

Supervisory Board of  
**TRAKCJA PRKił S.A.**  
 in Warsaw

**REPORT**  
**ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF**  
**TRAKCJA PRKił S.A. (THE "COMPANY") FOR 2018,**

**I. The membership of the Supervisory Board** in the reporting period from 1 January 2018 to 31 December 2018 was as follows:

<b>Forename and surname</b>	<b>Function</b>	<b>Date of appointment / dismissal / resignation</b>
Dominik <b>RADZIWIŁŁ</b>	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 <b>MONTSEERRAT</b>	Member of the Supervisory Board	4.07.2012 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
	<b>Deputy Chairman of the Supervisory Board</b>	since 25.07.2013
Miquel <b>LLEVAT VALLESPINOSA</b>	<b>Member of the Supervisory Board</b>	4.07.2012 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
Wojciech <b>NAPIÓRKOWSKI</b>	<b>Member of the Supervisory Board</b>	29.06.2012 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
Fernando <b>PEREA SAMARRA</b>	<b>Member of the Supervisory Board</b>	12.06.2013 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)

Michał <b>HULBÓJ</b>	<b>Member of the Supervisory Board</b>	25.06.2015 – appointed as Member of the Supervisory Board (16.06.2016 – reappointment)
	<b>Deputy Chairman of the Supervisory Board</b>	08.09.2016 – appointed as Deputy Chairman of the Supervisory Board
Łukasz <b>ROZDEICZER-KRYSZKOWSKI</b>	<b>Member of the Supervisory Board</b>	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 Rozdeiczcer-Kryszkowski.

The Audit Committee held two meetings in 2018. Members of the Audit Committee of the Supervisory Board are:

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

The Supervisory Board declares that in the Company the rules regarding the appointment, composition and functioning of the Audit Committee are respected, including the fulfilment by its members of independence criteria and requirements regarding knowledge and skills in the industry in which Company operates, and in the field of accounting or audit statements. Appointed Audit Committee in Company performed the tasks delegated to it for in the applicable regulations.

The Remuneration Committee of the Supervisory Board held six meetings in 2018. 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 6 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 2018, 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;
- analysis of the Company's presence in foreign markets;
- 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 General Meetings of Shareholders;
- approval of draft resolutions of the Company's General Meeting of Shareholders;
- evaluation of annual financial report of the Company and consolidated annual report of the Trakcja Group for a financial year 2017;
- expression opinion as to the motion of the Management Board on division of the net profit for a financial year 2017;
- approval of draft resolutions of the General Meetings of Shareholders and Meetings of Shareholders of the Company's subsidiaries;
- approval of changes in the composition of subsidiary companies' bodies;
- approval of Trakcja Group's budget and Capex;
- appointment of the Management Board for new term of office;
- selection and appointment of the new President of Management Board;
- approval of internal audit's annual plan;
- adoption of report of activities of internal audit;
- adoption of the Rules of Audit Committee of the Supervisory Board;
- analysis and approval for the sale of Company's real estates;
- approval for granting loans between Company and subsidiary companies;
- 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;
- 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 2018 to 31 December 2018 and applies to the Annual General Meeting to receive a vote of approval.

#### **IV. Assessment of the Supervisory Board of Trakcja PRKil S.A. concerning the report of the management board on the activities of Trakcja PRKil S.A. and of Trakcja Gorup in 2018, the annual standalone financial statement of Trakcja PRKil S.A. for the period from 1 January 2018 to 31 December 2018 and the annual consolidated financial statement of Trakcja Group for the period from 1 January 2018 to 31 December 2018**

##### **SUBJECT MATTER OF THE ASSESSMENT**

The subject matter of this assessment includes:

1. The Report of the Management Board on the activities of Trakcja Group and Trakcja PRKil S.A. in 2018.
2. Annual standalone financial statement of Trakcja PRKil S.A. for the period from 1 January 2018 to 31 December 2018 prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at 31 December 2018.
3. Annual consolidated financial statement of Trakcja Group for the period from 1 January 2018 to 31 December 2018 prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at 31 December 2018.

##### **ASSESSMENT OF THE MANAGEMENT BOARD'S REPORT AND FINANCIAL STATEMENTS**

1. Assessment of the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKil S.A. in 2018:

The Supervisory Board of Trakcja PRKil S.A. assessed the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKil S.A. in 2018 and reviewed the results of the audit presented by an auditor of Trakcja PRKil S.A. (Deloitte Audyt Spółka z ograniczoną odpowiedzialnością, Sp. k.), the auditor report and based on information and materials received from the Auditor, the Management Board and representatives of the Company, concluded that the report:

- has been prepared in accordance with Article 49 of the Act of 29 September 1994 on Accounting (Journal of Laws of 2019, item 351) and § 70 and § 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognized as equivalent;
- is consistent with the information contained in the annual standalone financial statement of Trakcja PRKil S.A. for the period from 1 January 2018 to 1 December 2018 and annual consolidated financial statement of Trakcja Group for the period from 1 January 2018 to 31 December 2018.

The Supervisory Board of Trakcja PRKil S.A. on the basis of information and materials received from the Auditor, the Management Board and the Company's representatives concludes that the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKil S.A. in 2018 is consistent with the information contained in the annual standalone and annual consolidated financial statements and with all knowledge about Trakcja Group and Trakcja PRKil S.A. and their surroundings obtained during an audit of annual standalone and consolidated financial statements, contains a description of all material events that may have an influence on financial position of Trakcja Group and Trakcja PRKil S.A. and performance over the upcoming quarters as well as a description of all material risks.

Further to the foregoing, the Supervisory Board of Trakcja PRKil S.A. expresses a positive assessment of the Report of the Management Board on the activities of Trakcja Group and Trakcja PRKil S.A. in 2018.

## 2. Assessment of the annual standalone financial statement of Trakcja PRKil S.A. for the period from 1 January 2018 to 31 December 2018

The Supervisory Board of Trakcja PRKil S.A. assessed the annual standalone financial statement of Trakcja PRKil S.A. for the period from 1 January 2018 to 31 December 2018 comprised of:

- a) standalone income statement for the period from 1 January 2018 to 31 December 2018 showing a net loss of PLN 86,687 thousand,
- b) standalone statement of comprehensive income for the period from 1 January 2018 to 31 December 2018 showing a negative value of comprehensive income of PLN 86,722 thousand,
- c) standalone balance sheet as at 31 December 2018 showing assets and liabilities in the total amount of PLN 1,256,817 thousand,
- d) standalone statement of cash flows for the period from 1 January 2018 to 31 December 2018 showing increase in net cash by PLN 40,833 thousand,
- e) standalone statement of changes in equity for the period from 1 January 2018 to 31 December 2018 showing decrease in equity by PLN 91,893 thousand,
- f) additional information and explanations,

and reviewed the results of audit presented by an auditor of Trakcja PRKil S.A. (Deloitte Audyt Spółka z ograniczoną odpowiedzialnością sp. k.).

The Supervisory Board of Trakcja PRKil S.A. on the basis of information and materials received from the Auditor, the Management Board and the Company's representatives concludes that the annual standalone financial statement of Trakcja PRKil S.A. for the period from 1 January 2018 to 31 December 2018 presents the financial position of Trakcja PRKil S.A. as at 31 December 2018 and financial result and cash flows of Trakcja PRKil S.A. for the period from 1 January 2018 to 31 December 2018 fairly and clearly and was prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at 31 December 2018 and is consistent with books and records as well as facts.

Further to the foregoing, the Supervisory Board of Trakcja PRKil S.A. subjected to note 10 of additional informational to Financial Statements [Risk of continuing (business) activity and taken and planned actions of the Management] assessed an annual standalone financial statement of Trakcja PRKil S.A. for the period from 1 January 2018 to 31 December 2018.

### 3. Assessment of the annual consolidated financial statement of Trakcja Group for the period from 1 January 2018 to 31 December 2018

The Supervisory Board of Trakcja PRKił S.A. assessed the annual consolidated financial statement of Trakcja Group for the period from 1 January 2018 to 31 December 2018 comprised of:

- a) consolidated income statement for the period from 1 January 2018 to 31 December 2018 showing a net loss of PLN 110,172 thousand,
- b) consolidated statement of comprehensive income for the period from 1 January 2018 to 31 December 2018 showing a negative value of comprehensive income of PLN 101,566 thousand,
- c) consolidated balance sheet as at 31 December 2018 showing assets and liabilities in the total amount of PLN 1,542,936 thousand,
- d) consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018 showing increase in net cash by PLN 4,503 thousand,
- e) consolidated statement of changes in equity for the period from 1 January 2018 to 31 December 2018 showing decrease in equity by PLN 107,654 thousand,
- f) additional information and explanations,

and reviewed the results of audit presented by an auditor of Trakcja Group (Deloitte Audyt Spółka z ograniczoną odpowiedzialnością sp. k.).

The Supervisory Board of Trakcja PRKił S.A. on the basis of information and materials received from the Auditor, the Management Board and the Company's representatives concludes that the annual consolidated financial statement of Trakcja Group for the period from 1 January 2018 to 31 December 2018 presents the financial position of Trakcja Group as at 31 December 2018 and financial result and cash flows of Trakcja Group for the period from 1 January 2018 to 31 December 2018 fairly and clearly and was prepared in accordance with International Financial Reporting Standards approved by the European Union and applicable as at 31 December 2018 and is consistent with books and records as well as facts.

Further to the foregoing, the Supervisory Board of Trakcja PRKił S.A. subjected to note 64 of additional informational to Financial Statements [Risk of continuing (business) activity and taken and planned actions of the Management] assessed of an annual consolidated financial statement of Trakcja Group for the period from 1 January 2018 to 31 December 2018.

Pursuant to Article 382 § 3 of the Code Commercial Companies, the Supervisory Board subjected to notes 10 and 64 of additional informational to Financial Statements [Risk of continuing (business) activity and taken and planned actions of the Management] assessed the report on the activities of the Trakcja Capital Group for 2018, the report on the activities of the Company for 2018, the annual standalone financial statement of the Company for 2018 and the annual consolidated financial statement of the Trakcja Capital Group for 2018 and requests the Annual General Meeting of Shareholders to approve these reports.

## **V. 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.

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

The Supervisory Board declares that:

1. The entity authorized to conduct audit of the annual standalone financial statement of Trakcja PRKił S.A. for the period from January 1, 2018 to December 31, 2018 and the annual consolidated financial statement of Trakcja Group for the period from January 1, 2018 to December 31, 2018, ie. Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k., was selected in compliance with the law, in particular regarding the auditor selection procedure.
2. The audit firm and the members of the audit team met the conditions for drawing up an impartial and independent audit report on the annual standalone financial statement of Trakcja PRKił S.A. for the period from January 1, 2018 to December 31, 2018 and the annual consolidated financial statement of Trakcja Group for the period from January 1, 2018 to December 31, 2018 in accordance with applicable regulations, professional standards and professional ethics.
3. The applicable regulations related to the rotation of the audit firm and the key statutory auditor as well as obligatory grace periods are observed in Trakcja PRKił S.A.
4. Trakcja PRKił S.A. has a policy regarding the selection of an audit firm and a policy regarding the provision of additional non-audit services by an audit firm, an entity related to an audit firm or a member of its network, including conditionally exempted services by an audit firm.

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 PRKił S.A. and of the Report on the Activities of Trakcja Group, the Supervisory Board confirms that:

- the annual financial statements of Trakcja PRKił 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 2018;
- activities of Trakcja PRKił 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 2018 was complex and dictated by the difficult situation on the market. The Supervisory Board sees a perspective of improvement in the financial and economic situation under the condition of obtaining a bridging funding and then long-term financing (increase in target funding/capital increase/new guarantee lines). The Supervisory Board sees the prospect of improving the financial and economic situation. The following facts influenced the above assessment:

- 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 -5.4%;
- a gross margin on sales of -5.3% was recorded
- Trakcja Group won new construction contracts for the value of PLN 2 120 million;
- the value of Trakcja Group's backlog on 31 December 2018 amounted to PLN 2 557 million (excluding consortium member's incomes);
- the entity is in the process of financial restructuring to maintain its ability to finance its operations so as to maintain or even increase its 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,
- further diversification of the Group's operations was carried out.

In 2018, the Company fulfilled its reporting obligations towards the Warsaw Stock Exchange as well as in terms of security requirements and health and environmental protection, improving and adapting to changes in this area. Moreover, before 25 May 2018, the Company modified its internal regulations on personal data protection so as to meet the requirements of Regulation (EU) 2016/679 Of The European Parliament And Of The Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation). A Data Protection Officer was also appointed for the whole Trakcja Group and training was conducted for employees in the scope of duties related to the protection and processing of personal data.

Changes were introduced to the Company's Organisational Scheme and the Risk Management Department was established to improve the management of the Company through earlier identification of risks and their elimination or minimisation of their impact on the business.

In 2018, the Internal Audit Department developed and presented to the Management Board the Risk Management Procedure, which was adopted by the Management Board. It conducted a number of internal audits to control the basic processes in the Company and systematically reviewed the drafts of the Company's internal procedures, as well as submitted amendments and



comments to these documents. The Director of Internal Audit also monitored the extent to which the recommendations of the Internal Audit are implemented.

In addition, the Director of Internal Audit examined how the organisational structure supports the Company's business activity along with recommendations and conclusions. Other reports and audits carried out by the Internal Audit include, among others, an analysis of the impact of the risk of an increase in prices of materials and subcontractors' services on margins, as well as the drafting of a mini code of conduct for contract managers.

## **VII. 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.