

**REPORT OF THE SUPERVISORY BOARD OF PROCHEM SA
ON THE EXERCISING OF SUPERVISION OVER THE COMPANY'S ACTIVITIES
FOR THE FINANCIAL YEAR 2019**

The Supervisory Board of the 10th term of office was appointed by the Resolution of the General Meeting of Shareholders of PROCHEM S.A. for a new 3-year term on June 10, 2017.

In 2018, the Supervisory Board of PROCHEM S.A. of the 10th term worked in the composition without changes from the date of appointment i. e.:

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

On June 12, 2018, the Supervisory Board appointed the Management Board of the Company for a new three-year term. In 2019, the composition of the Management Board was unchanged.

The Supervisory Board supervised the activities of the Company in all areas of its activities in accordance with Art. 382 of the Commercial Companies Code, the Statute of PROCHEM S.A. and the Regulations of the Supervisory Board.

In 2019 the Supervisory Board held 5 meetings. At the meetings of the Supervisory Board were mainly discussed economic, 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 operations. The Supervisory Board of the 10th term at the first meeting on July 7, 2017 appointed the Audit Committee in the following composition:

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

In 2019 the composition of the Audit Committee remained unchanged.

In the field of economic and financial matters:

- 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 in the subsequent quarters of 2019 were analyzed in detail,
- on the basis of detailed materials prepared by the Management Board of the Company, the Company's income statement and balance sheet, the status of the Company's receivables and liabilities, financial flow analysis, ratio analysis (profitability, financial liquidity, solvency and capital ratios), cost-of-sales analysis, and also the situation were analyzed in terms of contracting status and the degree of plan implementation,
- assumptions for the financial and economic plan for the financial year 2020 were discussed,
- the effectiveness of the operations of the companies belonging to the PROCHEM S.A. Capital Group was analyzed
- the strategy and possible directions of the company's development were discussed.

As regards the implementation of major projects carried out by the Company:

- the progress in the lease of the ASTRUM Business Park office building in Warsaw was analyzed and assessed,
- analysis and evaluation of the dynamics of risks related to the activities of Prochem S.A. and the companies of the Capital Group were carried out.

The Audit Committee

On June 12, 2018, the Supervisory Board selected an audit company to audit the financial statements and the Management Board's report on the Company's activities for 2018 and 2019, as well as the consolidated financial statements and the report on the activities of the Capital Group for 2018 and 2019, in accordance with the policy and procedure for selecting an audit firm to conduct the audit applicable in the company. The Supervisory Board, on the basis of the Audit Committee's

recommendation, entrusted the above-mentioned audit to Misters Audytor Adviser sp. z o. o.

The report on the activities of the Audit Committee in 2019 is an attachment to the Report of the Supervisory Board.

Conclusion

Acting on the basis of art. 382 § 3 of the Commercial Companies Code and Statutes of the Company, the Supervisory Board analyzed and assessed the documents listed below in terms of their compliance with the books and documents, as well as with the actual state:

- separate financial statements of PROCHEM S.A. for the financial year 2019 along with the opinion and report of the independent auditor,
- consolidated financial statements of the PROCHEM S.A. Capital Group for financial year 2019 along with the opinion and report of the independent auditor,
- Management Board Report on the economic activities of PROCHEM S.A. and the PROCHEM S.A. Capital Group for the financial year 2019,
- Management Board's proposal concerning the distribution of net profit for 2019.
- report of the Audit Committee.

The aforementioned financial statements for 2019 have been subject to a study by Misters Audytor Adviser Sp. z o. o. seated 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 completed and comprehensive, the Supervisory Board concluded that the financial statements for 2019 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 2019 and consolidated financial statements of the PROCHEM S.A. Capital Group for the same period.

The Supervisory Board also analyzed the Management Board Report on the economic activities in 2019. 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 2019 to reserve capital.

The Supervisory Board recommends granting exoneration to all members of the Management Board for 2019.

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

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

Members of the Supervisory Board: Karol Żbikowski and Marcin Pędziński made statements about fulfillment 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 fulfillment the duties of a member of the Supervisory Board, in particular, adherence to, among others obligations described in item 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 SA, what meets the item 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 fulfillment of the Company's disclosure obligations regarding the application of the principles of corporate governance set out in the Rules of 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 2019, 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 any 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 Oblój _____
5. Marcin Pędziński _____