

Warsaw, 24 May 2018

Supervisory Board of
TRAKCJA PRKii S.A.
in Warsaw

REPORT
ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF
TRAKCJA PRKii S.A. (THE "COMPANY") FOR 2017,
ASSESSMENT OF THE COMPANY'S FINANCIAL STATEMENTS FOR 2017
AND THE REPORT
OF THE MANAGEMENT BOARD ON THE COMPANY'S ACTIVITIES FOR 2017,
ASSESSMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE TRAKCJA
GROUP FOR 2017 AND THE REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES
OF THE TRAKCJA GROUP'S FOR 2017,
ASSESSMENT OF THE COMPANY'S SITUATION
AND
ASSESSMENT OF THE TRAKCJA GROUP'S SITUATION,
ASSESSMENT OF THE COMPANY'S MANAGEMENT BOARD PROPOSAL AS TO THE
DISTRIBUTION OF THE COMPANY'S PROFIT FOR 2017

I. The membership of the Supervisory Board in the reporting period from 1 January 2017 to 31 December 2017 was as follows:

Forename and surname	Function	Date of appointment / dismissal / resignation
Dominik RADZIWIŁŁ	Member of the Supervisory Board	5.10.2015 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
	Chairman of the Supervisory Board	since 26.11.2015
Jorge Miarnau MONTSERRAT	Member of the Supervisory Board	4.07.2012 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
	Deputy Chairman of the	since 25.07.2013

	Supervisory Board	
Miquel LLEVAT VALLESPINOSA	Member of the Supervisory Board	4.07.2012 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
Wojciech NAPIÓRKOWSKI	Member of the Supervisory Board	29.06.2012 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
Fernando PEREA SAMARRA	Member of the Supervisory Board	12.06.2013 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
Michał HULBÓJ	Member of the Supervisory Board	25.06.2015 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
	Deputy Chairman of the Supervisory Board	08.09.2016 – appointed as Deputy Chairman of the Supervisory Board
Łukasz ROZDEICZER-KRYSZKOWSKI	Member of the Supervisory Board	16.06.2016 – appointed as Member of the Supervisory Board

Mr. Dominik Radziwiłł is the Chairman of the Supervisory Board as at the date of preparation of the report. The following members of the Supervisory Board fulfil independency criteria: Michał Hulbój, Wojciech Napiórkowski and Łukasz Rozdeiczer-Kryszkowski.

The Audit Committee held four meetings in 2017. In 2017 initially the members of the Audit Committee were:

- Dominik Radziwiłł – Chairman
- Fernando Perea Samarra
- Wojciech Napiórkowski

In October 2017 the composition of the Audit Committee changed and presently consists of:

- Wojciech Napiórkowski – Chairman
- Fernando Perea Samarra
- Łukasz Rozdeiczer-Kryszkowski

The Remuneration Committee of the Supervisory Board held four meetings in 2017. Members of the Remuneration Committee of the Supervisory Board are:

- Dominik Radziwiłł – Chairman
- Michał Hulbój
- Miquel Llevat Vallespinosa

II. Organisation of the Supervisory Board's work

The Supervisory Board held 4 meetings in the reporting period and also adopted resolutions by casting votes through means of direct remote communication.

Between meetings, the members of the Supervisory Board kept in touch with the Management Board, familiarising themselves with the Company's situation and supporting the Management Board in the solution of strategic problems.

III. Main issues of the Supervisory Board meetings and self-evaluation

During 2017, the Supervisory Board discussed, inter alia, the following issues:

- analysis of the Company's economic and financial situation and the maintenance of its financial liquidity;
- analysis of the order portfolio;
- consulting the Management Board's motions;
- adoption of resolutions on matters which are on the agenda of the Company's or the Company's subsidiaries Annual General Meeting of Shareholders;
- approval of draft resolutions of the Company's Annual General Meeting of Shareholders;
- approval of draft resolutions of the General Meetings of Shareholders and Meetings of Shareholders of the Company's subsidiaries;
- approval of Trakcja Group's budget and Capex;
- selection and appointment of two Vice-presidents of Management Board;
- approval of internal audit's annual plan;
- adoption of report of activities of internal audit;
- introduction change in the composition of the Audit Committee pursuant to Act of auditors, audit companies and public supervision of 11 May 2017;
- approval of the Policy and procedure of selecting an auditing firm and the Policy of providing additional services by an auditing firm, an entirely related with the auditing firm or a member of its network;
- issue of optimization of the organizational structure – staff restructuring plan;
- issues of current marketing position of Company and of Trakcja Group;
- granting consent for conclusion and for changing the terms and conditions of financial agreements executed by the Company;
- selection of a statutory auditor to whom the audit of the Company's and the Company's subsidiaries financial statements and audit of the Trakcja Group consolidated financial statement has been contracted, after recommendation of the Company's Audit Committee;
- adoption of resolutions on personal matters, including resolutions on remuneration and bonuses of the Company's Management Board members and establishing annual goals for the Company's Management Board members;

While fulfilling its supervisory functions, the Supervisory Board analysed the Company's economic and financial situation and assessed the Management Board's activities in such areas as:

- the maintenance of financial liquidity;

- the correct management of the Company's receivables and expenses;
- the receipt of new orders.

The Supervisory Board applied the principle that the Management Board presented at the meeting a description of the current economic, financial and asset situation, important actions and planned business activities.

The Supervisory Board's cooperation with the current Management Board is very good.

The Supervisory Board steadily supervised Company's activities fulfilling the obligations stipulated in Code of Commercial Companies, Articles of Association and Rules of Supervisory Board relying on longstanding experience of its members, their education, qualifications and awareness of the market. The Supervisory Board always effectively responded to the Company's dynamics and evaluated all issues presented by the Management Board.

The Supervisory Board positively rates its work in the period from 1 January 2017 to 31 December 2017 and applies to the Annual General Meeting to receive a vote of approval.

IV. Assessment of the Company's financial statement for 2017

The Company's financial statements for the period from 1 January 2017 to 31 December 2017 include:

1. the Company's profit and loss account for the period from 1 January 2017 to 31 December 2017 showing net profit amounting to **PLN 32.040 thousand** (thirty two million forty thousand zlotys);
2. total income report for the period from 1 January 2017 to 31 December 2017 showing total income amounting to **PLN 31.977 thousand** (thirty one million nine hundred seventy-seven thousand zlotys);
3. the Company's balance sheet as per 31 December 2017 showing the assets and liabilities in the amount of **PLN 1.109.175 thousand** (one billion one hundred and nine million one hundred and seventy five thousand);
4. the cash flow statement for the period from 1 January 2017 to 31 December 2017 showing the increase of cash balance by **PLN 1.798 thousand** (one million seven hundred ninety eight thousand zlotys);
5. the Company's balance of changes in equity for the period from 1 January 2017 to 31 December 2017 showing the increase of equity of **PLN 6.287 thousand** (six million two hundred and eighty seven thousand zlotys); and
6. additional information and explanations;

The audit was conducted in accordance with the provisions of:

- a) chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws from 2013, item 330 as amended);
- b) the auditing standards issued by the National Council of Statutory Auditors in Poland.

The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. The audit also included assessing the accounting principles

used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement.

The Supervisory Board analysed the Company's financial statements presented by the Management Board, familiarised itself with the auditor's opinion and report and did not file any reservations regarding the reliability of the audited documents.

Based on the audit of the Company's financial statements conducted by the auditor in accordance with the applicable regulations, the Supervisory Board confirms that the Company's financial statements reliably and clearly presents all information which is of importance to the assessment of the profitability, the financial results and the assets for 2017.

The Supervisory Board positively assesses the auditor's opinion and report on the audit of the financial statements for 2017 and recommends that the Annual General Meeting approves the above documents.

The Supervisory Board positively assesses the Company's financial statements for 2017 was prepared in accordance with the records and sales ledgers and reflects the actual status of business activities.

V. Assessment of the Company's Management report for 2017

After a comprehensive and exhaustive analysis of the Company's Management Report for 2017, the Supervisory Board accepts the document presented by the Management Board and confirms that the Management Board's activities were conducted in accordance with the Code of Commercial Companies, the Company's Articles of Association and the Management Board's Regulations, in the Company's best interests, additionally acting on the basis of resolutions adopted by the Company's General Meeting of Shareholders, Supervisory Board and Management Board.

In accordance with Article 382 § 3 of the Code of Commercial Companies, the Supervisory Board positively assesses the Management Board's Report on the Company's activities and files a motion to the Annual General Meeting to award the Company's Management Board a vote of approval on its activities in the period from 1 January 2017 to 31 December 2017.

VI. Assessment of the consolidated financial statements of the Trakcja Group for 2017

The Trakcja Group's consolidated financial statements for the period from 1 January 2017 to 31 December 2017 includes:

1. the consolidated profit and loss account for the period from 1 January 2017 to 31 December 2017 showing a net profit amounting to **PLN 32.043 thousand** (thirty two million forty three thousand zlotys);
2. the consolidated total income report for the period from 1 January 2017 to 31 December 2017 showing a total income amounting to **PLN 12.626 thousand** (twelve million six hundred twenty six thousand zlotys);
3. the consolidated balance sheet prepared as per 31 December 2017 showing the assets and liabilities in the amount of **PLN 1.442.280 thousand** (one billion four hundred forty two million two hundred eighty thousand zlotys);

4. the consolidated cash flow statement for the period from 1 January 2017 to 31 December 2017 showing the decrease of cash balance by **PLN 34.188 thousand** (thirty four million one hundred and eighty eight thousand zlotys);
5. balance of changes in the consolidated equity for the period from 1 January 2017 to 31 December 2017 showing the decrease of consolidated equity by **PLN 13.933 thousand** (thirteen million nine hundred and thirty three thousand zlotys); and
6. the additional information and explanations.

The Supervisory Board analysed the Trakcja Group's consolidated financial statements presented by the Management Board, familiarised itself with the auditor's opinion and report and did not file any reservations regarding the reliability of the audited documents.

Based on the audit of the Trakcja Group's consolidated financial statements conducted by the auditor in accordance with the applicable regulations, the Supervisory Board confirms that the Trakcja Group's consolidated financial statements reliably and clearly presents all information which is of importance to the assessment of the profitability, the financial results and the assets for 2017.

VII. Assessment of the report on the activities of the Trakcja Group for 2017

After extensively and exhaustively analysing the report on the Trakcja Group's activities for 2017, the Supervisory Board accepts the document presented by the Management Board and confirms that the Trakcja Group's activities were conducted correctly in accordance with the Code of Commercial Companies and the Accounting Act of 29 September 1994 and in the Trakcja Group's best interests.

In accordance with Article 382 § 3 of the Code of Commercial Companies, the Supervisory Board positively assesses the report on the Trakcja Group's activities and files a motion to the Annual General Meeting to accept the above report.

VIII. Assessment of the Company and the Trakcja Group's situation

The Group continues to diversify its activity. In recent years, the Group significantly strengthened its position on the road market, maintaining a high position on the railway construction market. In addition, the Group is taking steps to strengthen its position in other geographic markets and in other segments of infrastructure construction. The parent company is present in the tram segment (urban market) and it also performs tasks on the energy market.

In 2017, the Parent Company completed the restructuring process of the Company started in 2016, and as a result of the provision settlement created for the payment of benefits to dismissed employees, it reversed PLN 1,831 thousand.

In 2017, companies from the Trakcja Group signed construction contracts with a total value of PLN 1 946 million (excluding the value of works attributable to consortium members). The current order portfolio of the Trakcja Group as at December 31, 2017 ensures full use of production capacity in the next financial year. Participation in new tenders in 2018 will allow the Group to further secure its portfolio of contracts for subsequent periods.

The Trakcja Group secured access to bank guarantees allowing participation in new tenders. In addition, the Group has a stable financial position and a safe level of financial liquidity.

The Supervisory Board positively assesses the financial situation and development perspectives of the Company and the Trakcja Group.

IX. Assessment of the Management Board's proposal as to the distribution of the Company's profit

After analysing of the Management Board proposals as to the distribution of the Company's profit, considering the economic situation of the Company, acting pursuant to Art. 382 § 3 of Commercial Companies Code, pursuant to point IV, V and VIII of the present report, the Supervisory Board proposes that the Company's net profit for the period from 1 January 2017 to 31 December 2017 in the amount of PLN **32 039 476,84** will be used:

1. in the amount of PLN 5 139 954,80 for dividend payment (PLN 0,1 per one share),
2. in the amount of PLN 26 899 522,04 for supplementary capital.

X. An assessment of adherence to the principles of corporate governance

Since January 1, 2016 came in force new compilation of principles of corporate governance "Dobre Praktyki Spółek Notowanych na GPW 2016" adopted by the Board of GPW on October 13, 2015. The Company published on March 10, 2016 EBI report on non-compliance of selected principles from "Dobre Praktyki Spółek Notowanych na GPW 2016".

In previous year the Company published via EBI system information about non adherence to the selected principles of corporate governance, but also EBI reports updating the list of non-complied principles. The Company annually informs in the Management Board's report on Companies activities about adherence to the principles and recommendations.

The Company presents on its website in section *Investor relations* → *Corporate governance* list of complied and non-complied principles and recommendations along with the wording of "Dobre Praktyki Spółek Notowanych na GPW 2016".

In the opinion of the Supervisory Board the Company fulfills its duties regarding the principles of corporate governance.

XI. An assessment of the Company's standing including an assessment of the internal control, risk management and compliance systems and the internal audit function

After a comprehensive and detailed analysis of the Company's annual financial statements and of the Trakcja Group's annual consolidated financial statements as well as of the Company's Management Report on the Activities of Trakcja PRKil S.A. and of the Report on the Activities of Trakcja Group, the Supervisory Board confirms that:

- the annual financial statements of Trakcja PRKil S.A. as well as the annual consolidated financial statements of Trakcja Group reliably and clearly present all information that is important for evaluation of the profitability, the financial results and the assets for 2017;
- activities of Trakcja PRKil S.A. were conducted correctly in accordance with the Code of Commercial Companies, the Company's Articles of Association and the Management Board's Regulations, in the Company's best interests, additionally acting on the basis of resolutions adopted by the Company's General Meeting of Shareholders, Supervisory Board and Management Board.

- activities of Trakcja Group were conducted correctly in accordance with the Code of Commercial Companies and the Accounting Act of 29 September 1994 and in the Trakcja Group's best interests.

The Supervisory Board assesses that financial and economic situation of Trakcja PRKil S.A. as well as of Trakcja Group in 2017 was good and stable which may be confirmed i.a. by the following facts:

- the leading market position on the railway and road construction market in Poland and on the infrastructure construction market in Lithuania was maintained;
- stable gross profit on sales margin of Trakcja Group amounting to 6.8% was maintained;
- the net profitability ratio of Trakcja Group amounted to 2.3%;
- Trakcja Group won new construction contracts for the value of PLN 1 946 million;
- the value of Trakcja Group's backlog on 31 December 2017 amounted to PLN 1 782 million (excluding consortium member's incomes);
- the debt level of Trakcja Group totaled PLN 116 million (net debt PLN 4 million);
- the ability to finance the activity (bank loans and guarantees) was maintained, allowing to keep or even increase the scale of operations,
- the safe level of financial liquidity was maintained;
- re-entering the group of responsible companies listed in the RESPECT INDEX at the Warsaw Stock Exchange.
- in 2017, the Parent Company completed the restructuring process of the Company started in 2016, and as a result of the provision settlement created for the payment of benefits to dismissed employees, it reversed PLN 1,831 thousand;

In 2017 the Internal Audit Unit had also its role in meeting this goal. The Internal Audit Director prepared several audit reports focusing on:

- Procurement in Trakcja PRKil,
- Bidding & Tendering in Trakcja PRKil,
- Execution of Bieńkowiec Investment (New Base for Machines),
- Motivational System in bidding and contract execution in Trakcja PRKil,
- Risk of losing resources that are critical to contract execution,
- Reasons of financial outcomes of two construction contracts (Korczowa, Stacja Włoszczowa Północ),
- Revenue diversification of Trakcja PRKil – new foreign markets,
- How IT Department supports business activity of Trakcja PRKil.

Additionally, the Internal Audit Director in the course of the year was systematically revising drafts of internal procedures that were prepared by the Company and proposed some modifications to these documents. He also helped the Operational Controlling Department to fine-tune the

comprehensive training for the contract-execution teams dedicated to “Financial aspects of construction contract planning and execution”.

The Internal Auditor Director prepared also one analytical report to the Management Board regarding the Company’s future in three-year horizon. The document “How the capital market analysts see Trakcja PRKil future until year 2020” was based on two different reports of capital market analysts that were published almost at the same time which gave an unusual opportunity to compare what they thought about the Company’s PRKil future.

In 2017 the Internal Audit Director – on request of the Management Board – helped to design and implement the System of Internal Control in the Company. The System is based on current and cyclical cooperation of all controlling units that exchange facts, opinions, share risk analysis and formulate recommendations to the Management Board giving it a more complex view of the business activity risks and implemented (or lacking) controls.

XII. An assessment of Company’s charity and sponsorship activities

Supervisory Board does not adopt a report on Company’s politics stated in recommendation I.R.2 (charity and sponsorship activities) as the Company does not conduct such activities.