

REPORT ON ACTIVITIES OF THE SUPERVISORY BOARD OF ZUE S.A. FOR 2020

With a supplement on the activities of the Audit Committee until 25 March 2021

Cracow, 24 May 2021

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 2020;
- Assessment of the Group's financial statements for 2020;
- Assessment of the Management Board report on the activities of the Capital Group in 2020, which also contains the disclosures about the Parent Company;
- Assessment of the Management Board proposal concerning the distribution of profit for the financial year 2020;
- 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 2020 and 31 December 2020 and contains additional information about the activities of the Audit Committee by the date of publication of the abovementioned annual financial statements; i.e. 25 March 2021.

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 2020

In 2020, 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 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

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

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."

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 2020, the Supervisory Board exercised constant supervision of the operations of ZUE S.A. It held 4 meetings and passed 17 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 Group's activities in 2019;
- Evaluation of the Management Board's proposal concerning the distribution of profit for the financial year 2019;
- Giving opinion on the Remuneration Policy for members of the Management Board and the Supervisory Board of ZUE S.A.
- Giving consent to the sale of real estate by the Company.

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;
- Winning of new contracts; and
- Activities undertaken by the Management Board in connection with the covid-19 pandemic in Poland and influence of the covid-19 pandemic on the operation and financial standing of the Company and the Capital Group.

At the Supervisory Board meetings, the Company's Management Board gave account of the Company's current financial and economic position, and major business operations, including the Company's financial liquidity, winning of new contracts on the Polish market and the influence of the covid-19 pandemic on the Company's operation and financial standing. The Supervisory Board was also informed about the 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 2020 was proper.

In addition, the Supervisory Board read the report of the Audit Committee on activities including the evaluation of processes and areas supervised by the Audit Committee, taken measures and their effects, summarized information about the results of the audit of the Company's annual financial statements for 2020, 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 2020 in a proper and diligent manner. Accordingly, the Supervisory Board requests the Company's 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 (members of the Audit Committee were re-appointed by the Supervisory Board on 23 May 2019). By the date of this report preparation, 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 2020, 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 2020, including the dates of preliminary and final audits, and held the meeting on 12 August 2020 with the representatives of POLINVEST-AUDIT Sp. z o.o. – the Auditor appointed to review the half-yearly separate financial statements of the Company and the half-yearly consolidated financial statements of the Group and to audit the annual separate financial statements of the Company and the annual consolidated financial statements of the Group for the first half of 2020 and the year 2020, respectively.

Members of the meeting discussed the results of the review of the financial statements for the first half of 2020 as well as the scope and schedule of further work. During the review, the Auditor carried out analytical procedures relating to separate financial statements and asked questions of the key people at the Company responsible for the financial reporting. Those people provided explanation and submitted the documentation required by the audit teams to carry out the scheduled procedures.

A detailed description of the issues discussed at the meeting has been contained by the Auditor in the Information for the Audit Committee of ZUE S.A. related to the review of the financial statements for the first half of 2020 and prepared according to the National Audit Standard (NAS) 260.

The Audit Committee met with the representatives of the Auditor on 24 March 2021.

The following issues were discussed at the meeting:

- Summary of the audit of the financial statements of ZUE S.A. and the following subsidiaries: Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. and Railway GFT Polska Sp. z o.o. Discussion of major aspects of the audit.
- Communication and discussion of going concern risks for Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. and the opinion of ZUE S.A. (the shareholder holding 100% of shares in this company) on further support of the company's operation, its development and liquidity.
- Discussion of the table of corrections to the financial statements submitted to the Management Board of ZUE S.A. The key auditor suggested one correction exceeding trivial materiality be made relating to revaluated deferred tax asset in connection with tax losses of prior years. The correction does not exceed performance materiality. The key auditor also suggested that liabilities under assets held for sale should be separated from short- and long-term liabilities. The key auditor stated that the decision not to correct the document would not change the opinion on the separate or consolidated financial statements. Following a discussion, the Audit Committee agreed with the Company's Management Board due to the small significance of the proposed correction.
- Discussion of the influence of the covid-19 crisis on the activities and reporting of the companies within the Capital Group.
- Discussion of the fulfilment by ZUE S.A. of the obligations set out in the Organisation Procedures, including the activity of an internal control unit.
- Discussion of the terms and rules of the audit of the financial statements for 2020.

The Auditor provided the Audit Committee with an additional report for ZUE audit committee including detailed information about the audit of the financial statements.

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 2020

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 2020 comprising:
 - a) Statement of financial position showing as at 31 December 2020 the total assets and the total equity and liabilities of PLN 503,270 thousand (five hundred and three million two hundred and seventy thousand złoty);
 - b) Statement of comprehensive income showing as at 31 December 2020 the net comprehensive income of PLN 4,305 thousand (four million three hundred and five thousand złoty) and the net profit of PLN 4,362 thousand (four million three hundred and sixty two thousand złoty);
 - c) Statement of changes in equity showing as at 31 December 2020 an increase in equity by PLN 4,305 thousand (four million three hundred and five thousand złoty);
 - d) Statement of cash flows showing as at 31 December 2020 a net decrease in cash by PLN 7,755 thousand (seven million seven hundred and fifty five thousand złoty);
 - e) Notes to the financial statements, including information on adopted accounting policy and other explanatory information; and
- Report on the Company's operations in the financial year 2020 (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 of the audit firm Polinvest-Audit Sp. z o.o. with registered office in Cracow, the Łukasiewicza Street no. 1, on the audit of the Company's financial statements for the financial year 2020;
- 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 Management Board report and the financial statements of the Company for the financial year 2020 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 2020

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

- The consolidated financial statements of the Capital Group for 2020 comprising:
 - a) Consolidated statement of financial position showing as at 31 December 2020 the total assets and the total equity and liabilities of PLN 524,973 thousand (five hundred and twenty four million nine hundred and seventy three thousand złoty);
 - b) Consolidated statement of comprehensive income showing as at 31 December 2020 the net comprehensive income of PLN 4,208 thousand (four million two hundred and eight thousand złoty) and the net profit of PLN 4,265 thousand (four million two hundred and sixty five thousand złoty);
 - c) Consolidated statement of changes in equity showing as at 31 December 2020 an increase in equity by PLN 4,208 thousand (four million two hundred and eight thousand złoty);
 - d) Consolidated statement of cash flows showing as at 31 December 2020 a net decrease in cash by PLN 6,891 thousand (six million eight hundred and ninety one thousand złoty);
 - e) Notes to the financial statements, including information on adopted accounting policy and other explanatory information; and
- Report on the Capital Group's operations in the financial year 2020 (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 of the audit firm Polinvest-Audit Sp. z o.o. with registered office in Cracow, the Łukasiewiczza Street no. 1, on the audit of the consolidated financial statements for the financial year 2020;
- 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 Management Board report and the consolidated financial statements of the Capital Group for the financial year 2020 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.

Accordingly, the Supervisory Board 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 ZUE and ZUE Group in 2020

After it has analysed the Management Board report on the activities of ZUE S.A. and the Capital Group in the period 1 January 2020 – 31 December 2020, the Supervisory Board accepts the document submitted by the Management Board and states that the activities of the Management Board have been conducted 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 Management Board 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 2020 – 31 December 2020.

8. Assessment of the proposal of the Management Board of ZUE S.A. concerning the allocation of profit for the financial year 2020

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

- 1) Allocation of the entire profit for the financial year 2020 of PLN 4,361,675.04 (four million three hundred and sixty one thousand six hundred and seventy five złotych 04/100) to reserve funds.

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

The Company's sales revenue generated in 2020 was PLN 849,649 thousand. The Company's revenue decreased by 9% compared to the figure reported in 2019 and increased by 11% compared to the figure reported in 2018. In 2020, the Company's gross margin improved and was 3.3% (2.5% in 2019). The Company reported positive results at all other profit levels. ZUE is one of major contractors of the National Railway Programme until 2023 (the "NRP") – the modernisation project of key significance for the Polish railways. In 2019-2020, the value of services provided by ZUE was more than PLN 800m owing to the Company's significant involvement in the execution of projects under the NRP. In 2020, the Company performed

several railway contracts won on the difficult market of 2016-2017. They were the low-margin contracts and the reasons for this included unpredictable factors beyond the Company's control such as growing costs of project execution and no real price indexation. The Company repeatedly informed about this fact in current and financial reports. Many of these contracts are scheduled for completion in 2021.

In 2020, the Company won the new contracts with the total value of approx. PLN 269m. At the date of publication of 2020 annual report, the total value of ZUE's backlog was approx. PLN 1.47bn. It mainly included railway contracts but was diversified by increasing the number of urban contracts. Between November 2020 and the date of publication of 2020 annual report, the Company won the three contracts on the urban market, including two "build" contracts and one "maintain" contract worth in total approx. PLN 208m. The project completion dates on the urban market are shorter and do not include design activities. Accordingly, the risks relating to project execution are much smaller when compared with the risks associated with railway contracts.

PKP PLK, the entity dealing with railway projects in Poland, said it planned to announce by the end of 2021 the tenders worth approx. PLN 17bn to carry out the final projects under the NRP and the projects under the new 2021-2027 EU perspective. There will be mainly the "build" projects. This should limit the Company's exposure to unexpected changes in production prices. ZUE intends to take an active part in the said tender procedures and is hoping that the contracts will soon be awarded.

Compared to 2019, ZUE's gross profit on sales grew by PLN 4,949 thousand to PLN 28,023 thousand at the end of 2020.

The Company reported other operating income of PLN 2,926 thousand – up by 169% compared to the analogous period of 2019. Other operating expenses amounted to PLN 1,789 thousand and increased over the year by 130%.

Operating profit generated by ZUE in 2020 was PLN 9,782 thousand (year-on-year increase by 55%).

ZUE's financial income increased over the year by 16% and stood at PLN 1,705 thousand. ZUE's financial expenses amounted to PLN 1,452 thousand – down by 21% compared to 2019.

In 2020, the Company reported the net profit of PLN 4,362 thousand (year-on-year increase by 39%).

After they have analysed the documents and the actual condition, the Supervisory Board state that as regards liquidity and access to external financing sources, the financial position of ZUE S.A. and the Group does not pose any risk to financing their operations in 2020. The Supervisory Board have favourably assessed the condition of the Company and the Group and states that both the Company and the Group are in a good financial position.

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. Separate internal audit unit may be formed at the Company in the future.

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 2020 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 2020 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 effective 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.

Accordingly, 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: