

**REPORT**

**ON ACTIVITIES OF THE SUPERVISORY BOARD OF ZUE S.A. FOR 2016,**  
ASSESSMENT OF THE COMPANY'S FINANCIAL STATEMENTS FOR 2016,  
ASSESSMENT OF THE MANAGEMENT BOARD REPORT FOR 2016,  
ASSESSMENT OF THE MANAGEMENT BOARD PROPOSAL CONCERNING DISTRIBUTION OF 2016  
PROFIT,  
ASSESSMENT OF THE GROUP'S FINANCIAL STATEMENTS FOR 2016,  
ASSESSMENT OF REPORT ON THE GROUP'S ACTIVITIES IN 2016,  
ASSESSMENT OF THE COMPANY'S AND THE GROUP'S POSITION,  
and other information required under  
2016 Code of Best Practice for the Warsaw Stock Exchange Listed Companies.

**1. General**

The Supervisory Board of ZUE S.A. operates on the basis of the Polish Companies Act of 15 September 2000 (Journal of Laws of 2000, no. 94, item 1037, as amended), the Articles of Association of ZUE S.A. and the Regulations of the Supervisory Board of ZUE S.A.

The report covers the period of the Company's operations between 1 January 2016 and 31 December 2016.

**2. Composition of the Supervisory Board in 2016**

Following the expiry of term of office of the Company's Supervisory Board, the Ordinary General Meeting resolved on 25 May 2016 to appoint the Supervisory Board for the new term. The composition of the Supervisory Board remained unchanged. Thus, between 1 January 2016 and 31 December 2016, the Supervisory Board was composed of:

Mariusz Szubra

Supervisory Board Chairperson

Magdalena Lis

- Supervisory Board Member until

25 May 2016

- Supervisory Board Chairperson after  
25 May 2016

Bogusław Lipiński	Supervisory Board Member
Piotr Korzeniowski	Supervisory Board Member
Michał Lis	Supervisory Board Member

Mariusz Szubra, the Supervisory Board Chairperson, meets the requirements set out in Article 86.4 of the Polish Act on Auditors (i.e. the qualifications relating to accounting or financial auditing) and the independence criteria specified in the Code of Best Practice for the Warsaw Stock Exchange Listed Companies and the Articles of Association. The second independent member of the Supervisory Board satisfying the abovementioned independence criteria is Piotr Korzeniowski.

### **3. Review and assessment of the Supervisory Board's activities**

In the financial year ended 31 December 2016, the Supervisory Board supervised the operations of ZUE S.A. It held 3 meetings and passed 24 resolutions. In between the meetings, members of the Supervisory Board held regular talks with the Management Board and the Company's Financial Department to find out about the situation at the Company and help the Management Board solve the problems relating to issues of strategic significance to the Capital Group. The meetings of the Supervisory Board were held according to the regulations adopted by it. The meetings were convened by the Supervisory Board Chairperson or Vice-Chairperson. Resolutions were passed by an absolute majority of votes after all members had been invited in writing and at least half of them attended the meeting personally or by means of remote communication.

At the meetings attended by members personally or by means of remote communication, the Supervisory Board passed the resolutions on, *inter alia*:

- Approval of agreements entered into with business entities in which members of the Management Board participate as shareholders or members of their governing bodies;
- Submission to the General Meeting of an annual written report on the assessment of the financial statements for the prior financial year and the Management Board report on the Company's activities in 2015;
- Giving opinion on the Management Board's proposal concerning the distribution of profit for the financial year 2015;
- Appointment of the Management Board members for the new three-year common term; and
- Implementation of internal regulations in connection with the change of laws governing disclosure requirements for public companies.

As part of its supervisory role, the Supervisory Board analysed on an ongoing basis the financial and economic situation of the Company and assessed the Management Board's activities concerning, *inter alia*:

- Maintenance of financial liquidity;
- Proper management of the Company's expenses and working capital; and
- Winning new contracts.

At the Supervisory Board meetings, the Management Board gave account of the Company's financial and economic position, and major business operations, including the Company's financial liquidity and winning new contracts both on the Polish and international markets. The Supervisory Board was also informed about contracts underway both in terms of the advancement of works and budgets. In addition, the Supervisory Board learnt about the Company's cooperation with Railway gft Sp. z o.o. and BPK w Poznaniu Sp. z o.o., the subsidiaries.

In the financial year 2016, the Supervisory Board monitored the Company's activities relating to the introduction of internal regulations recommended to the Management Board by the Supervisory Board in connection with implementation of the Regulation (EU) no. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation, MAR). The Supervisory Board favourably assessed the activities of the Management Board, which consisted of introduction of internal cooperation rules for meeting disclosure requirements at the Capital Group and introduction of Individual Reporting Standard.

The cooperation between the Supervisory Board and the Management Board in 2016 was proper. The Supervisory Board states that it performed its duties in 2016 in a proper and diligent manner.

#### **4. Functioning and tasks of the Supervisory Board Committees**

Since the Supervisory Board has five members, it has been entrusted with the tasks of an audit committee pursuant to Article 86.3 of the Polish Act on Auditors.

Members the Supervisory Board who performed the tasks of the Audit Committee met before or after the meetings of the Supervisory Board. Moreover, members the Supervisory Board who performed the tasks of the Audit Committee asked the Company's Management Board and accounting authorities additional questions about the discussed issues or in case of doubt. Current issues dealt with by the Audit Committee were discussed at the Supervisory Board meetings.

The Supervisory Board carried out its tasks in line with the requirements set out in section VIII and IX of the Supervisory Board Regulations, and:

- Watched the rules governing the cooperation between the Company's accounting authorities and an auditor;
- Controlled on an ongoing basis the Company's performance including, in particular, quarterly and semi-annual results;
- Stated that no conflict of interests was caused by the relations at the Company, including the Company's Supervisory Board and the Management Board;
- Referred questions to the Company's Management Board and discussed the obtained information on:
  - Profitability of contracts, stage of performed contracts and compliance of the contract performance with forecasts;

- Receivables and payables (including, in particular, trade receivables and payables) and difficulties in collecting receivables or delays in settling payables;
  - Maintenance of the Company's liquidity and financing the Company's future operations;
  - Impact of court proceedings on the Company's economic situation; and
  - Plans for the future and, in particular, financial forecasts for 2017.
- In 2016, members the Supervisory Board who performed the tasks of the Audit Committee positively assessed the independence of the entity appointed to audit the financial statements of ZUE S.A. and ZUE Capital Group.

## **5. Assessment of the financial statements of ZUE S.A. for the financial year ended 31 December 2016**

Acting pursuant to Article 382 § 3 of the Polish Companies Act and § 16.2.f) of the Company's Articles of Association, the Supervisory Board of ZUE S.A. has analysed the financial statements presented by the Management Board for the period 1 January 2016 - 31 December 2016 comprising:

- I. Statement of comprehensive income showing the net profit of PLN 1,480 thousand and total comprehensive income of PLN 1,525 thousand;
- II. Statement of financial position showing the total assets and liabilities of PLN 344,332 thousand;
- III. Statement of changes in equity showing a decrease in equity of PLN 5,988 thousand;
- IV. Statement of cash flows showing a decrease in cash of PLN 109,272 thousand; and
- V. Notes on accounting principles and other explanatory information.

The Supervisory Board has also read the opinion and report on the audit by the independent auditor, Deloitte Polska Sp. z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, Al. Jana Pawła II 22, according to which the financial statements, in all material aspects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Company at 31 December 2016 and its profit or loss for the financial year from 1 January 2016 to 31 December 2016;
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accountancy Act and secondary legislation to the Act and on the basis of properly maintained accounting records;

- comply with the law and the Company's Articles of Association which affect the contents of the financial statements; and
- are complete within the meaning of Article 49.2 of the Polish Accountancy Act and the Regulation by the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent (Journal of Laws of 2014, item 133) and consistent with underlying information disclosed in the audited financial statements.

On the basis of the analysis, the Supervisory Board states that the financial statements for the financial year 2016 are compliant with the records, documents and the actual state of affairs. The Supervisory Board has given a positive opinion on the financial statements of ZUE S.A. for the period 1 January 2016 - 31 December 2016 and the opinion and report on the audit of the financial statements by the independent auditor, and recommends that the documents be approved by the General Meeting.

#### **6. Assessment of report of the Management Board of ZUE S.A. for 2016**

After it has analysed the report of the Company's Management Board for 2016, the Supervisory Board accepts the document submitted by the Management Board and states that the activities of the Management Board have been performed in accordance with the Polish Companies Act, the Company's Articles of Association, the Management Board Regulations and the best interest of the Company. Pursuant to Article 382 of the Polish Companies Act, the Supervisory Board has issued a positive opinion on the report and recommends that all the members of the Management Board be granted discharge in respect of the performance of their duties in the period 1 January 2016 – 31 December 2016.

#### **7. Assessment of proposal of the Management Board of ZUE S.A. concerning the distribution of profit for 2016**

The Supervisory Board of ZUE S.A. has approved the proposal of the Company's Management Board concerning the allocation of the entire net profit of PLN 1,479,694.72 (one million four hundred and seventy nine thousand six hundred and ninety four złoty 76/100) to reserve funds.

#### **8. Assessment of the consolidated financial statements of the Group for the financial year ended 31 December 2016**

The Supervisory Board of ZUE S.A. has analysed the consolidated financial statements of ZUE Group for the period 1 January 2016 - 31 December 2016 comprising:

- I. Consolidated statement of comprehensive income showing the net profit of PLN 406 thousand and total comprehensive income of PLN 451 thousand;
- II. Consolidated statement of financial position showing the total assets and liabilities of PLN 363,373 thousand;

- III. Consolidated statement of changes in equity showing a decrease in equity of PLN 7,052 thousand;
- IV. Consolidated statement of cash flows showing a decrease in net cash of PLN 109,617 thousand; and
- V. Notes on accounting principles and other explanatory information.

The Supervisory Board has also read the opinion and report on the audit by the independent auditor, Deloitte Polska Sp. z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, Al. Jana Pawła II 22, according to which the consolidated financial statements, in all material aspects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Group at 31 December 2016 and its profit or loss for the financial year from 1 January 2016 to 31 December 2016;
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accountancy Act and secondary legislation to the Act;
- comply with the law binding on the Group which affect the contents of the financial statements; and
- are complete within the meaning of Article 49.2 of the Polish Accountancy Act and the Regulation by the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent (Journal of Laws of 2014, item 133) and consistent with underlying information disclosed in the audited consolidated financial statements

On the basis of the analysis, the Supervisory Board states that the abovementioned documents are compliant with the records and documents of ZUE S.A. and the Group companies and the actual state of affairs. The Supervisory Board has issued a positive opinion on the opinion and report on the audit of the consolidated financial statements by the auditor, and recommends that the documents be approved by the General Meeting.

## **9. Assessment of report on the Group's activities in 2016**

After it has analysed the report on the Group's activities in 2016, the Supervisory Board of ZUE S.A. approves the document submitted by the Management Board and states that the activities of the Capital Group have been performed in accordance with the Polish Companies Act, the Polish Accountancy Act and the Group's best interest. Pursuant to Article 382 of the Polish Companies Act, the Supervisory Board has given a positive opinion on the report and recommends that the document be approved of by the General Meeting.

## **10. Assessment of the Company's and the Group's position**

As regards liquidity and access to external financing sources, the Supervisory Board states, after it has analysed documents and the actual state of affairs, that the financial position of ZUE S.A. and the Group does not pose any risk to financing their operations in 2017.

The functioning of internal control system and risk management system important for the Company have been favourably evaluated by the Supervisory Board (performing the tasks of the Audit Committee). The Company has not identified any separate unit responsible for internal audit and the tasks were carried out by individual organizational units. The Supervisory Board states that this solution has been sufficient given the type and scope of the Company's activities. The Supervisory Board states that at the date of this report, there is no need for a separate internal audit at the Company. Regardless of the foregoing, the Supervisory Board has favourably evaluated the activities implemented by the Company in 2016 to strengthen internal control at the Company including, in particular, the establishment of Internal Control Office. The Supervisory Board believes that the Office will help identify potential risks and irregularities and find the ways to eliminate them.

Given the requirement set out in the rule II.Z.10.3 contained in 2016 Code of Best Practice for the Warsaw Stock Exchange Listed Companies, which reads that apart from its tasks specified by the law, the supervisory board shall prepare once a year and submit to the ordinary general meeting its assessment of the way the disclosure requirements concerning the rules of corporate governance set out in the Stock Exchange Regulations and the laws concerning current and periodic information published by issuers of securities are observed by the company, the Supervisory Board has analysed the year 2016 in terms of the Company's performance of:

- a) Disclosure requirements concerning the publication in Electronic Database of reports on incidental violation of or deviation from corporate governance rules;
- b) Disclosure requirements concerning the publication of the statement of compliance with corporate governance rules in annual reports of the management board on activities;
- c) Disclosure requirements concerning the publication of specific information on the Company's website.

The following documents, information and circumstances have been read as part of the analysis:

- a) 2016 Code of Best Practice for the Warsaw Stock Exchange Listed Companies;
- b) Notice of 18 April 2016 about the Company's compliance with rules and recommendations contained in 2016 Code of Best Practice for the Warsaw Stock Exchange Listed Companies;
- c) Information on corporate governance published on the website of ZUE S.A.; and
- d) Actual compliance with the rules of Best Practice for the Warsaw Stock Exchange Listed Companies by ZUE S.A.

The Supervisory Board states, after it has read the abovementioned documents and information, that the Company properly observed in 2016 all rules and recommendations with respect to with respect to 2016 Code of Best Practice for the Warsaw Stock Exchange Listed Companies, except for:

Recommendations I.R.1, I.R.2, II.R.2., IV.R.2., VI.R.1, VI.R.3, rules I.Z.1.15, I.Z.1.16, I.Z.1.20, III.Z.2, III.Z.3, IV.Z.7, IV.Z.8, IV.Z.18, VI.Z.4 contained in 2016 Code of Best Practice for the Warsaw Stock Exchange Listed Companies applicable since 1 January 2016.

Following the analysis, the Supervisory Board states that information submitted as part of the disclosure requirement concerning the use of corporate governance rules complies with the actual use of the Code of Best Practice for the Warsaw Stock Exchange Listed Companies by ZUE S.A.

Thus, the Supervisory Board of ZUE S.A. has positively judged the Company's compliance with disclosure requirements concerning the use of corporate governance rules set out in the Stock Exchange Regulations and the laws concerning current and periodic information published by issuers of securities. In addition, the Supervisory Board agrees with the Company that there is no need for observing certain rules of the Code of Best Practice for the Warsaw Stock Exchange Listed Companies no longer used by ZUE S.A.

After it has assessed the Company's policy on sponsoring and charity, the Supervisory Board states that the Company's sponsoring and charity activities are sufficient and rational from the point of view of the Group's development strategy and the type of activity conducted by the Company.

After it has analysed independence criteria of the Supervisory Board members, the Supervisory Board states that the abovementioned criteria are met by two members of the Supervisory Board, namely Mr. Mariusz Szubra and Mr. Piotr Korzeniowski.

The Supervisory Board positively assesses the position of both the Company and the Group. On the basis of the results presented by the Company and the Group, the Supervisory Board states that both the Company and the Group are in favourable financial situation.

At this point, the Report has been completed and signed.

1.	Mariusz Szubra	Supervisory Board Chairperson:
2.	Magdalena Lis	Supervisory Board Vice- Chairperson:
3.	Bogusław Lipiński	Supervisory Board Member:
4.	Michał Lis	Supervisory Board Member:
5.	Piotr Korzeniowski	Supervisory Board Member: