



**THE SUPERVISORY BOARD'S REPORT OF MERCATOR MEDICAL S.A.
FOR THE YEAR 2020**

I. Composition of the Supervisory Board

As at 1 January 2020, the Supervisory Board of Mercator Medical SA with its registered office in Kraków (the “**Company**”, “**Issuer**”) was composed of:

- 1) Urszula Żyżnowska – Chair of the Supervisory Board,
- 2) Piotr Solorz – Deputy Chair of the Supervisory Board,
- 3) Gabriela Stolarczyk-Zadęcka – Member of the Supervisory Board,
- 4) Jarosław Karasiński – Member of the Supervisory Board,
- 5) Marian Słowiaczek – Member of the Supervisory Board.

During the year there were no changes in the composition of the Supervisory Board.

On the basis of the statements made, the Supervisory Board considers that Marian Słowiaczek, Jarosław Karasiński and Gabriela Stolarczyk-Zadęcka meet the criteria of independence from the Company within the meaning of Article 129(3) of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws of 2020, item 1415), and in Annex II to the European Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (Official Journal of the European Union L 52/51). Gabriela Stolarczyk-Zadęcka and Jarosław Karasiński also meet the requirement of knowledge and skills in terms of accounting and financial statement auditing as provided for in Article 129(1) of the Act referred to above, due to their education and training. Piotr Solorz and Jarosław Karasiński also have the knowledge and skills of the industry in which the Company operates, due to their long-term performance of the functions of members of the Company’s Supervisory Board, and in the case of Piotr Solorz, also due to the long-term provision of consulting services for the Company.

The Company has an audit committee established in accordance with the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, which during 2020 was composed of Gabriela Stolarczyk-Zadęcka (Chair), Jarosław Karasiński and Piotr Solorz.

No other committees were set up within the Supervisory Board.

The Supervisory Board consists of members with different experience competence, which allows effective supervision of key areas of the Company’s business.

II. OPERATIONS OF THE SUPERVISORY BOARD

The Supervisory Board of Mercator Medical S.A. operated on the basis of the provisions of the Commercial Companies Code, the provisions of the Company’s Statutes and the Rules of the Company’s Supervisory Board.

In the course of 2020, the Supervisory Board held four recorded meetings on 20 March, 18 May, 4 August and 24 September 2020, on which a total of 10 resolutions were taken (excluding resolutions concerning formal matters). In addition, the Supervisory Board adopted 2 resolutions by way of a written procedure.

The Supervisory Board exercised a continuous supervision of the Company’s activities in all areas of its business. The activities of the Supervisory Board included, among others,

- 1) evaluation of the economic situation and financial results of the Company and the Mercator Medical S.A. Capital Group (the “**Group**”) in 2019, including in comparison against the established budgets,

- 2) assessment of the Company's separate (individual) financial statement for the year 2019 and the consolidated financial statement for the year 2019 and the Management Board's Report on the operations of the Company and the Group for the year 2019, as regards their compliance with the books and documents, as well as with the facts,
- 3) constant evaluation of the economic situation and financial results of the Company and the Group in the course of 2020, including in comparison against the established budgets and in comparison for the results for the same periods of the previous year.

In the exercise of its powers arising from the Statutes and the Code, the Supervisory Board also adopted, among others, the following resolutions:

- 1) on selecting the entity authorised to audit and review the Company's financial statements,
- 2) on the amendment of rules pertaining to the remuneration and bonuses for the members of the Management Board,
- 3) on the allocation of subscription warrants as part of the incentive scheme for the members of the Management Board and key managers of the Group,
- 4) on consent to the performance of legal transactions by the Company in the cases specified in the provisions of the Commercial Companies Code and the Company's Statutes, including agreements with the other party to which were members of the Company's Management Board,
- 5) on the adoption of the procedure for the periodic evaluation of related party transactions,
- 6) on issuing opinions concerning matters to be discussed at the General Meeting,

and also represented the Company in agreements with the members of the Company's Management Board.

The Audit Committee presented a report to the Supervisory Board on its activities for the financial year 2020 and the period of work on the audit of the Company's financial statement for the year 2020 and the consolidated financial statement of the Group for the year 2020.

Within its remit, the Audit Committee monitored the independence of the auditor and the timeliness of work related to the audit and review of statements. The Audit Committee met with the key statutory auditor appointed by the audit firm as being primarily responsible for carrying out, on behalf of that audit firm, a review of the financial statements of the Company and the Group for the first half of 2020 and the financial statements of the Company and the Group for the year 2020. During these meetings, the parties discussed, among others, issues related to the statutory auditor's independence, review principles, materiality thresholds adopted and key risks related to auditing of financial statements at the individual and consolidated level, including in particular in the area of risk of bypassing control by the Management Board, recognition of revenue, inventory valuation, valuation of trade receivables and tax risks.

The Supervisory Board has a positive view of its activities in the financial year 2020.

III. ASSESSMENT OF THE FINANCIAL STATEMENTS AND THE REPORT OF THE MANAGEMENT BOARD

Acting on the basis of Article 382(3) of the Commercial Companies Code and on the basis of § 9(1)(1) of the Company's Statutes, having examined the following documents presented by the Company's Management Board:

- 1) the Financial Statement of Mercator Medical S.A. for the year 2020 drawn up in accordance with International Financial Reporting Standards,

- 2) the Consolidated Financial Statement of the Mercator Medical S.A. Capital Group for the year 2020 drawn up in accordance with International Financial Reporting Standards and
- 3) the Management Board's Report on the operations of Mercator Medical S.A. and the Mercator Medical S.A. Capital Group for the 12-month period ended on 31 December 2020

and the reports of the independent statutory auditor (BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw) of 17 March 2021 on the audit of the Financial Statement of Mercator Medical S.A. for the year 2020 and the Consolidated Financial Statement of the Mercator Medical S.A. Capital Group for the year 2020,

The Supervisory Board of Mercator Medical S.A. has a positive view of:

- 1) the Financial Statement of Mercator Medical S.A. for the year 2020 drawn up in accordance with International Financial Reporting Standards,
- 2) the Consolidated Financial Statement of the Mercator Medical S.A. Capital Group for the year 2020 drawn up in accordance with International Financial Reporting Standards and
- 3) the Management Board's Report on the operations of Mercator Medical S.A. and the Mercator Medical S.A. Capital Group for the 12-month period ended on 31 December 2020

and concludes that in the opinion of the Supervisory Board, they are in line with the books and documents and with the facts, and give a fair view of the situation of the Company and the Mercator Medical S.A. Capital Group.

The Supervisory Board expresses its position based on the results of the analysis of the documents mentioned above, including the reports of the independent statutory auditor and the results of the work of the Supervisory Board and the Audit Committee of the Supervisory Board of Mercator Medical S.A.

The Supervisory Board recommends that the Ordinary General Meeting adopt resolutions to approve the statements mentioned above.

The Company's Supervisory Board also recommends that the General Meeting grant approval of the performance of duties to all members of the Company's Management Board.

IV. ASSESSMENT OF THE MANAGEMENT BOARD'S PROPOSAL ON THE ALLOCATION OF PROFIT

The Supervisory Board of Mercator Medical S.A. has a positive view of the Management Board's proposal to allocate all net profit of the Company disclosed in the financial statement for the year 2020, in the amount of 312,025k PLN (three hundred and twelve million twenty-five thousand zlotys) for shareholders, in the form of a share buyback programme.

The current financial situation of the Company and its Capital Group, which is the result in particular of very good financial results of the Company and the Group in 2020, allows to allocate all net profit of the Company, in the amount corresponding to about one third of the total consolidated profit of the Group, to finance the share buyback programme without detriment to the operations and financial situation of the Company and the Group. In the opinion of the Supervisory Board, the remaining profit generated by the Group in 2020 and the expected operating profit in subsequent periods, with the current lack of financial debt, will be sufficient to provide the Issuer with the capital necessary to develop its business and meet its strategic objectives.

V. A BRIEF ASSESSMENT OF THE SITUATION OF THE COMPANY AND THE MERCATOR MEDICAL S.A. CAPITAL GROUP TOGETHER WITH AN ASSESSMENT OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Mercator Medical Group

In 2020, the Group achieved sales revenues which are record-breaking in its history and exceeded PLN 1.8 billion, rising by almost 240% compared to the previous year. This is due both to the increase in revenues from the sale of the Thailand factory's own production (increase in revenues by PLN 720 million, 282% compared to 2019), and to the increase in revenues from the sale of goods purchased from external suppliers and sold through its own distribution network (increase in revenues by PLN 574 million, 202% compared to 2019). The main driver of revenue growth was the very significant increase in market prices for gloves, especially examination gloves, in particular due to the SARS-CoV-2 pandemic and the increase in sales volumes. In the course of 2020, the average sales price increased by over 200%.

In terms of sales revenue, there was a significant increase of the dominant share of the basic product group, i.e. disposable gloves, which accounted for about 98.3% of the Group's sales revenue. Examination gloves had the greatest share within this product group.

The largest market for the Group in 2020 was the United Kingdom with 24.5% of share in consolidated revenues, mainly due to agreements with the Unispace Health group, while in the domestic market, Mercator Medical S.A. generated 20.5% of revenues, and sales to the USA accounted for 14.6% of the Group's revenues. Mercator sold its products in 65 countries; it had already been present on most of the markets in previous years. The range sold in its own distribution network is based on products under its own brands, but Mercator Medical (Thailand) Ltd. also manufactures products for sale under other brands.

As the market prices of gloves increased, the profitability of the Group's operations also improved. Consolidated operating result in 2020 was PLN 1.047 million. Consolidated EBITDA amounted to PLN 1.066 million (increased more than 42 times compared to 2019). Consolidated net profit for shareholders of the parent company exceeded PLN 930 million.

A spectacular increase in the sales scale and the results achieved translated into an increase in the balance sheet total. The value of the Group's assets increased by more than PLN 900 million, mostly due to the increase in the level of current assets. The Group is in a very good financial condition.

Mercator Medical S.A.

In 2020, on a separate basis, the Company achieved sales revenues which are record-breaking in its history and reached nearly PLN 740 million, rising by almost 170% compared to the previous year. The dominant group of products was disposable gloves, whose share in total sales increased to almost 96%, with examination gloves having the largest share within that group. The Company's main market is still Poland (more than 51% of sales revenue).

The operating result was over PLN 318 million, whereas EBITDA increased to over PLN 321 million. The Company recorded a net profit of PLN 312 million.

The value of the Company's balance sheet total increased more than three times to a level of nearly PLN 688 million.

Capital expenditure

The Group's capital expenditure in 2020 was low, related to replacement costs and small investments in the Thailand factory, such as the construction of stage II of the water treatment plant, automation of sorting machines and investments in IT systems. The Issuer's Management Board envisages a significant increase in capital expenditure in 2021, due to the decision taken to expand production capacity in Thailand. The estimated cost of the new investment is PLN 155 million and will be covered from own resources.

Debt

The level of the Group's liabilities did not change significantly compared to the situation at the end of the previous financial year, although the structure of the debt and its relation to the equity of the Group changed significantly. During the year, the Group repaid virtually (almost) all bank debts, in particular those related to the financing of the construction of the factory in Thailand. The debt ratio decreased to the level of 0.19, and the debt to equity ratio – to the level of 0.24. At the end of 2020, the Group had significant excess financial liquidity related to the results achieved and positive operating flows. The current assets exceed the current liabilities by more than PLN 860 million.

Internal control systems and risk management system

The Group has an internal control and risk management system based on an ongoing analysis of financial and operational risks. Direct supervision is carried out by the Management Board, and in terms of operations – by the management staff. Operational risk management is continuously developed through the implementation of solutions and mitigation measures to prevent the materialisation of risks. Both qualitative and operational audits are conducted, with the resulting recommendations.

The audit of the consolidated financial statement of the Mercator Medical S.A. Capital Group and the separate financial statement of Mercator Medical S.A. for the financial year from 1 January to 31 December 2020 also revealed no significant weaknesses of internal control in relation to financial reporting and accounting system. The key issues examined in terms of materiality of risks include: avoiding checks by the Management Board, recognition of revenue, caused by fraud (risks at the level of the separate and consolidated financial statements), inventory valuation, valuation of trade receivables from unrelated parties.

It should be pointed out that the Group, despite the pandemic and the resulting restrictions and limitations on the one hand, and, on the other hand, rapid change in the market environment, which required focusing on the current operational activities, implemented measures aimed at strengthening the internal control and risk management system. Recommendations from audits were implemented, among others, as well as control supporting mechanisms, including IT systems. The focus was on issues related to the management of subsidiaries and business continuity plans due to the pandemic. This is also one of the reasons why the Group develops its internal audit function. In 2020, the Group implemented organisational changes that take into account the formal separation of the internal audit function, appointing as an Internal Auditor a candidate with extensive experience in this area, thereby raising the standard of audit independence and working in line with international internal audit

standards. The audit activities included, among others, the inventory of processes, risks and procedures. Despite the pandemic, audits were also carried out with the Group's external partners under existing agreements.

In 2020, a reputable law firm conducted an external audit of the compliance system, the recommendations from which are currently being implemented. In the opinion of the Supervisory Board, in subsequent periods, work on the development of internal control and risk management functions should be continued in the Group. Due to the dynamic development of the Group, particular emphasis should be placed on the management and supervision of subsidiaries and on business continuity plans in the event of emergencies.

VI. EVALUATION OF THE COMPANY'S COMPLIANCE WITH THE INFORMATION OBLIGATIONS REGARDING THE APPLICATION OF THE CORPORATE GOVERNANCE PRINCIPLES

The Company is subject to the information obligations regarding the application of corporate governance principles in accordance with the Ordinance of the Minister of Finance of 29 March 2018 on current and periodical information to be provided by issuers of securities and conditions of recognising information required by the regulations of non-member states as equivalent (Journal of Laws of 2018, item 757).

In 2020, the Company complied (with reservations and exceptions specified in the Corporate Governance Report included in the annual report for 2020) with the corporate governance rules laid down in the document entitled "Best Practice for WSE Listed Companies 2016" adopted by way of Resolution of the Exchange Board No. 26/1413/2015 of 13 October 2015 (hereinafter: "BPLC 2016"). The text of BPLC 2016 has been published on the following website: www.corp-gov.gpw.pl.

In the opinion of the Supervisory Board, in 2020, the Company duly complied with its obligations regarding application of the adopted corporate governance rules.

As the scope of the Company's sponsorship, charity or similar activities was limited in 2020 and no policy document was adopted to govern such activities, these activities were not assessed.

Kraków, 26 March 2021

Chair of the Supervisory Board

Urszula Żyźnowska

Vice Chair of the Supervisory Board

Piotr Solorz

Member of the Supervisory Board

Gabriela Stolarczyk-Zadęcka

Member of the Supervisory Board

Jarosław Karasiński

Member of the Supervisory Board

Marian Słowiaczek

Resolution No. 4
of the Supervisory Board of Medical S.A. with its registered office in Kraków
of 26 March 2021 on its opinion concerning the matters to be the subject of resolutions of the
Ordinary General Meeting of the Company

The Supervisory Board of Mercator Medical S.A. with its registered office in Kraków (the "Company"), acting in accordance with the principles adopted by the Company and laid down in the document entitled "Best Practice for WSE Listed Companies 2016", hereby expresses its opinion concerning the matters to be the subject of resolutions of the Ordinary General Meeting of the Company to be held on 20 April 2021.

1. The assessment of the Supervisory Board concerning the financial statement of the Company for 2020, and the consolidated financial statements of the Company's Capital Group for 2020, and the Management Board's Report on the operations of the Company and the Company's Capital Group in 2020, as well as the Management Board's proposal for the distribution of profit for 2020 are contained in the Supervisory Board's Report for 2020.
2. The Supervisory Board has a positive view of adoption of the resolutions concerning approval of the performance of duties in 2020 for all members of the Company's Management Board.
3. As regards the draft resolution on the authorisation of the Company's Management Board to purchase its own shares for the purpose of their redemption and to create a reserve capital for the purchase of its own shares for the purpose of their redemption, the Supervisory Board indicates that pursuant to provisions of the Commercial Companies Code the Company may carry out buyback on the basis of and within the limits of the authorisation granted by the General Meeting; the authorisation should specify terms and conditions of buyback, including the maximum number of shares to be repurchased, duration of buyback authorisation which must not exceed five years and the maximum and minimum amount of payment for repurchased shares, if shares are repurchased for payment. The adoption of the resolution on the authorisation of the Company's Management Board to purchase its own shares for the purpose of their redemption and to create a reserve capital for the purchase of its own shares for the purpose of their redemption is necessary to enable the Company to implement the resolution of the General Meeting of the Company on the allocation of profit for the year 2020 as proposed by the Management Board and with a positive view on the part of the Supervisory Board.
4. Due to the conflict of interest, the Supervisory Board does not issue opinions for the draft resolutions on approval of the performance by the members of the Supervisory Board of their duties, and for the resolution on expressing of the opinion concerning the Report of the Supervisory Board on remuneration.
5. The remaining proposed resolutions of the Ordinary General Meetings to be held on 20 April 2021 are of technical and formal nature.

All members of the Supervisory Board participated in the vote. Vote results: 5 votes "for", 0 votes "against" and 0 "abstaining" votes.

Chair of the Supervisory Board

Urszula Żyznowska

Vice Chair of the Supervisory Board

Piotr Solorz

Member of the Supervisory Board

Gabriela Stolarczyk-Zadęcka

Member of the Supervisory Board

Jarosław Karasiński

Member of the Supervisory Board

Marian Słowiaczek