

REPORT ON ACTIVITIES OF THE SUPERVISORY BOARD OF ZUE S.A. FOR 2017

With an supplement on the activities of the Audit Committee by 20 March 2018

Cracow, 28 May 2018

1. General information

The Supervisory Board of ZUE S.A. operates on the basis of the Polish Companies Act of 15 September 2000 and other generally applicable laws, including the Polish Act on Auditors,¹ the Articles of Association of ZUE S.A., the Regulations of the Supervisory Board of ZUE S.A and the requirements concerning the rules of corporate governance set out in 2016 Code of Best Practice.²

This Report contains:

- Assessment of the Company's financial statements for 2017;
- Assessment of the Group's financial statements for 2017;
- Assessment of the Management Board report on the activities of the Capital Group in 2017, which contains the disclosures about the Parent Company;
- Assessment of the Management Board proposal concerning the distribution of profit for the financial year 2017;
- Assessment of the Company's and the Group's position;

and other information required under 2016 Code of Best Practice.

The Report covers the period of the Company's operation between 1 January 2017 and 31 December 2017 and contains additional information about the activities of the Audit Committee by the date of publication of the abovementioned annual financial statements; i.e. 20 March 2018.

The assessments contained in this Report are made after the Supervisory Board has read the Report of the Audit Committee prepared on the basis of § 19.6 of the Regulations of the Supervisory Board, which includes the evaluation of the processes and areas supervised by the abovementioned Committee, summary of the audit results, explanation on how the audit has contributed to reliable financial reporting of the public company and explanation of the Audit Committee's role in the audit.

2. Composition of the Supervisory Board in 2017

In 2017, the Supervisory Board was composed of:

Mariusz Szubra	Supervisory Board Chairperson
Magdalena Lis ³	Supervisory Board Vice-Chairperson
Barbara Nowak ⁴	Supervisory Board Vice-Chairperson
Bogusław Lipiński	Supervisory Board Member
Piotr Korzeniowski	Supervisory Board Member
Michał Lis	Supervisory Board Member

¹ Polish Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017 (Journal of Laws, item 1089).

² Rules adopted under the resolution no. 26/1413/2015 of the Stock Exchange Board of 13 October 2015 concerning "2016 Code of Best Practice."

³ Vice-Chairperson of the Supervisory Board until 06.06.2017.

⁴ Vice-Chairperson of the Supervisory Board since 06.06.2017.

Mariusz Szubra, the Supervisory Board Chairperson, meets the requirements set out in Article 129.1 and 129.3 of the Polish Act on Auditors (i.e. the independence criteria and the qualifications relating to accountancy 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. Piotr Korzeniowski is the second independent member of the Supervisory Board who satisfies the independence criteria. Barbara Nowak possesses the qualifications referred to in Article 129.5 of the Polish Act on Auditors concerning the skills and knowledge of the industry the Company operates in.

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

In the financial year ended 31 December 2017, the Supervisory Board exercised constant supervision of the operations of ZUE S.A. It held 5 meetings and passed 29 resolutions. In between the meetings, members of the Supervisory Board held regular talks with the Audit Committee, 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 the issues of strategic significance to the Capital Group. The meetings of the Supervisory Board were held according to the regulations adopted by it.

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 2016;
- Giving opinion on the Management Board's proposal concerning the distribution of profit for the financial year 2016;
- Appointment and dismissal of the Management Board members during the term;
- Appointment of a statutory auditor to audit the Company's annual and half-yearly financial statements in 2017;
- Amendments to the Regulations of the Supervisory Board of ZUE S.A.;
- Formation of the Audit Committee, defining the number of the Audit Committee members and appointment of the Audit Committee members; and
- Procedures concerning the selection of an audit firm.

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 of 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 works progress and budgets. In addition, the Supervisory Board learnt about the Company's cooperation with Railway GFT Polska sp. z o.o. and BPK w Poznaniu Sp. z o.o., the subsidiaries.

The cooperation of the Supervisory Board and the Management Board in 2017 was proper.

In addition, the Supervisory Board read the report of:

- a) Audit Oversight Commission for 2016. Comments on the Report of the Audit Oversight Commission were taken into account in the course of the appointment of an audit firm.
- b) Audit Committee on activities including the evaluation of processes and areas supervised by the Audit Committee, taken measures and their consequences, summarized information about the results of the audit of the Company's annual financial statements for 2017, explanation on how the audit contributed to reliable financial reporting at the Company and explanation of the Audit Committee's role in the audit. Comments on the Report of the Audit Committee were taken into account in the course of making the following assessments by the Supervisory Board.

The Supervisory Board states that it performed its duties in 2017 in a proper and diligent manner. Accordingly, the Supervisory Board requests the Ordinary General Meeting to grant the approval for the performance of duties to all members of the Supervisory Board.

4. Functioning and tasks of the Supervisory Board Committees

By 18 October 2017, the tasks of the Audit Committee had been performed jointly by the entire Supervisory Board.

Before the appointment of the Audit Committee, members of 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 sections VIII and IX of the Supervisory Board Regulations, and:

- Monitored the activities relating to financial reporting and auditing and watched the rules governing the cooperation between the Company's accounting authorities and the Management Board, and a statutory 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;
- Monitored the efficiency of internal audit, control, compliance and risk management systems;

- 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, especially financial plans for 2018.
- In 2017, members the Supervisory Board, who performed the tasks of the Audit Committee, positively assessed the independence of and appointed the entity to audit the financial statements of ZUE S.A. and ZUE Capital Group.

In 2017, the Supervisory Board formed the Audit Committee at the Company. The Audit Committee began to operate on 18 October 2017. In 2017, the Audit Committee passed three resolutions and:

- a) Developed *Policy of rendering by the audit firm conducting the audit, entities related to the audit firm and member of the audit firm network of permitted services other than audit at ZUE S.A.* referred to in Article 130.1.6 of the Polish Act on Auditors;
- b) Developed *Policy of appointment of entity authorised to audit financial statements at ZUE S.A.* referred to in Article 130.1.5 of the Polish Act on Auditors; and
- c) Defined *Procedure of appointment of entity authorised to audit financial statements at ZUE S.A.* referred to in Article 130.1.7 of the Polish Act on Auditors.

In addition, in March 2018 the Audit Committee undertook the activities required under the Procedure referred to in letter c) above taking account of the Policies referred to in letters a) and b) above and the latest interpretations of the Ministry of Finance relating to the extension of the term of cooperation with the audit firm appointed to review the half-yearly separate and consolidated financial statements as at 30 June 2017 and 30 June 2018 and to audit the annual separate and consolidated financial statements for the financial year ended 31 December 2017 and 31 December 2018. As part of the abovementioned activities, the Audit Committee gave relevant recommendations and approved, after it had assessed the independence loss risks, of the review by the appointed audit firm of the abovementioned half-yearly financial statements.

As part of the tasks assigned to it, the Audit Committee communicated with the Company in the period 18 October 2017 – 20 March 2018 through electronic means (and passed resolutions through electronic means) and held the three personal meetings on:

- 18 October 2017;
- 20 December 2017; and
- 14 March 2018.

At the meetings, the Audit Committee focused on the compliance with legal requirements referred to in Article 130.1.1.a and c, and Article 130.1.2–4 of the Polish Act on Auditors; i.e. the monitoring of financial reporting process, the monitoring of the efficiency of internal control and risk management systems and the monitoring of internal audit, including financial reporting, and the monitoring of the provision of financial audit services including, in particular, an audit conducted by an audit firm.

In addition, the Audit Committee controlled and monitored the independence of the statutory auditor and audit firm [Article 130.1.2 of the Polish Act on Auditors], assessed the independence of the statutory auditor [Article 130.1.4, first sentence of the Polish Act on Auditors] and analysed the issues whose aim was to ensure the reliability of financial reporting at the public company [Article 130.1.9 of the Polish Act on Auditors].

As part of these activities, the Audit Committee and the Management Board discussed the plan of audit of the Company's financial statements for 2017, including the dates of initial and final audits, and held the meeting with the representatives of E&Y on 20 December 2017. The matters discussed at the meeting included, in particular:

- Scope and schedule of tasks relating to the audit;
- Audit strategy;
- Concept of significance;
- Approach to material audit risks;
- Discussion of key audit matters;
- Recommendations concerning the implementation of the new IFRSs;
- Internal control environment, including costs and expenses approval process;
- Acceptance and control of the statement of independence of the audit firm and statutory auditor;
- Key issues addressed to the Management Board during the course of the audit;
- Scope of communication between the Audit Committee and the statutory auditor during the course of the audit;
- Presentation of project team; and
- Discussion of non-financial reporting issues.

The meetings of the Audit Committee were attended by members of the Management Board and the Company's key management personnel, including the Chief Accountant and the Financial Director, if their presence was required by the nature of topics discussed at the meetings. The Audit Committee cooperated with the statutory auditor also by sending e-mails directly to the audit firm.

The Audit Committee and the representatives of the Auditor met again on 14 March 2018 and discussed the comments on the audit of the financial statements of ZUE S.A. for 2017.

The issues discussed at the meeting of the Supervisory Board held on 10 April 2018 included the additional Auditor's report for the Audit Committee of ZUE S.A. Capital Group of 19 March 2018 submitted to the Audit Committee.

Detailed results of the Audit Committee's tasks were submitted to the Supervisory Board in the Audit Committee's Report on Activities.

No other committees were formed at the Supervisory Board of ZUE S.A.

5. Assessment of the financial statements of ZUE S.A. for the financial year ended 31 December 2017

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 2017 - 31 December 2017 comprising:

- I. Statement of comprehensive income showing a net profit of PLN 839 thousand and total comprehensive income of PLN 743 thousand;
- II. Statement of financial position showing the total assets and liabilities of PLN 475,282 thousand;
- III. Statement of changes in equity showing an increase in equity by PLN 743 thousand;
- IV. Statement of cash flows for the Company's financial year ended 31 December 2017 showing an increase in net cash by PLN 55,329 thousand and an increase in cash and cash equivalents by PLN 54,937 thousand; and
- V. Notes to the financial statements, including notes on accounting principles and other explanatory information.

The Supervisory Board has also read the report on the audit of the annual financial statements prepared by the independent auditor; i.e. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, Rondo ONZ 1, according to which the financial statements, in all material aspects:

- Give a true and fair view of the Company's financial and economic position as at 31 December 2017 and the Company's profit or loss for the financial year 2017 according to the International Accounting Standards, the International Financial Reporting Standards and the related interpretations published as regulations of the European Commission and the adopted accounting principles (policies);
- Comply in terms of form and content with applicable laws binding on the Company and the Company's Articles of Association.

On the basis of the analysis, the Supervisory Board states that the financial statements for the financial year 2017 are compliant with the records, documents and the actual state of affairs. The Supervisory Board has given a favourable opinion on the financial statements of ZUE S.A. for the period 1 January 2017 - 31 December 2017 and the report on the audit of the financial statements by the statutory auditor, and recommends that the abovementioned financial statements and the components thereof be approved by the General Meeting.

6. Assessment of the consolidated financial statements of ZUE Group for the financial year ended 31 December 2017

The Supervisory Board of ZUE S.A. has read the consolidated financial statements of the Group for the period 1 January 2017 - 31 December 2017 comprising:

- I. Consolidated statement of comprehensive income showing a net profit of PLN 233 thousand and total comprehensive income of PLN 137 thousand;

- II. Consolidated statement of financial position showing the total assets and liabilities of PLN 502,252 thousand;
- III. Statement of changes in consolidated equity showing an increase in equity by PLN 137 thousand;
- IV. Consolidated statement of cash flows for the Company's financial year ended 31 December 2017 showing an increase in net cash by PLN 55,428 thousand and an increase in cash and cash equivalents by PLN 55,031 thousand; and
- V. Notes to the consolidated financial statements, including notes on accounting principles and other explanatory information.

The Supervisory Board has also read the report on the audit of the consolidated financial statements prepared by the independent auditor; i.e. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, Rondo ONZ 1, according to which the financial statements, in all material aspects:

- Give a true and fair view of the Group's financial and economic position as at 31 December 2017 and the Group's profit or loss for the financial year 2017 according to the International Accounting Standards, the International Financial Reporting Standards and the related interpretations published as regulations of the European Commission and the adopted accounting principles (policies);
- Comply in terms of form and content with applicable laws binding on the Group and the Company's Articles of Association.

On the basis of the analysis, the Supervisory Board states that the presented documents have been prepared according to the records and documents of ZUE S.A. and ZUE Capital Group and are compliant with the actual state of affairs. The Supervisory Board has given a favourable opinion on the audit of the consolidated financial statements for 2017 carried out by the statutory auditor and recommends that the abovementioned consolidated financial statements and the components thereof be approved by the General Meeting.

7. Assessment of the Management Board Report on Activities of the Parent Company and the Capital Group in 2017

After it has analysed the report of the Management Board on the activities of the Parent Company and the Capital Group in the period 1 January 2017 – 31 December 2017, 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 given a favourable 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 2017 – 31 December 2017.

8. Assessment of the proposal of the Management Board of ZUE S.A. concerning the distribution of profit for the financial year 2017

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 839,388.29 (eight hundred and thirty nine thousand three hundred and eighty eight zlotys 29/100) to reserve funds.

9. Assessment of the Company's and the Group's position

Revenue generated by the Group in the entire 2017 was PLN 465,316 thousand (PLN 343,017 thousand in 2016). Consolidated gross profit increased from PLN 16,663 thousand in 2016 to PLN 19,092 thousand in 2017. The consolidated operating profit in the period under analysis increased year over year from PLN 154 thousand to PLN 1,641 thousand and net profit decreased from PLN 406 thousand to PLN 233 thousand.

At the end of 2017, the Group's total assets and liabilities stood at PLN 502,252 thousand (compared to PLN 363,373 thousand at the end of 2016). Non-current assets at the end of 2017 amounted to PLN 158,593 thousand (compared to PLN 143,917 thousand at the end of 2016). Current assets increased from PLN 219,456 thousand at the end of 2016 to PLN 343,659 thousand at the end of 2017. The key item of current assets included trade and other receivables, which increased in 2017 from PLN 86,609 thousand to PLN 192,148 thousand and cash, which increased from PLN 62,717 thousand to PLN 117,748 thousand.

The Group's equity basically did not change and amounted at the end of 2017 to PLN 209,419 thousand. The structure of short-term payables saw major change and increased from PLN 128,268 thousand to PLN 267,361 thousand mainly as a result of the increase in trade payables.

In 2017, the Group generated PLN + 18,863 thousand of cash from operating activities, PLN + 34,717 thousand of cash from investing activities and PLN + 1,848 thousand of cash from financing activities.

The total cash in 2017 was PLN + 55,428 thousand and, accordingly, cash at the end of 2017 amounted to PLN 117,748 thousand.

As regards liquidity and access to external financing sources, the Supervisory Board states, after it has analysed the 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 2018. 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.

10. Assessment of internal audit, control, compliance and risk management systems

The functioning of internal control system and risk management system important for the Company have been favourably evaluated by the Supervisory Board and 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 any separate internal audit at the Company. Such tasks are monitored by the Audit Committee as part of the Audit Committee's tasks and competence. Changes are planned by the Company and a separate internal audit unit may be formed.

11. Assessment of compliance with disclosure requirements

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 Company's Supervisory Board has analysed the year 2017 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 2017 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.

12. Assessment of sponsorship and charity activities

After it has assessed the Company's policy on sponsorship and charity, the Supervisory Board states that the Company's sponsorship 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.

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

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