

Report
of the Supervisory Board of
MOSTOSTAL WARSZAWA S.A.
for 2018

I. **Activities of the Supervisory Board in 2018.**

Between 1 January 2018 and 24 April 2018, the Supervisory Board of Mostostal Warszawa S.A. serving its 9th term had the following composition:

- Francisco Adalberto Claudio Vazquez: Chairman of the Supervisory Board;
- Jose Manuel Terceiro Mateos: Deputy Chairman of the Supervisory Board;
- Neil R. Balfour;
- Javier Lapastora Turpín –in line with the declaration fulfilling the criteria of independence.
- Ernest Podgórski –in line with the declaration fulfilling the criteria of independence.

On April 24, 2018, Ordinary General Meetings of Shareholders adopted Resolution No. 18 regarding changes in the composition of the Supervisory Board of Mostostal Warszawa S.A. 9th term by appointing Mr. Javier Serrada Quiza to the Mostostal Warszawa S.A. Supervisory Board.

On the basis of the above decision, from 24 April, 2018 to December 31, 2018, the composition of the Supervisory Board of the 9th term of office was as follows:

- Francisco Adalberto Claudio Vazquez: Chairman of the Supervisory Board;
- Jose Manuel Terceiro Mateos: Deputy Chairman of the Supervisory Board;
- Neil R. Balfour;
- Javier Serrada Quiza
- Javier Lapastora Turpín –in line with the declaration fulfilling the criteria of independence.
- Ernest Podgórski –in line with the declaration fulfilling the criteria of independence.

Information about the Mostostal Warszawa S.A. Management Board

On 21 March 2018, the Supervisory Board of the Company appointed Mr. Radosław Antoni Gronet as the member of the Management Board of the 8th term, entrusting him the function of a Member of the Management Board of the Company.



On 19 April 2018, Mr. Andrzej Goławski resigned as the Mostostal Warszawa S.A. Management Board President.

The Company's Supervisory Board at its meeting on 9 May 2018 appointed Mr. Miguel Angel Heras Llorente as the 8th term Management Board, entrusting him with the function of Company's Management Board President. At the same time, the Company's Supervisory Board entrusted Mr. Jorge Calabuig Ferre with the position of the Vice-President of the Management Board

During the whole financial year 2018, the composition of the Management Board of Mostostal Warszawa S.A. developed as follows:

- Miguel Angel Heras Llorente - President of the Management Board (from 9 May)
- Andrzej Goławski - President of the Management Board (until 19 April)
- Jorge Calabuig Ferre - Vice-President of the Management Board (until 9 May as Member from 9 May as Vice President)
- Jacek Szymanek - Member of the Management Board
- Alvaro Javier de Rojas Rodriguez - Member of the Management Board
- Radosław Gronet - Member of the Management Board (from 21 March)

The Supervisory Board's assessment regarding the Company's Management Board composition and its management of the Company

The Supervisory Board evaluates that the composition of the Management Board of Mostostal Warszawa S.A. represented in 2018 guaranteed professional and efficient management for the Company and complied with the strategy adopted by the Company.

The Supervisory Board's Assessment of the Company's situation

During the course of 2018, the Supervisory Board performed systematic evaluations of the Company's standing, based on financial reports presented by the Management Board and information materials, and on the basis of reports of chartered accountant, i.e. KPMG Audyt Sp. z o.o. with its 'registered office in Warsaw, selected by the Supervisory Board to audit the financial statements for 2018.

The Supervisory Board of Mostostal Warszawa S.A. performs its 'activities in line with the provisions of the Code of Commercial Companies, Best Practice for GPW Listed Companies 2016, the Company's Articles of Association and Regulations of the Company's Supervisory Board.

Special tasks of the Company's Supervisory Board include:

1. examination of the Company's and the Capital Group's financial statements, both with respect to compliance with books and documents, as well as the actual status and audit of the Management Board's report on the Company's operations, motions concerning the distribution of profit or coverage of losses and presenting the General Shareholders' Meeting with a written report on the results of examination;
2. issuing opinions on motions presented by the Company's Management Board to be examined by General Shareholders' Meetings;
3. appointment and dismissal of the Company's Management Board.

The Supervisory Board's Activities

The work of the Supervisory Board of Mostostal Warszawa S.A. was managed by its Chairman and, in his absence, by the Deputy Chairman of the Supervisory Board or another person selected among current members of the Supervisory Board.

The Supervisory Board adopted resolutions by absolute majority of votes in the presence of at least half of the members of the Supervisory Board. Meetings of the Company's Supervisory Board were minuted and the minutes were signed by all members present at a given meeting.

In 2018, five meetings of the Supervisory Board were held. All resolutions adopted by the Supervisory Board were made with the quorum required by legal provisions. In 2018, the Supervisory Board adopted 16 resolutions in total.

At the meetings during 21 and 23 March 2018, the following resolutions were adopted:

- pertaining to the financial statements for 2017 and report of the Management Board on the Company's activities in 2017,
- pertaining to the consolidated financial statements for 2018 and report on the activities of the Capital Group in 2018,
- pertaining Company's profit distribution for 2017,
- on acknowledgement of the fulfilment of duties by members of the Company's Management Board in 2017,
- pertaining the report of the Supervisory Board's activities in 2017,
- pertaining to the examination and issue of opinion on affairs which form the subject matter of the meeting of the Company's General Shareholders' Meeting in line with the principles of Corporate Governance,
- pertaining to changes in the composition of the Company's Management Board.

At the meeting on 9 May 2018, the following resolutions were adopted:

- pertaining to changes in the composition of the Company's Management Board.
- selection of an entity authorised to audit the stand-alone Company's financial statements and consolidated reports of the Capital Group;

At the meeting on 25 September 2018, the following resolutions were adopted:

- pertaining to the financial statements for period from 1 January 2018 till 30 June 2018 and report of the Management Board on the Company's activities in from 1 January 2018 till 30 June 2018,
- pertaining to the consolidated financial statements for the period form 1 January 2018 till 30 June 2018 and report on the activities of the Capital Group from 1 January till 30 June 2018,

In addition, during the reporting period, the Supervisory Board adopted 4 resolutions in writing covering the following topics: formation of a civil partnership between Mostostal Warszawa S.A. and Mostostal Płock S.A.; determining the rules covering the expenses for performing functions of the Management Board President, Supervisory Board Company's response to the letter from the Polish Financial Supervision Authority dated 11 May 2018; consent to the sale of property owned by Mostostal Warszawa S.A.

On 2019 April 10 the Supervisory Board became acquainted with the Auditor's Report containing an evaluation of the stand-alone financial statements and the stand-alone report of the Management Board for 2018, consolidated financial statements for 2018 and the report on the operation of the Capital Group in 2018 in which no irregularities were ascertained in the operations of the Company's Management Board.

Having analysed the Company's activities and reports, taking the Auditor's opinion into account, the Supervisory Board decides to recommend, to the General Shareholders' Meeting, acknowledgement of the fulfilment of duties by the members of the Management Board in 2018: Andrzej Goławski, Jose Angel Andres Lopez (for the period between 1 January 2018 and 5 May 2018), Jacek Szymanek, Alvaro Javier de Rojas Rodriguez and Jorge Calabuig Ferre (for the period between 5 May 2018 and 31 December 2018).

Furthermore, the Supervisory Board decides to recommend, to the General Shareholders' Meeting, acknowledgement of the fulfilment of duties in 2018 by the members of the Supervisory Board: Francisco Adalberto Claudio Vazquez, Jose Manuel Terceiro Mateos, Neil Roxborough Balfour, Ernest Podgórski and Javier Lapastora Turpín (for the period between 12 October 2018 and 31 December 2018).

Evaluation of work of the Supervisory Board of Mostostal Warszawa S.A. for 2018 prepared in line with the Best Practice of GPW Listed Companies 2016 is to be presented at the General Shareholders' Meeting of the Company.

In 2018, five meetings of the Supervisory Board were held. During the correctly convened and prepared meetings, all important issues for the Company were discussed. As part of agendas of individual meetings of the Supervisory Board, motions filed by the Company's Management Board were taken into account. The subject matter of meetings of the Supervisory Board were current affairs of the Company, including the Company's financial standing, analysis of strategy and operational tactics of the Company, audit of the Company's financial statements, audit of the report of the Management Board on operation, selection, at the motion of the Management Board and after recommendation of the Audit Committee, of an auditor to review and audit the Company's financial statements and other issues within the range of competence of the Supervisory Board, resulting directly from legal provisions, its 'Regulations and the Company's Articles of Association.

In the opinion of the Supervisory Board, the most important risk factors and threats with respect to the Company include:

- a) with respect to finances: risk of changes of prices, currency, credit risk and risk of loss of liquidity;
- b) with respect to labour aspects: risk of increase in costs of employment, risk of accidents at work;
- c) with respect to organisation: risk of untimely performance of work by subcontractors, risk of low quality of work of subcontractors, risk of failure of equipment and machines;
- d) with respect to intellectual property aspects: risk of necessity of changes in agreement with respect to works and/or technology;
- e) with respect to the social aspects: risk of failing to procure or delays in procurement of approvals/ administrative decisions, risk of extended procedures of settling public tenders;
- f) with respect to natural factors: risk of adverse environmental conditions, weather, land conditions, natural disasters.

The Supervisory Board has undertaken relevant activities in the area of verification and reconciliation of the principles of management including: interest rate risk, foreign currency risk, risk of goods 'prices, credit risk, liquidity risk, in particular consisting in:

- ongoing monitoring of the market situation;
- negotiation of terms of hedging derivatives in a manner that they corresponded to the terms of a hedged position and ensure maximum efficiency of hedge;
- monitoring of prices and centralisation of purchases of basic construction materials;
- formulation of contract agreements, including the possibility of changing the terms of contract implementation and introduction of valuation clauses, taking into account the possibility of changing the remuneration, depending on the market prices of labour factors,
- conclusion of transactions with companies with credit capacity guaranteeing trade safety;
- ongoing monitoring of the status of liabilities and receivables;
- formal, legal and financial verification of contractors.

Evaluation of the Company's standing, taking into account the evaluation of internal control, risk management and compliance systems and the internal audit function.

Mostostal Warszawa S.A., in line with best practice of GPW listed companies, has efficient internal control systems, risk management and compliance system, as well as the internal audit function. All of the above-listed elements allow the Supervisory Board to perform ongoing supervision over the Company's operation and conduct ongoing evaluation of its 'standing.

The Company possesses an internal control system, which consists of comprehensive procedures and internal instructions.

Risk management takes place in the Company on the strategic and operational level and its 'range including the following areas: financial, legal, HR, contractual, technological, environmental and others.

Risk assessment is a process applied in the entire range of the Company's basic operation: at the stage of procuring an order, after signing the agreement, during planning and in the course of performance of an order. The risk assessment results are documented in the Risk Assessment Chart, whereas the risk control plan including risk avoidance/ risk transfer/ risk minimisation/ risk acceptance is documented in the Risk Control Plan.

The internal audit function is implemented by the Management System Division.

The Integrated Management System implemented in the Company takes into account results of internal and external audits. Additionally, preventive, corrective and repair activities are undertaken, resulting from remarks and irregularities ascertained as part of the above processes. All the above-mentioned activities are aimed at ensuring compliance with the following standards: ISO 9001 (Quality Management System), ISO 14001 (Environmental Management System) and ISO 18001 and BS OHSAS (OHS Management Systems).

The Supervisory Board systematically monitors the management of the risk of non-compliance. All risks related to the Company's operation are discussed and monitored both by the Audit Committee of the Supervisory Board and the Supervisory Board.

To guarantee transparency of processes with simultaneous compliance with binding external and internal regulations, legal services are operating in the Company, in particular the Organisational and Legal Division, which are responsible for monitoring and compliance with internal regulations and legal provisions. The Organisational and Legal Division monitor changes in the legal environment on an ongoing basis and inform persons managing the Company about changes impacting or which could potentially impact the Company's operation. These units are also responsible for recommending the necessary activities to be implemented.

During cyclical meetings, comprehensive supervision is performed over the ongoing functioning of the process of non-compliance risk management and the risk of reputation via analysis, evaluation and control of compliance of the Company's operation with legal regulations and regulators' guidelines. Key information pertaining to non-compliance is provided to and discussed with the Supervisory Board.

The results of evaluation of systems are reported to the Company's Management Board, which presents them to the Supervisory Board.

Based on the results of activities performed by it, the Supervisory Board evaluates the internal control system and the system of managing the risk of non-compliance as adequate for the Company's size and forming a proper, yet not unconditional, security with respect to the occurrence of undesired events. The Supervisory Board does not see the necessity of separating, in the organisational structure, of a unit performing the function of internal audit.

Summing up, the Members of the Supervisory Board of Mostostal Warszawa S.A. guarantee that they exercised all efforts for efficient performance of obligations entrusted to them as part of the performed functions.

II. Operations of the Audit Committee

In 2018, the Audit Committee operated in the following composition:

- José Manuel Terceiro Mateos,
- Javier Lapastora Turpín,
- Ernest Podgórski.

In the financial year 2018, six meetings of the Audit Committee were held.

During a meeting on 24 January 2018, the Audit Committee met with the Company's Chartered Accountant to discuss the status of works on the audit of the Company and Capital Group's financial statements for 2017.

At the meeting on 21 March 2018, the Audit Committee met with the Company's Chartered Accountant to verify and evaluate the Company's financial statements and the consolidated financial statements of the Capital Group for 2017 and presented conclusions and recommendations on financial statements assessment to the Supervisory Board on 21 and 23 March 2018. In addition, the Audit Committee approved its activities report for 2017.

On 9 May 2018, the Audit Committee verified and discussed the financial statements of the Company and the consolidated financial statements of the Capital Group for the first quarter of 2018 and

presented to the Supervisory Board its conclusions and recommendations on the assessment of financial statements. The Audit Committee adopted a resolution recommending an annex to the agreement with the Company's Chartered Accountant KPMG Audyt Sp. z o.o.

At the meeting on 25 September 2018, the Audit Committee met with the Company's Chartered Accountant to discuss the Company's financial statements and the consolidated financial statements of the Capital Group for the first half of 2018 and presented conclusions and recommendations on financial statements at the meeting of the Supervisory Board.

At the meeting in 22 November 2018, the Audit Committee verified and assessed the financial statements of the Company and the Capital Group for the third quarter of 2018 and presented motions at the meeting of the Supervisory Board. In addition, as a result of the discussion adopted the schedule of work of the Audit Committee for 2019.

At the meeting on 13 December 2018, the Audit Committee met with the Company's Chartered Accountant to discuss the scope of works on financial statements for 2018.

Special tasks of the Company's Audit Committee of the Supervisory Board include:

1. support for the Supervisory Board in performance of its 'control and supervisory tasks determined in the Articles of Association and in particular within the scope of:
 - a) proper implementation and control of financial reporting processes in the Company and its ' capital group;
 - b) efficiency of operation of internal control in the Company;
 - c) proper functioning of risk identification and risk management systems;
 - d) ensuring independence of internal and external auditors;
 - e) monitoring the Company's relations with subsidiaries.
2. monitoring of:
 - a) process of financial reporting;
 - b) efficiency of internal control systems, risk management systems and internal audit, also with respect to the financial reporting;
 - c) performance of financial audit activities, in particular performance of an audit by an audit company;
3. preparation of a policy of selecting an audit company to perform the audit;
4. determination of a procedure of selecting an audit company by the Company;

5. preparation of a policy of providing permissible services which are not an audit by an audit company performing the audit, by entities related to such audit company and by a member of a network of the audit company;
6. presentation, to the Supervisory Board, of recommendations pertaining to the appointment of chartered accountants or audit companies (referred to in Art. 16.2 of Regulation No. 537/2014);
7. evaluation of independence of the chartered accountant and expressing approval for provision, by the chartered accountant, of permissible services which do not constitute audit, for the Company;
8. control and monitoring of the chartered accountant's and the audit company's independence, in particular in case when services other than the audit of financial statements are provided to the Company by the audit company;
9. informing the Supervisory Board about the results of audit and clarification of the manner in which the audit contributed to the reliability of financial reporting in the Company, and the role of the Audit Committee in the audit process;
10. presentation of recommendations aimed at ensuring reliability of the financial reporting process in the Company.

In this respect, the Audit Committee performs the following activities which belong to the key elements of the internal control system:

- evaluation of the current financial standing of the Company and prospects for operation in the next years, via analysis of financial reports, economic indices and the size of the portfolio of orders.
- holding annual meetings with the independent auditor of the Company with the aim of direct procurement of information about correctness, reliability and verifiability of accounting books and events recorded in the course of the audit, which could have a material impact on the audited financial statement.

The audit of financial statements is an obligatory audit within the meaning of the provisions of Art. 64 of the Accounting Act. The subject matter of the audit were stand-alone financial statements of Mostostal Warszawa S.A. including:

1. stand-alone statement of financial position prepared as of 31.12.2018 which shows the total of PLN 882,184 thou. on the side of assets and liabilities;
2. stand-alone profit and loss account for 2018 showing a net loss of PLN 38,200 thou.;
3. stand-alone breakdown of changes in equity showing an decrease in equity amounting to PLN 38,200 thou.;
4. stand-alone cash flow statement, showing an increase in the balance of net cash in the course of the year in the amount of PLN 25.446 thou.;
5. additional information, are hereby approved.

Moreover, the Chartered Accountant considered the audited financial statements included numbers and clarifications as:

- reliably presenting all information necessary for evaluation of the material and financial standing, as well as the financial result of the Company for the period encompassed by the audit,
- prepared, in all material aspects, in compliance with provisions indicated in the opinion on the audited statements and on the basis of correctly maintained accounting books,
- in compliance with the provisions of the law and provisions of the Company's Articles of Association regarding the content of the financial statements.

Also in the case of evaluation of the Report of the Management Board on operation of the Capital Group for the period between 01.01.2018 and 31.12.2018, the Audit Committee used documents prepared by the audit company. The Audit Committee agrees with the evaluation of the Chartered Accountant expressed in the opinion where it is stated that the statements comply with Art. 49 of the Accounting Act.

The subject matter of the audit were consolidated financial statements of Mostostal Warszawa S.A. Capital Group including:

1. consolidated statement of financial position prepared as of 31.12.2018 which shows the total of PLN 1.047.261 thou. on the side of assets and liabilities;
2. consolidated profit and loss account for the 2018, which shows the net loss due to the Dominant Entity and non-controlling shareholders in the amount of PLN 46.266 thou.;
3. breakdown of changes in consolidated equity showing a total decrease in equity amounting to PLN 48.911 thou.;
4. consolidated cash flow statement, showing a decrease in the balance of net cash in the course of the 2018 in the amount of: PLN 58.087 thou.;
5. additional information, are hereby approved.

Moreover, the Chartered Accountant considered the audited financial statements including numbers and clarifications as:

- reliably presenting all information necessary for evaluation of the material and financial standing, as well as the financial result of the Company for the period encompassed by the audit;
- prepared, in all material aspects, in compliance with provisions indicated in the opinion on the audited statements and on the basis of correctly maintained accounting books;
- in compliance with the provisions of the law and provisions of the Company's Articles of Association regarding the content of the financial statements.

The Audit Committee also became acquainted with the opinion and report supplementing the opinion on the audit of financial statements for 2018 which also contains an evaluation of the operation of internal control system.

The Audit Committee supervised relevant activities undertaken by the Management Board in the area of verification and reconciliation of the principles of management including: interest rate risk, foreign currency risk, risk of goods' prices, credit risk, liquidity risk, in particular consisting of:

- ongoing monitoring of the market situation;
- negotiation of terms of hedging derivatives in a manner that they corresponded to the terms of hedged position and ensure maximum efficiency of hedge;
- monitoring of prices of most frequently purchased construction materials;
- formulation of contract agreements including the possibility of changing the terms of contract implementation and introduction of valuation clauses, taking into account the possibility of changing the remuneration, depending on the market prices of labour factors,
- conclusion of transactions with companies with credit capacity guaranteeing trade safety;
- ongoing monitoring of the status of liabilities and receivables;
- formal, legal and financial verification of contractors.

Having become acquainted with the opinion and the report supplementing the opinion on the audit of financial statements for 2018 and having heard the information of the Chartered Accountant, the Audit Committee agrees with the evaluation of the Chartered Accountant and declares that the consolidated financial statement of the Capital Group for 2018 is compliant, with respect to the form and content, with the provisions applicable to the Capital Group and complies with the consolidation documents.

Evaluation of the mode of fulfilment, by the Company, of information obligations pertaining to the application of corporate governance.

In 2018, the Company applied a collection of principles "Best Practice of GPW Listed Companies 2016." The Company includes a declaration on application of corporate governance in the published standalone and consolidated annual report.

From the Company's website, Investor Relations/ Corporate Governance (<http://www.mostostal.waw.pl/relacje-inwestorskie/lad-korporacyjny>), it is possible to download the Company's report on compliance with best practice, the Code of Best Practice GPW Listed Companies and other related documents.

The Company does not have a sponsorship, charity and other similar activity policy; however, as part of its' activities, it is occasionally involved in activities of this type.

Warsaw, date 10 April, 2019

Francisco Adalberto Claudio Vázquez

José Manuel Terceiro Mateos

Neil Balfour

Javier Lapastora Turpín

Ernest Podgórski

Javier Serrada Quiza