

REPORT ON ACTIVITIES OF THE SUPERVISORY BOARD OF ZUE S.A. FOR 2018

With an supplement on the activities of the Audit Committee by 28 March 2019

Cracow, 23 May 2019

1. General information

The Supervisory Board of ZUE S.A. (the Company) 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 2018;
- Assessment of the Group's financial statements for 2018;
- Assessment of the Directors' report on the activities of the Capital Group in 2018, which contains the disclosures about the Parent Company;
- Assessment of the Management Board proposal concerning the distribution of profit for the financial year 2018;
- 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 2018 and 31 December 2018 and contains additional information about the activities of the Audit Committee by the date of publication of the abovementioned annual financial statements; i.e. 28 March 2019.

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 2018

In 2018, the Supervisory Board was composed of:

Mariusz Szubra	Supervisory Board Chairperson
Barbara Nowak	Supervisory Board Vice-Chairperson
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 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 2016 Code of Best

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."

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 2018, the Supervisory Board exercised constant supervision of the operations of ZUE S.A. It held 4 meetings and passed 24 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 Directors' report on the Company's activities in 2017;
- Giving opinion on the Management Board's proposal concerning the distribution of profit for the financial year 2017;
- Changes in the compensation of the Management Board members;
- Preparation of uniform text of the Company's Articles of Association.

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 2018 was proper.

In addition, the Supervisory Board read the report of:

- a) 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 2018, 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.
- b) Audit Oversight Committee for 2017. Comments on the Report of the Audit Oversight Committee were taken into account after an audit firm had been appointed to review and audit the separate and consolidated financial statements of the Company, including the statements for 2018.

The Supervisory Board states that it performed its duties in 2018 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

The Audit Committee was established at ZUE S.A. on 18 October 2017. In 2018 and by this report preparation date, the Audit Committee operated uninterruptedly and was composed of:

- Mariusz Szubra – Chairman of the Audit Committee (independent member within the meaning of the Act on Auditors);
- Barbara Nowak – Member of the Audit Committee;
- Piotr Korzeniowski - Member of the Audit Committee (independent member within the meaning of the Act on Auditors).

In 2018, the Audit Committee held four meetings.

The tasks (including statutory tasks) of the Audit Committee of ZUE S.A. include, in particular:

- Monitoring of financial reporting;
- Monitoring of effectiveness of the Company's internal control systems, risk management systems and internal audit, including financial reporting;
- Monitoring of financial audit including, in particular, audits of the Company's financial statements conducted by audit firms and taking into consideration any comments and findings of the Audit Oversight Committee following from an inspection carried out at the audit firm;
- Control and monitoring of independence of an auditor or audit firm delivering services to the Company;
- Informing the Supervisory Board about the results of the Company's financial statements audit and explaining how the audit contributes to reliable financial reporting at the Company and the role of the Committee during the audit;
- Assessment of an auditor's independence and giving consent to the provision of services to the Company by the said auditor;
- Developing the policy of appointing an audit firm to conduct the audit of the Company's financial statement;

- Developing the policy of delivering non-audit services by an audit firm conducting the audit of the financial statements, entities related to the said audit firm and a member of the audit firm network;
- Defining the procedure of appointment of an audit firm by the Company; and
- Making recommendations to ensure reliable financial reporting at the Company.

As part of its activities, the Audit Committee discussed with the Management Board the plan of the audit of the Company's financial statements for 2018, including the dates of initial and final audits, and held the meeting with the representatives of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with registered office in Warsaw, the audit firm auditing the financial statements of the Company (the Auditor) on 19 December 2018. 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 meeting of the Audit Committee was 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 held a teleconference on 22 March 2019 and met with the representatives of the Auditor on 25 March 2019. They discussed the comments on the audit of the financial statements of ZUE S.A. for 2018.

The issues discussed at the meeting of the Supervisory Board held on 27 March 2019 included the additional Auditor's report for the Audit Committee of ZUE S.A. Capital Group on the audit of the financial statements for 2018 dated 27 March 2019 and 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 2018

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 assessed:

- The financial statements of the Company for 2018 comprising:
 - a) statement of financial position showing as at 31 December 2018 the total assets and the total equity and liabilities of PLN 596,618 thousand (five hundred and ninety six million six hundred and eighteen thousand złoty);
 - b) statement of comprehensive income showing as at 31 December 2018 the net comprehensive income of PLN (-) 64,124 thousand (minus sixty four million one hundred and twenty four thousand złoty) and the net profit of PLN (-) 64,049 thousand (minus sixty four million forty nine thousand złoty);
 - c) statement of changes in equity showing as at 31 December 2018 a decrease in equity by PLN 64,124 thousand (sixty four million one hundred and twenty four thousand złoty);
 - d) statement of cash flows showing as at 31 December 2018 a net decrease in cash by PLN 36,740 thousand (thirty six million seven hundred and forty thousand złoty); and
- Report on the Company's operations in the financial year 2018 (prepared in conjunction with the report on the Capital Group's operations in one document);

in terms of the compliance thereof with records, documents and actual state.

Based on the analysis of:

- a) content of the abovementioned reports submitted by the Company's Management Board;
- b) documents and accounting records and information provided by the Company's Management Board;
- c) results of additional review of selected financial and operating areas;
- d) report on the audit of the Company's financial statements for the financial year 2018 prepared by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with registered office in Warsaw (EY), an audit firm;
- e) additional report prepared by the audit firm for the Audit Committee referred to in Article 131 of the Act on Auditors;
- f) results of the meetings with representatives of the abovementioned audit firm, including key auditor; and
- g) information from the Audit Committee about the course, results and significance of the audit for the reliability of financial reporting at the Company and the role of the Committee in the process of the financial statements auditing;

the abovementioned reports have been favourably assessed by the Supervisory Board.

In addition, on the basis of the knowledge about the Company and a broad scope of activities undertaken in connection with the preparation and audit of the abovementioned reports, the Supervisory Board of the Company state that the directors' report and the financial statements of the Company for the financial year 2018 have been prepared in compliance with the law, accounting records, documents and actual state and that they contain a true view of the Company's achievements and development as well as the Company's standing and no reservations have been voiced about the form or content thereof.

The Supervisory Board 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 2018

The Supervisory Board of ZUE S.A. have assessed:

- The consolidated financial statements of the Capital Group for 2018 comprising:
 - a) consolidated statement of financial position showing as at 31 December 2018 the total assets and the total equity and liabilities of PLN 629,562 thousand (six hundred and twenty nine million five hundred and sixty two thousand złoty);
 - b) consolidated statement of comprehensive income showing as at 31 December 2018 the net comprehensive income of PLN (-) 62,660 thousand (minus sixty two million six hundred and sixty thousand złoty) and the net profit of PLN (-) 62,585 thousand (minus sixty two million five hundred eighty five thousand złoty);
 - c) consolidated statement of changes in equity showing as at 31 December 2018 a decrease in equity by PLN 62,671 thousand (sixty two million six hundred and seventy one thousand złoty);
 - d) consolidated statement of cash flows showing as at 31 December 2018 a net decrease in cash by PLN 36,025 thousand (thirty six million twenty five thousand złoty); and
- Report on the Capital Group's operations in the financial year 2018 (prepared in conjunction with the report on the Company's operations in one document);

in terms of the compliance thereof with records, documents and actual state.

Based on the analysis of:

- a) content of the abovementioned reports submitted by the Company's Management Board;
- b) documents and accounting records and information provided by the Company's Management Board;
- c) results of additional review of selected financial and operating areas;
- d) report on the audit of the consolidated financial statements for the financial year 2018 prepared by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with registered office in Warsaw (EY), an audit firm;
- e) additional report prepared by the audit firm for the Audit Committee referred to in Article 131 of the Act on Auditors;
- f) results of the meetings with representatives of the abovementioned audit firm, including key auditor; and
- g) information from the Audit Committee about the course, results and significance of the audit for the reliability of financial reporting at the Company and the role of the Committee in the process of the financial statements auditing;

the abovementioned reports have been favourably assessed by the Supervisory Board.

In addition, on the basis of the knowledge about the Company and a broad scope of activities undertaken in connection with the preparation and audit of the abovementioned reports, the Supervisory Board of the Company state that the directors' report and the consolidated financial statements of the Capital Group for the financial year 2018 have been prepared in compliance with the law, accounting records, documents and actual state and that they contain a true view of the Group's achievements and development as well as the Group's standing and no reservations have been voiced about the form or content thereof.

The Supervisory Board recommends that the abovementioned consolidated financial statements and the components thereof be approved by the General Meeting.

7. Assessment of the Directors' Report on Activities of ZUE and ZUE Group in 2018

After it has analysed the Directors' report on the activities of ZUE S.A. and the Capital Group in the period 1 January 2018 – 31 December 2018, 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 Directors' 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 2018 – 31 December 2018.

8. Assessment of the proposal of the Management Board of ZUE S.A. concerning the distribution of profit for the financial year 2018

The Supervisory Board of ZUE S.A. has approved the proposal of the Company's Management Board concerning:

- 1) coverage of the net loss for the financial year 2018 of PLN -39,434,845.22 (minus thirty nine million four hundred and thirty four thousand eight hundred and forty five złotych 22/100) from capital reserve;
- 2) coverage of the net loss for the financial year 2018 of PLN -24,615,130.21 (minus twenty four million six hundred and fifteen thousand one hundred and thirty złotych 21/100) from reserve funds; and
- 3) coverage of the undistributed loss of prior years of PLN -1,020,772.71 (one million twenty thousand seven hundred and seventy two złotych 71/100) from reserve funds.

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

In 2018, the Company recognised sales revenue of PLN 763,757 thousand and recorded gross loss of PLN (-) 62,035 thousand, operating loss of PLN (-) 79,973 thousand, pre-tax loss of PLN (-) 78,714 thousand and net loss of PLN (-) 64,049 thousand. The loss is a result of the Board's decision to reduce the projected margins for certain railway construction contracts performed for PKP PLK S.A. For a number of contracts, the projected margins would drop to less than zero. The reduction of margins referred to the contracts won mainly in 2016 and 2017. The reasons for the situation included, first and foremost, the obstacles unrelated to the Company (such as undefined legal status of plots, delayed administrative procedures, unavailable work sites, physical conditions differing from those assumed in the ToR, including the land survey documents and technical condition of facilities, results of expert opinions, changes to applicable laws or expectations of local communities), which prevented the performance of the said contracts according to the initial assumptions accepted at the tendering phase on the basis of the documentation provided to the contractors. Based on the said assumptions, material and financial schedules were prepared by the Company whereby the Company entered into master agreements for the supply of key building materials, provided staff and equipment, gathered the offers submitted by subcontractors and service providers and prepared the

funds required to finance the project. The Company's activities are discussed in detail in the financial statements of ZUE S.A. for 2018.

At the end of the reporting period, the Company's current assets amounted to PLN 414,705 thousand, including cash of PLN 79,404 thousand. In 2018, the Company financed its operating activities with own resources. At the date of preparation of the report, the Company held available credit lines for the total amount of PLN 70,000 thousand. At the date of preparation of the report, the Company's backlog contained the contracts worth approx. PLN 1.9bn. ZUE continues to expand its backlog selectively by considering the costs and increasing, *inter alia*, the share in urban contracts. No real contract indexation on the infrastructure construction market accompanied by the unexpected increase of contract performance costs make contractors bear the entire risk relating to the costs that are difficult to assess. Contracting authorities and contractors' representatives talk about the indexation of contracts and, consequently, the situation of general contractors.

The Group presented a gross loss of PLN 56,038 thousand and a net loss of PLN 62,585 thousand in the consolidated statement of comprehensive income for the year ended 31 December 2018. The Group's cash in the consolidated statement of financial position as at 31 December 2018 was PLN 81,723 thousand.

Financial liquidity has been defined as crucial for the audit of the consolidated financial statements due to significant amounts of the abovementioned losses and the Management Board's professional judgment of the estimates of a cash flow forecast on the basis of which financial liquidity and going concern conclusions are made. These estimates require the Management Board to consider a number of assumptions concerning cash flow forecasts, including sales revenue, operating expenses, timely performance of contracts and general market conditions.

Accordingly, the Management Board prepared a cash flow forecast for 2019, which contained the main assumptions concerning the Group's operating parameters. The forecast revealed no material going concern risks in the foreseeable future and the Management Board stated that there were no threats to the Company's ability to continue in operational existence in the foreseeable future.

In addition, it has been confirmed on the basis of the audit carried out by the Auditor that there are no material misstatements concerning the ability to continue as a going concern or financial liquidity.

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 2019 despite a significant loss suffered in 2018. The Supervisory Board has favourably assessed the condition of the Company and the Group and 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 2018 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 2018 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: