

## **REPORT OF THE SUPERVISORY BOARD OF PROCHEM S.A. ON THE EXERCISING OF SUPERVISION OVER THE COMPANY'S ACTIVITIES FOR THE FINANCIAL YEAR 2018**

The Supervisory Board of the 10th term of office was appointed upon the Resolution of the General Meeting of Shareholders for a new lasting 3 years term of office on 10 June 2017.

In 2018 the Supervisory Board of PROCHEM S.A. of the 10th term of office was working in unchanged composition since the date of appointment i.e.:

1. Marek Garliński - Chairman of the Supervisory Board
2. Karol Żbikowski - Vice Chairman
3. Andrzej Karczykowski
4. Krzysztof Obłój
5. Marcin Pędziński

On 12 June 2018 the Supervisory Board appointed the Management Board for a new lasting 3 years term of office. The composition of the Management Board was not subject to any changes in relation to the previous term of office.

The Supervisory Board exercised supervision over the Company's activities in all areas of the company's activities pursuant to 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 2018 the Supervisory Board held 5 meetings. At the meetings of the Supervisory Board were mainly discussed economic and financial and strategic issues for PROCHEM S.A., and the Capital Group of PROCHEM S.A., current and expected state of contracting, as well as other matters significant for the Company's operations. The Supervisory Board of 10th term of office 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 2018, the Audit Committee operated in an unchanged composition.

**In the scope of economic and financial issues:**

- the financial standing of the Company and the PROCHEM SA Capital Group was assessed on an ongoing basis,
- the economic results of the operations of the Company and the Capital Group were analysed in detail in the subsequent quarters of 2018,
- on the basis of detailed materials prepared by the Company's Management Board, systematically have been examined: the Company's income statement and balance sheet, the balance of receivables and liabilities of the Company, cash flow analysis, ratio analysis (profitability ratios, liquidity ratios, solvency ratios and capital ratios) and the analysis of own sales costs, and also was analysed the situation in the scope of the state of contracting and the degree of implementation of the plan,
- the assumptions to the financial and economic plan for the financial year 2019 were discussed,
- the effectiveness of the operation of the Companies included in the Capital Group of PROCHEM S.A. was analysed,
- the strategy and possible directions of the company's development were discussed.

In the scope of implementation of major projects implemented by the Company:

- the progress in the lease process of the ASTRUM Business Park office building in Warsaw was being 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 operations of Prochem S.A. and the Capital Group companies were being conducted.

**The Audit Committee**

On June 12, 2018, the Supervisory Board selected an auditing firm to carry out audit of the financial statements and the Management Board report on the operations of

the Company for 2018 and 2019, and the consolidated financial statements and reports on the operations of the Capital Group for 2018 and 2019, in accordance with the obligatory in the Company policy and procedure for selecting an audit firm to conduct the audit. Following the recommendation of the Audit Committee, the Supervisory Board entrusted the above-mentioned research to Misters Adviser Audytor sp. z o. o.

Report on the activities of the Audit Committee in 2018 is an attachment to the Report of the Supervisory Board.

### **Conclusion**

Acting on the basis of stipulations of art. 382 § 3 of the Commercial Companies Code and Statutes of the Company, the Supervisory Board carried out an analysis and estimation of the documents as here below with respect to their compliance with books and documents, as well as with the actual state:

- Separate financial statements of PROCHEM S.A. for the financial year 2018 along with the opinion and report of the independent auditor,
- Consolidated financial statements of the PROCHEM S.A. Capital Group for the financial year 2018 along with the opinion and report of the independent auditor,
- The Management Board Report on the activities of PROCHEM S.A. and the PROCHEM S.A. Capital Group for the financial year 2018,
- The Management Board's proposal regarding the distribution of net profit for 2018.
- Report of the Audit Committee.

Abovementioned financial statements for 2018 have been subject to audit by Misters Audytor Adviser Sp. z o. o. with headquarters in Warsaw. Reports from this study and expert opinions constituting their synthesis were the basic analytical material subject to evaluation by the Supervisory Board.

Therefore, taking into consideration the findings and assessments contained in the said source materials as competent and comprehensive, the Supervisory Board concluded that the financial statements for 2018 were prepared in all material respects in accordance with applicable law, accounting principles and standards, as

well as in compliance with 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 2018 and the consolidated financial statements of the PROCHEM S.A. Capital Group for the same period.

The Supervisory Board also put to the analyses the Management Board Report on the economic activities in 2018. The Supervisory Board stated that the report fairly presents the economic activities undertaken and also allows for the assessment of the financial and property condition of the Company.

At the same time, the Supervisory Board recommends to the General Meeting to approve the resolution regarding the allocation of profit for 2018 to reserve capital. The Supervisory Board recommends granting discharge for 2018 to all members of the Management Board.

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

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

Members of the Supervisory Board: Karol Zbikowski 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 analysing 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.

Evaluation of the way of fulfilment by the Company of 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 2018 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 evaluates 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 \_\_\_\_\_