities and of those connected with reduction of operating costs of the Company was conducted,
- an analysis and assessment of the dynamics of risks related to the activities of PROCHEM S.A. and the Capital Group companies was conducted.

The Audit Committee

The Supervisory Board performs the duties of the Audit Committee in the Company. In addition to the performance of these duties within regular meetings of the Supervisory Board were held four separate meetings, which were totally devoted to the issues related to audit. These meetings were held with the attendance of representatives of the auditor - KPMG Audit Sp. z o. o.

The Supervisory Board, while performing the function of the Audit Committee, among others:

- has made a selection of an auditor to audit the books of account of the Company for the year 2016,
- has made an analysis of the financial statements, of opinion and of auditor's report,
- has discussed with the auditor the results of audit of books of account,
- has discussed with the Management Board the comments and recommendations of the Auditor,
has discussed valuation of the building ASTRUM.

In the course of analysis Committee has paid particular attention to the risk factors occurring in the Company.

Conclusion

Acting on the basis of art. 382 § 3 of the Commercial Companies Code and Articles of Association 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 2016 along with the opinion and report of the independent auditor,
- consolidated financial statements of PROCHEM S.A. Capital Group for financial year 2016 along with the opinion and report of the independent auditor,
- the Report of the Management Board on the economic activities of PROCHEM S.A. and PROCHEM S.A. Capital Group in 2016,
- the proposal of the Management Board to cover the net loss for 2016.

The above-mentioned financial statements for 2016 have been subjected to a study by KPMG Audit Sp. z o. o. with its registered office in Warsaw. Report from the audit and the opinions of experts, constituting their synthesis, were the basic analytical material that was subjected to the assessment of the Supervisory Board.

Taking into consideration, therefore, assessments and findings included in the listed source materials as being competent and comprehensive, the Council considered that the financial statements for 2016, in all material respects, been prepared in accordance with applicable laws, the accounting principles and standards, and in accordance to the actual state disclosed in books. The Supervisory Board recommends to the General Meeting of Shareholders the approval of the financial statements PROCHEM S.A. for the financial year 2016 and of the consolidated financial statements of PROCHEM S.A. Capital Group for the same period.

The Supervisory Board has also subjected to the analysis the report of the Management Board on the company's business activities in 2016. The Supervisory Board concluded that the financial statements in true and fair way presented the economic activities, and allows for the assessment of the financial position and Company's assets..

At the same time, the Board recommends the General Meeting to approve the resolution concerning the coverage of the loss for 2016 from the reserve capital of the Company.

The Supervisory Board recommends to the General Meeting the granting the discharge of duties for all of the Management Board members in the financial year 2016.

The information required by the Best Practice for WSE Listed Companies 2016, in force since 1 January 2016.

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

Members of the Supervisory Board: Karol Żbikowski, Marcin Pędziński and Michał Suflida have made statements on the fulfillment of independence criteria in

accordance with the obligation laid down in Rule II.Z.5 of the Code of Best Practices for WSE Listed Companies 2016. Krzysztof Obłój declared that performs the function of the member of the Supervisory Board of PROCHEM S.A. for more than 3 terms of office, but taking into consideration the current way of performing the duties of the Supervisory Board, in particular adherence to, among others, obligations, which were described in Item 2 of Appendix II to the Recommendation of European Commission of 15 February 2005 2005/162 / EC, as a member of the Supervisory Board is independent in relation to PROCHEM S.A. Member of the Supervisory Board Andrzej Karczykowski has declared that he does not meet the criteria of independence. After analyzing the statements and the circumstances indicated therein, The Supervisory Board accepts that members of the Supervisory Board Karol Żbikowski, Marcin Pędziński, Michał Suflida fulfill the criteria of independence in relation to PROCHEM S.A., what fulfills point II.Z.3 of the Best Practices of WSE Listed Companies 2016. The Supervisory Board performed its duties actively and monitored the Company's situation on an on-going basis while taking adequate action.

Assessment of the fulfillment 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)

On January 1, 2016 came into effect Best Practices of WSE Listed Companies 2016 (hereinafter referred to as Best Practices). On 22 January 2016 the Company has sent the relevant report on the application of Best Practices. At the Supervisory Board meeting on 16 March 2016 the Supervisory Board accepted information presented by the Management Board concerning the application of Best Practices 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 provides current and periodic information.

The Supervisory Board assesses that the Company correctly complied with its disclosure obligations.

Activities related to sponsoring, or to a charity, or other of a similar nature. (II.Z.10.4)

Pursuant to the provisions of the principle II.Z.10.4 Best Practices of Companies Listed on the Warsaw Stock Exchange in 2016, the Supervisory Board announces that the Company does not have policy on sponsorship, charitable, or any other with a similar nature.

Signatures of the Members of the Supervisory Board:

:

1. Karol Żbikowski _____

2. Andrzej Karczykowski _____

3. Krzysztof Oblój _____

4. Marcin Pędziński _____

5. Michał Suflida _____