

**Reports and evaluations  
of the Supervisory Board<sup>1</sup>**

**Stalexport Autostrady S.A.  
with its registered office in Mysłowice  
for the year 2016**

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<sup>1</sup> Approved by the Supervisory Board's Resolution no. 01/03/2017 of 2 March 2017

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This Report has been prepared in relation to the following regulations:

1. art. 382 §3 of the Act of 15 September 2000 – the Code of Commercial Companies and Partnerships (Polish Journal of Laws Dz.U. of 2000 No. 94 item 1037 as amended);
2. the Statutes and the Regulations of the Supervisory Board of Stalexport Autostrady S.A.;
3. the corporate governance rules from the Best Practice of GPW Listed Companies 2016, which was adopted by resolution No. 26/1413/2015 of the Supervisory Board of GPW adopted on 13 October 2015 and entered into force on 1 January 2016 (hereinafter referred to as DPSN 2016).

## **I. REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD AND ITS COMMITTEES IN 2016**

### **1. Subject and period of the report**

The report on the activities of the Supervisory Board of Stalexport Autostrady S.A. with its registered office in Mysłówice (hereinafter referred to as “Stalexport Autostrady”, “Parent” or as the “Company”) and of its committees covers the period from 1 January 2016 until 31 December 2016.

### **2. Composition of the Supervisory Board and of its committees**

Pursuant to §14 of the Company’s Statutes, the Supervisory Board is composed of 5 to 9 persons appointed for a joint term of office of three years. The General Meeting appoints and dismisses members of the Supervisory Board having previously determined their number for the given term of office.

On 3 April 2013, the Ordinary General Meeting (by way of resolution no. 21) decided that the Supervisory Board of Stalexport Autostrady of the eighth term (2013–2015) would be composed of seven members.

The Supervisory Board working in the period from 1 January 2016 until 14 April 2016 was composed the following seven persons:

1. Roberto Mengucci – Chairman,
2. Aleksander Galos – Deputy Chairman,
3. Michelangelo Damasco – Secretary,
4. Nicoló Caffo,
5. Pietro La Barbera,
6. Costantino Ivoi,
7. Tadeusz Włudyka.

On 5 July 2013, acting pursuant to §23.2 of the Regulations of the Supervisory Board of Stalexport Autostrady and pursuant to the Best Practice of GPW Listed Companies in force at that time, including in particular the best practices followed by members of supervisory boards, the Supervisory Board appointed the Audit Committee and Remuneration Committee from among the Supervisory Board members as follows:

**1) Remuneration Committee:**

- Roberto Mengucci – Chairman,
- Aleksander Galos,
- Costantino Ivoi,
- Tadeusz Włudyka;

**2) Audit Committee:**

- Costantino Ivoi – Chairman,
- Aleksander Galos,
- Michelangelo Damasco.

In the period from 1 January 2016 until 14 April 2016, the composition of the above-mentioned committees of the Supervisory Board remained unchanged.

On 14 April 2016, the Ordinary General Meeting of Stalexport Autostrady S.A. decided that the Supervisory Board of Stalexport Autostrady of the ninth term (2016–2018) would be composed of seven members and appointed the Supervisory Board for the following term of office with the following members:

1. Nicoló Caffo,
2. Aleksander Galos,
3. Roberto Mengucci,
4. Marco Pace,
5. Stefano Rossi,
6. Massimo Sonogo,
7. Tadeusz Włudyka.

On 20 May 2016, pursuant to §14.4 and §15.1 of the Company's Statutes, the Supervisory Board Members elected:

- Roberto Mengucci as Chairman of the Supervisory Board,
- Aleksander Galos as Deputy Chairman of the Supervisory Board,

- Stefano Rossi as Secretary of the Supervisory Board.

On the same day, acting pursuant to §23.2 of the Regulations of the Supervisory Board of Stalexport Autostrady and pursuant to DPSN 2016, the Supervisory Board appointed the Audit Committee and the Remuneration Committee from among the Supervisory Board members as follows:

#### 1) Remuneration Committee:

- Roberto Mengucci – Chairman,
- Aleksander Galos,
- Tadeusz Włudyka;

#### 2) Audit Committee:

- Aleksander Galos – Chairman,
- Marco Pace,
- Tadeusz Włudyka.

Until the date of preparation of the Report, the composition of the said committees of the Supervisory Board remained unchanged.

### 3. Evaluation of compliance with the criteria of independence by Supervisory Board members

Two of the Supervisory Board members i.e. **Mr Aleksander Galos** and **Mr Tadeusz Włudyka** meet the criteria of independence from Stalexport Autostrady and persons or entities having significant links with the Company as defined by Annex 2 to Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, taking into account the Best Practice of GPW Listed Companies 2016 in force since 1 January 2016.

Mr Aleksander Galos and Mr Tadeusz Włudyka submitted representations concerning their compliance with the said criteria of independence set forth in rule no. II.Z.4 and, in the opinion of the remaining members of the Supervisory Board, there are no connections or circumstances that could influence the compliance with the criteria of independence by the said Supervisory Board members.

In this manner, the majority of the members of the Remuneration Committee and of the Audit Committee, including the Chairman of the Audit Committee, meet the criteria of independence indicated above and in §5.3 of the Regulations of the Supervisory Board.

#### 4. Basic forms and directions of activities of the Supervisory Board in 2016

The Supervisory Board operates on the basis of applicable provisions of the law, including the Code of Commercial Companies and the Company's Statutes passed by the General Meeting. Moreover, pursuant to the Company's Statutes, the Supervisory Board adopted its own Regulations, setting forth its rules of procedure. It is available from the corporate web page of Stalexport Autostrady ([www.stalexport-autostrady.pl](http://www.stalexport-autostrady.pl)).

The Supervisory Board's committees operate pursuant to the regulations adopted by the Supervisory Board forming Enclosures to the Regulations of the Supervisory Board. They are also available from the corporate web page of Stalexport Autostrady ([www.stalexport-autostrady.pl](http://www.stalexport-autostrady.pl)).

The Supervisory Board exercised constant supervision over the Company's activities in 2016 in all areas as well as carried out its duties and exercised its rights resulting from the provisions of the Company's Statutes, the Polish Code of Commercial Companies, as well as other provisions of the law.

Throughout the reporting period, the Supervisory Board held 3 recorded meetings (on 2 March 2016, 20 May 2016 and 6 December 2016), and in each case the members attending were such, that it was possible to adopt resolutions.

At the meetings, the Supervisory Board examined matters resulting from the Polish Code of Commercial Companies, from the Company's Statutes, from the Regulations of the Supervisory Board as well as from the Company's current business.

In 2016, the Supervisory Board adopted 25 resolutions (one in the document circulation mode), whose list is included in **Enclosure no. 1**. Prior to adoption of the resolutions, the matters they addressed had been analysed and discussed.

The basic form of the supervision over the Company's activities exercised by the Supervisory Board consisted in reviewing the documents submitted by the Management Board. In 2016, the Supervisory Board focused particularly on the following:

- materials and resolutions submitted to the General Meeting by the Management Board,
- the financial standing of the Company and of the Group,
- periodic reports on the implementation of the Company's and of the Group's budget,
- analysis of the risks related to the Company's activity and of its compliance with the regulations binding upon it,

- assessment of performance of the previously agreed bonus tasks as well as setting new ones,
- amendments to legal regulations concerning the capital market, including in particular the information obligations (on 20 May 2016, training was held in relation to that for the Supervisory Board members),
- new obligations for company bodies, including the Supervisory Board, resulting from the Best Practice of GPW Listed Companies 2016 in force since 1 January 2016.

## **5. Report on the activities of the Supervisory Board's committees in 2016**

The bases for operation and the composition of the Supervisory Board's committees in 2016 are presented in paragraphs I.2 and I.4 hereof.

### **5.1. Report on the activities of the Audit Committee**

The Audit Committee held one meeting in 2016, on 1 March 2016, attended by the Management Board, by the Chief Accountant and by a statutory auditor. The meeting focused on analysis and evaluation of the financial statements of Stalexport Autostrady S.A. and of the Stalexport Autostrady Group for the financial year from 1 January 2015 until 31 December 2015 as well as the Management Board's motion regarding the distribution of profit for 2015.

### **5.2. Report on the activities of the Remuneration Committee**

The Remuneration Committee held one meeting in 2016, on 6 December 2016, dedicated to the setting up of a three-year incentive scheme for the Management Board for the years 2016–2018, and also provided opinions on the following during the Supervisory Board's meetings:

- performance of the bonus tasks being the basis for awarding the annual reward to members of the Management Board for 2015,
- assessment of performance with regard to the three-year incentive scheme for the Management Board for 2013–2015,
- determination of the bonus tasks for members of the Management Board for 2016.

Having considered the above, the Supervisory Board evaluated the work of the Board's committees in 2016 positively.

## **6. Self-evaluation of the Supervisory Board's work**

The Supervisory Board has found that in the reporting period, the individual Supervisory Board Members performed their functions honestly, reliably and with due diligence, exercising supervision over the Company's entire activity, guided by objective evaluation and independent judgment. The required level of commitment to the Supervisory Board's work was confirmed for instance by the high rate of attendance at the meetings and by active participation in the discussions concerning the items placed on the agenda.

In the Supervisory Board's opinion, its direct activity and the activity carried out within the Board's permanent Committees in the reporting period was efficient and complied with the highest standards.

Taking the above in consideration, the Supervisory Board requests that the fulfilment of duties by all the members of the Supervisory Board in 2016 be acknowledged.

## II. REPORT ON THE EVALUATION OF THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF STALEXPORT AUTOSTRADY S.A., AND THE SEPARATE FINANCIAL STATEMENT, THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF STALEXPORT AUTOSTRADY GROUP, THE CONSOLIDATED FINANCIAL STATEMENT FOR THE FINANCIAL YEAR 2016 IN TERMS OF THEIR CONFORMITY WITH THE BOOKS AND DOCUMENTS AS WELL AS WITH THE FACTS, AND THE MANAGEMENT BOARD'S MOTION CONCERNING DISTRIBUTION OF NET PROFIT FOR 2016

Acting pursuant to art. 382 § 3 of the Code of Commercial Companies and to § 18.2, points 1–3 of the Company's Statutes, the Supervisory Board of Stalexport Autostrady has familiarised itself with and evaluated the following, prepared in accordance with the requirements of the International Accounting Standards:

### a) separate financial statement of Stalexport Autostrady S.A. for the financial year 2016, which included the following:

- separate statement of financial position as of 31 December 2016, showing a total balance of assets and liabilities in the amount of PLN 389,670,641.17 (three hundred eighty nine million six hundred seventy thousand six hundred forty one zlotys seventeen groszy);
- separate statement of comprehensive income for the period from 1 January 2016 until 31 December 2016, showing a total net profit of PLN 180,747,149.87 (one hundred eighty million seven hundred forty seven thousand one hundred forty nine zlotys eighty one groszy) and a total comprehensive income of PLN 180,749,279.27 (one hundred eighty million seven hundred forty nine thousand two hundred seventy nine zlotys twenty seven groszy);
- separate statement of changes in equity for the period from 1 January 2016 until 31 December 2016, showing an increase in equity by the amount of PLN 180,749,279.27 (one hundred eighty million seven hundred forty nine thousand two hundred seventy nine zlotys twenty seven groszy);
- separate statement of cash flows for the period of 1 January 2016 until 31 December 2016, showing an increase in net cash by the amount of PLN 178,732,184.08 (one hundred seventy eight million seven hundred thirty two thousand one hundred eighty four zlotys eight groszy);
- notes to the separate financial statements including information about the accounting policy adopted and other explanatory information.

**b) consolidated financial statements of Stalexport Autostrady Group for the financial year 2016, which included the following:**

- consolidated statement of financial position prepared as at December 31, 2016 showing assets and liabilities in amount of 1.446.646 thousand zlotys (say: one billion four hundred forty six million six hundred forty six thousand zlotys),
- consolidated statement of comprehensive income for the period from January 1, 2016 to December 31, 2016 showing net profit in amount of 165.294 thousand zlotys (say: one hundred sixty five million two hundred ninety four thousand zlotys) and total comprehensive income of 169.422 thousand zlotys (say: one hundred sixty nine million four hundred twenty two thousand zlotys),
- consolidated statements of changes in equity for the period from January 1, 2016 to December 31, 2016 showing an increase in equity by the amount of 163.733 thousand zlotys (say: one hundred sixty three million seven hundred thirty three thousand zlotys),
- consolidated statement of cash flows for the period from January 1, 2016 to December 31, 2016 showing an increase in cash by the amount of 178.952 thousand zlotys (say: one hundred seventy eight million nine hundred fifty two thousand zlotys),
- notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

**c) Management Board's Report on the Activities of Stalexport Autostrady S.A. in 2016,**

**d) Management Board's Report on the Activities of Stalexport Autostrady S.A. Group in 2016.**

The audit of the Company's financial statements within the meaning of the provisions of the Accounting Act, for the period from 1 January 2016 until 31 December 2016, was carried out by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw at Al. Jana Pawła II nr 22, entered on the list of entities authorised to audit financial statements kept by the National Chamber of Statutory Auditors under No. 73, selected by the Supervisory Board.

The evaluation of the mentioned above financial statements for 2016 was carried out by the Supervisory Board's Audit Committee at the meeting on 1 March 2017, with the participation of the statutory auditor's representative. The Vice-President of the Management Board – CFO and the Chief Accountant also participated in that meeting.

**Ad. a) and c)**

In the opinion of the Audit Committee, the Supervisory Board and of the statutory auditor (Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k.), **the separate financial statement of Stalexport Autostrady S.A. for 2016:**

- give a true and fair view of the economic and financial position of the Company as at 31 December 2016 and its financial performance for the financial year from 1 January 2016 to 31 December 2016 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies),
- have been prepared based on properly kept accounting books,
- comply, with respect to their form and content, with the applicable provisions of law and the articles of the Company Statutes..

In relation to audit of the financial statements, it was the responsibility of the statutory auditor to examine the Company's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities. In his opinion, the Company's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the financial statements.

The Audit Committee, the Supervisory Board and the statutory auditor have found that the information contained in the Management Board's Report on the Activities of Stalexport Autostrady S.A. in 2016 complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended)] and is consistent with underlying information disclosed in the financial statements of Stalexport Autostrady S.A.

**Ad. b) and d)**

In the opinion of the Audit Committee, the Supervisory Board and of the statutory auditor (Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k.), **the consolidated financial statement of Stalexport Autostrady Capital Group for 2016:**

- give a true and fair view of the economic and financial position of the Capital Group as at 31 December 2016 and its financial performance for the financial year from 1 January

2016 to 31 December 2016 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations, other applicable law provisions and the adopted accounting principles (policies) of the Parent (Stalexport Autostrady)

- comply, with respect to their form and content, with the applicable provisions of law and the articles of the Parent Company Statutes.

In relation to audit of the consolidated financial statement, it was the responsibility of the statutory auditor to examine the Parent's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities of the Capital Group. In the auditor's opinion the Parent's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the consolidated financial statement.

In the opinion of the statutory auditor, the Audit Committee and the Supervisory Board the information contained in the Management Board's report on the activities of the Capital Group in 2016 complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the financial statements of the Stalexport Autostrady Capital Group. For 2016.

Moreover, the Supervisory Board, pursuant to §18.2.2 of the Company's Statutes, familiarised itself with and evaluated the motion prepared by the Management Board to be submitted to the General Meeting concerning the distribution of net profit for 2016, and did not raise any objections to the proposed profit distribution method.

### **III. EVALUATION OF THE COMPANY'S SITUATION TAKING INTO ACCOUNT INTERNAL CONTROL , RISK MANAGEMENT AND COMPLIANCE SYSTEMS AS WELL AS THE INTERNAL AUDIT FUNCTION; THIS EVALUATION COMPRISES ALL THE SIGNIFICANT CONTROL MECHANISM, INCLUDING IN PARTICULAR THOSE RELATED TO FINANCIAL REPORTING AND OPERATING ACTIVITY**

**The Supervisory Board of Stalexport Autostrady S.A.**, acting in line with the Best Practice of GPW Listed Companies 2016 (which is described more extensively in Section 7 of the Management Board's Report on the Company's activities in 2016), including in particular with the rules set forth under II.Z.10.,1, **carried out an evaluation of the Company's situation, taking into account internal control, risk management and compliance systems, as well as the internal audit system; the said evaluation comprises all the significant control mechanisms, including in particular those related to financial reporting and to operating activity.**

The said evaluation was carried out on the basis of the knowledge of the Supervisory Board's members, up-to-date as of the date of its preparation, and on the basis of the Company's statements prepared for 2016 and of the statutory auditor's opinions and reports concerning those statements.

A detailed analysis of the situation of Stalexport Autostrady in 2016 was presented in the separate financial statement of Stalexport Autostrady S.A. and in the Management Board's report on the Company's activities for 2016.

The above reports contain the most important information concerning the functioning of Stalexport Autostrady in 2016.

#### **1. Evaluation of the activity of Stalexport Autostrady S.A.**

The Supervisory Board has found, just like the Management Board, that the year 2016 was an exceptional year in many respects for Stalexport Autostrady, which carries out tasks with regard to owner's supervision over the companies from the Group and to the lease of office spaces in the office building located in the centre of Katowice, which the Company is a co-owner of.

Above all, it needs to be pointed out that, in relation to the payment of interim dividends from subsidiaries in the total amount of PLN 177.7 million, a significant increase was recorded in the Company in financial revenue and in net profit, which amounted to over PLN 180 million.

Revenue from the lease of office spaces recorded in 2016 was at a similar level to 2015 and amounted to PLN 3.3 million, which should be considered as a good result, given the noticeable increase in the number of new office buildings and the modernisation of older property in Katowice.

The year 2016 was also one of good results of the activities of the entire Stalexport Autostrady S.A. Group.

Last year's consolidated revenue amounted to PLN 292.9 million and increased by 11.6% vs. 2015. Net profit, on the other hand, amounted to PLN 165.3 million and increased by 38.4% vs. the previous year. Since the main area of business for the Group consists in the management of the Katowice–Kraków toll section of the A4 motorway, toll collection revenue contributed to the largest extent to that result, increasing by 11.8% last year to the amount of PLN 288.4 million.

The increase in toll collection revenue was connected with an increase in traffic level: last year, it grew by over 10% vs. 2015, reaching 40.7 thousand vehicles per day.

The profit generated also resulted from the decrease in the cost of sales by PLN 24.7 million, i.e. by approx. 38% vs. 2015, to the level of PLN 40.9 million, which was a consequence of the change in the estimates concerning the provisions for motorway resurfacing.

In 2016, the level of current and non-current payables of the Group decreased by over PLN 92 million, leading to a decrease in financial expenses by 5.7%.

A very important event of the past year was the payment made in May by Stalexport Autostrady Małopolska S.A. (SAM S.A.) of dividend in the amount of PLN 86 million to its sole shareholder, i.e. Stalexport Autoroute S.à r.l. with its registered office in Luxembourg.

Additionally, in December 2016, SAM S.A. paid to Stalexport Autoroute S.à r.l. interim dividend for the year 2016 in the amount of PLN 85 million. The above amounts were paid by Stalexport Autoroute S.à r.l. as part of interim dividend for the year 2016 to its sole owner, Stalexport Autostrady S.A. These payments, constituting significant financial revenues of Stalexport Autostrady S.A., allowed the latter to record the already mentioned net profit of PLN 180.7 million.

Summing up the evaluation of the activities of Stalexport Autostrady, the Supervisory Board would like to emphasise that Stalexport Autostrady, as well as its Group operating in the motorway business, has sound financial bases that guarantee the stability of its business and provide opportunities for future implementation of projects related to the construction and management of motorways.

## 2. Perspectives for development of Stalexport Autostrady Group

Taking into account the present condition of the road infrastructure and development needs, the Ministry of Infrastructure developed the “Programme for Construction of National Roads for the Years 2014–2023 (with a perspective until 2025)” (hereinafter referred to as the “Programme”). On 8 September 2015, the Programme was approved by a resolution of the Council of Ministers.

The document defines the objectives and priorities, both in terms of investments and of road network maintenance. The Programme indicates the material scope scheduled to be implemented in the years 2014–2023 as far as new road investments are concerned. The estimated level of capital flow for their implementation under the National Road Fund is estimated at PLN 107 billion. This amount is allocated to the implementation of investment tasks consisting in the construction of motorways, expressways and ring roads around certain towns or cities.

Apart from the financing under the National Road Fund, the Programme provides for the construction of motorway sections in the off-budget (commercial) system, but still under the control of the public party, mostly through a special purpose vehicle operating in the road sector. This could potentially concern the construction of certain sections of the motorways A1, A2 and A18, with priority given to the investment consisting in the construction of the Tuszyn–Częstochowa section of the A1 motorway. The Programme does not mention, on the other hand, the financing of road infrastructure in the classic public-private partnership system.

Work is currently in progress at the Ministry of Infrastructure and Construction to update the programme described above. According to what the Ministry has announced, the draft amendments will be presented in 2017 and perhaps will include the construction of some roads sections in the public-private partnership system, so the Company intends to follow the developments in that area on a systematic basis.

According to the declarations of the Management Board, if any new invitation to public tender being of interest to Stalexport Autostrady is issued, it will be analysed by the Company and if it is positively verified and meets the strategic objectives of the Group, the Company will decide to participate in such a tender.

An example is provided by the public procurement procedure no. DPR.DPR-2.2413.6.2016.DZR.34 for the NATIONAL TOLL COLLECTION SYSTEM TOGETHER WITH ELECTRONIC TOLL COLLECTION ACTIVITIES AND ACTIVITIES RELATED TO TOLL COLLECTION IN GENERAL, announced on 14 December 2016 by the General Directorate of National Roads and Motorways.

On 20 February 2017 CATTERICK INVESTMENTS, in which 10% of the shares were acquired by Stalexport Autostrady, submitted an application for participation in the above mentioned procedure, as described in paragraph 5.2 of the Management Board Report.

The Company does not exclude the option of equity investment in some of the existing concession projects in Poland if another participant of the projects is ready to quit the project or if one of the consortiums looks for additional partners with regard to capital support.

Moreover, bearing in mind the high level of public debt and budget deficit, one should not overlook the possibility of infrastructure privatisation, also with regard to motorways currently under the management of the public party. The experience of Italy and France in this respect shows clearly that this instrument allows for a rapid reduction of a part of the public debt as well as for acceleration of the process of infrastructure development, in compliance with the standards of safety and quality. This issue, however, is currently not a subject of public debate.

The above mentioned areas of growth possibilities of the Group require a constant monitoring of the motorway market in Poland and also regulations for that market in the EU.

As far as internal growth is concerned, the Group has been making and will continue to make efforts to improve the quality of services provided to the motorway users through the advancement of the toll collection system, allowing to diversify the range of toll payment methods available to customers, including electronic toll collection introduced in 2016. These efforts are intended to improve the flow capacity at the toll plazas including the transaction time shortening.

### **3. Internal control and internal audit system**

The Management Board of Stalexport Autostrady S.A. is responsible for the system of internal control and its effectiveness. The system of internal control and risk management as regards drawing up of the financial statements involves the procedures for drawing up and approving the financial statements and periodic reports in force in Stalexport Autostrady S.A. The system makes it possible to monitor the liabilities and to control the costs and the achieved results on the date-to-date basis. The financial data, which is the basis for the financial statements and periodic reports, comes from the accounting and financial system IMPULS, into which the documents are entered in line with the Company's accounting policy based on the International Accounting Standards.

The financial statements are drawn up by the financial and accounting staff under the control of the Company's Chief Accountant and then verified by the Vice-President of the Management Board (CFO) in cooperation with the Finance Management Director, and their final wording is approved by the Management Board in the form of a relevant resolution.

The financial statements approved by the Management Board are audited by a statutory auditor (in 2016, similarly as in years 2012-2015, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. was the statutory auditor) selected by the Company's Supervisory

Board. Subsequently, pursuant to § 18(2)(1) of the Company's Statutes, the Supervisory Board – following the recommendation of the Audit Committee, each year verifies whether the audited financial statements of the Company and the Group are consistent with the books and documents and whether they reflect the actual state, and notifies the shareholders of the results of this verification in its annual report.

The Company systematically monitors the changes in the law and the external regulations concerning the stock exchange reporting requirements, and it takes steps to implement them in advance. In 2016 (continuing the action taken in this respect in 2015), particular attention was paid to studying and proactive preparation for the new UE regulations regarding capital markets, specifically in relation to the obligation of public companies to disclose information as well as the rights and responsibilities of members of managing bodies in such companies.

#### 4. Risk management and compliance

The Management Board of Stalexport Autostrady is in charge of managing risk significant for the Company and identifies such risks on a systematic basis.

The Supervisory Board shares the Management Board's view expressed in the Management Board's Reports on the Company's activities in 2016 that the basic risks and threats as well as the external and internal factors significant for the activity of Stalexport Autostrady S.A. can be divided into three fundamental areas, i.e. related to the following:

- implementation of the A4 Katowice–Kraków project,
- lease of office space and investment of own funds held,
- as well as all the activities generally performed by the Company.

**In relation to the A4 Katowice-Kraków motorway project implementation**, risks as well as the economic and financial factors related to the general economic situation and to the current situation on the construction work market, as well as the risks of political and legal nature prevail.

The **overall economic situation** in Poland has an impact mainly on the number of vehicles using the A4 motorway (this factor affects mainly the lorry traffic), and thus on the level of revenue from toll collection generated by the Concessionaire. The Group mitigates this risk by means of an adequate (optimal) price policy and by taking actions aiming at improving the customer service quality on the motorway section managed by the Group by the replacement of toll collection equipment (currently in progress), diversifying the range of toll payment methods available to the customers.

As far as the **construction work market** is concerned, a buoyant mood on that market increases the prices of construction services and decreases the profitability of the A4 Katowice–Kraków project, whereas in the period of slowdown on that market, the Group may negotiate more favourable conditions for the execution of the necessary works, thus keeping more funds available to the shareholders. The Company seeks to mitigate the risk within this area by active management, within the scope of powers granted to it under the Concession Agreement, of the schedule of the constructions works planned and carried out.

Institutional and legal instability of the environment regulating the infrastructure sector in Poland is the main factor from the **political and legal risk** group. The Company seeks to counteract these risks for instance by promoting best practices and solutions aimed at creating an appropriate legal framework for the execution of infrastructure projects and by actively participating in the public debate regarding new legislative solutions. This risk group also includes the potential efforts to amend the existing law, which may affect the revenue or expense level of the A4 Katowice–Kraków project. It is worth emphasising at this point that the Concession Agreement includes provisions which make it possible to claim compensation from the State Treasury if the public party performs activities that adversely affect the profitability of the A4 Katowice–Kraków project.

Additional risks are also related to the **decision of the Polish Office of Competition and Consumer Protection** of 2008, in which the Office stated, among other things, that the Concessionaire’s practice restricted competition by “imposing unfair prices for using the toll section of the motorway in the amount specified in the price list, in spite of the repair works being carried out at the same time on that section, resulting in major traffic disruption” and ordered that these practices be ceased. When performing future repair works causing substantial traffic disruption, the Concessionaire should respect the provisions of that decision in its toll rate policy. The Company reduced this risk by introducing the following documents:

- a) Rules of performance of works causing traffic disruption on the motorway,
- b) Principles of charging reduced toll rates if construction/repair works are being performed between the toll plazas leading to the failure to meet the motorway standard.

**With respect to the lease of office space and investing the existing financial resources**, the risks that should be mentioned are related to the overall economic situation and to the investment climate, as well as to the market interest rate risk.

The **overall economic situation** in Poland directly affects the office space lease market and thus the size of the unoccupied (unleased) space and the rent rates. The Company mitigates this risk by applying a flexible pricing policy and by making other efforts to increase the

attractiveness of the office space and to improve the safety of its users. Furthermore, the Company makes constant efforts to win new lessees.

As a result of the revenue structure and of the nature of the business, the Company's financial results are burdened by an **interest rate risk**. This risk is related to the volatility of the financial markets and manifests itself in changes in the value of money. Stalexport Autostrady mitigates this risk by the diversification of the periods of the deposits in which the Company invests its funds.

The institutional and legal instability of the environment mentioned above affects not only the implementation of the A4 Katowice–Kraków project, but also all of the Company's and of the Group's activities, with particular emphasis on the functioning of Stalexport Autostrady as a public company.

The Company seeks to counteract these risks by constant monitoring of all changes to legal regulations (both national and EU), by using consultancy services provided by companies specialising in the given fields, by participation of the Management Board and of the employees responsible for the given business area in training courses and conferences related to the new regulations, and by implementing appropriate procedures and best practices, both in the Company and in the entire Group.

Due to the limited scale of activity of Stalexport Autostrady S.A. and the small number of people employed at the Company, no organisational units were separately established within the organisational structure of Stalexport Autostrady S.A. in charge of implementing tasks in the individual systems and functions referred to in recommendation no. III.R.1, with the exception of the function of compliance, for which a Compliance Officer was appointed within the Company. The Compliance Officer reports directly to the President of the Management Board and has the option of reporting directly to the Supervisory Board of Stalexport Autostrady S.A. In 2016, the Supervisory Board commissioned the performance of a Compliance Audit, during which no irregularities were found in the area of compliance in the Company's case.

In the remaining areas, i.e. internal control and audit as well as risk management, the individual functions and tasks are performed by Member of the Management Board of Stalexport Autostrady S.A. in accordance with the division of competences.

The Supervisory Board's Audit Committee monitored, in accordance with rule no. III.Z.5, the effectiveness of the systems and functions referred to in rule no. III.Z.1, while the Supervisory Board performed an annual evaluation of the operating effectiveness of such systems and functions.

The Audit Committee and the Supervisory Board evaluated positively the functioning of the internal control system and of the system for the management of risk significant for the Company.

Since the Company did not establish a separate unit performing the internal audit function, and the tasks within that area are carried out within the individual organisational divisions, the Audit Committee and the Supervisory Board have found that, given the nature and size of the Company's activity, the solution applied has so far been and continues to be fully sufficient, and as at the date of preparation of this report, there is no need to establish a separate internal audit function within the organisation.

#### **IV. EVALUATION OF THE COMPANY'S COMPLIANCE WITH THE INFORMATION OBLIGATIONS RELATED TO THE APPLICATION OF CORPORATE GOVERNANCE RULES, DEFINED IN THE STOCK EXCHANGE RULES AND IN THE REGULATIONS CONCERNING CURRENT AND PERIODIC INFORMATION PROVIDED BY ISSUERS OF SECURITIES**

The information obligations of issuers related to their compliance with corporate governance rules are set forth in the Regulations of Giełda Papierów Wartościowych S.A. (GPW or Warsaw Stock Exchange) and in the Ordinance concerning current and periodic information provided by issuers of securities and the conditions for considering as equivalent information required by the law of a non-member state (Journal of Laws Dz.U. of 2009, item 33, item 259).

Performing the duty stipulated in § 29(5) of the GPW Regulations and the resolution No. 1013/2007 of the GPW's Management Board of 11 December 2007 (regarding the scope and the structure of the report on the application of the corporate governance rules by listed companies) and the resolution No. 718/2009 of GPW's Management Board of 16 December 2009 (regarding the submission of the corporate governance reports by listed companies), the Management Board of Stalexport Autostrady conveyed to the public on 4 March 2016 the statement on the Company's application of the corporate governance rules specified in "Best Practice for GPW Listed Companies (DPSN) in the period from 1 January to 31 December 2015. The statement applied to DPSN in force in 2015.

On 13 October 2015, the Council of the Warsaw Stock Exchange passed a resolution on the adoption of new corporate governance rules entitled "Best Practice for GPW Listed Companies 2016" (hereinafter referred to as DPSN 2016). The new rules came into force on 1 January 2016.

Pursuant to § 29(3) of the Regulations of Warsaw Stock Exchange, Stalexport Autostrady submitted, on 8 January 2016, report no. 1/2016, via the Electronic Information Database (EBI), concerning the non-observance of specific rules included in the "Best Practice of GPW Listed Companies 2016".

On the same day, in accordance with the rule I.Z.1.13 DPSN 2016, information was conveyed to the public on the current application by the Company of the recommendations and principles included in the "Best Practice of GPW Listed Companies 2016", published on the Company's web page.

According to the said report by Stalexport Autostrady, the Company did not observe 3 recommendations: VI.R.1, VI.R.2, VI.R.3 as well as 4 specific rules: I.Z.1.9, II.Z.8, III.Z.3,

VI.Z.1; however, the recommendation VI.R.3 and the rule II.Z.8 have been observed from 20 May 2016.

The reasons for departure from observance of the above 4 rules by the Company are presented in the following table.

**TABLE 7**

**Rules from which the Company departed with an explanation of the reasons**

Rule no.	Rule contents	Reasons for the Company's departure from observance of the rule
I.Z.1.9	Information on dividend planned and on the dividend paid by the company in the period of the last 5 financial years, including data concerning the record date, the payment dates and the dividend amounts: in total and per share.	<p>In the last 5 financial years, Stalexport Autostrady S.A. did not pay any dividend.</p> <p>As far as planned dividend is concerned, the Company does not intend to observe that rule, due to the fact that the planning of dividend of significant value by Stalexport Autostrady depends on whether its subsidiary, i.e. Stalexport Autostrada Małopolska S.A., obtains consent from the banks financing that company's activity (on a project finance basis) to the payment of dividend by SAM.</p>
II.Z.8.	The chairman of the audit committee complies with the criteria of independence indicated in rule II.Z.4. (rule complied with since 20 May 2016)	The Chairman of the Audit Committee, Mr Costantino Ivoi (who performed that function until 14 April 2016), did not meet these criteria. The Company's Management Board intended to observe this rule in the future. Observance of the rule depended, however, on the adoption of appropriate resolutions by the Supervisory Board, which happened on 20 May 2016 when Mr Aleksander Galos was appointed Chairman of the Audit Committee by way of a resolution of the Supervisory Board.
III.Z.3.	The rules of independence set forth in generally recognised, international standards	This rule is not observed, except the function of compliance supervision, for

of professional practice for internal audit, apply to the person in charge of the internal audit function and to the other persons responsible for the performance of its tasks.

which a Compliance Officer was appointed at the Company.

**VI.Z.1.** The incentive programmes should be structured in such a way as to make sure, among other things, that the level of remuneration of members of the company's management board and of its key managers depends on the actual, long-term financial position of the company and on the long-term increase of value for shareholders and stability of the enterprise's functioning.

The Company has appropriate incentive programmes (long-term programmes) in place for the Management Board members. The Company did not introduce a similar incentive programme, however, for key managers not being members of the Management Board.

Source: Internal study

In relation to the change of the actual situation on 7 June 2016 the Company submitted another current report concerning the scope of application of DPSN 2016 and on the same day published information on the current application by the Company the recommendations and principles included in the "Best Practice of GPW Listed Companies 2016", which was published on the Company's web page. That situation did not change until the date of preparation of the Report.

In compliance with the obligation stipulated in §91(5)(4) of the Ordinance concerning current and periodic information provided by issuers of securities and the conditions for considering as equivalent information required by the law of a non-member state as equivalent (Dz.U. of 2014, item 133, uniform text), the Management Board of Stalexport Autostrady has prepared a statement on compliance by the Company's application of the corporate governance rules specified in the "Best Practice of GPW Listed Companies 2016" (hereinafter referred to as "DPSN 2016") in the period from 1 January until 31 December 2016. The DPSN 2016 was adopted by resolution No. 26/1413/2015 of the Supervisory Board of GPW on 13 October 2015 and entered into force on 1 January 2016. The statement will be conveyed to the public together with the separate and consolidated annual reports, which is planned for 3 March 2017.

The Supervisory Board has familiarised itself with the statement on compliance included in the Report on the activities of Stalexport Autostrady S.A. in 2016 and with the reports containing the Company's comments on its compliance with the recommendations and rules included in DPSN 2016. In the Supervisory Board's opinion, the Company meets in a diligent and complete manner with the information obligations concerning compliance with corporate governance rules.

## **V. EVALUATION OF THE RATIONALITY OF THE POLICY PURSUED BY THE COMPANY, REFERRED TO IN RECOMMENDATION I.R.2 OF THE BEST PRACTICE OF GPW LISTED COMPANIES 2016, OR INFORMATION ON THE ABSENCE OF SUCH POLICY**

The Company does not pursue any activity consisting in sponsorship or charity, or any other similar activities, and consequently it does not have any policy in place concerning such activities. Activity of this type is carried out, on the other hand, by subsidiaries, including in particular Stalexport Autostrada Małopolska S.A.

Nevertheless, it has a procedure concerning donations and sponsorship, adopted by the Management Board of Stalexport Autostrady on 6 December 2013.

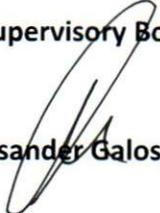
In accordance with the said procedure, in January of each year, i.e. after the end of the previous budget year, the Chief Specialist for Marketing and Investor Relations prepares a report on donations, containing the following information: the name of the donee, the value and purpose of the donation, the donated item in the case of in-kind donations, and whether the relevant entity is a public benefit organisation. The report is submitted to the Company's Management Board, to the Compliance Officer at Stalexport Autostrady S.A. and to the Chief Accountant. Subsequently, the report accepted by the Company's Management Board is sent to the Supervisory Board members.

## VI. MOTIONS

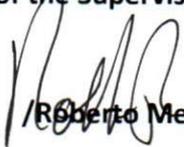
The Supervisory Board submits the following motions to the Ordinary General Meeting of Shareholders of Stalexport Autostrady S.A.:

- for approval of the Management Board's Report on the Company's activities in 2016 and of the separate financial statement of Stalexport Autostrady S.A. for 2016;
- for approval of the Management Board's Report on the Group's activities in 2016 and of the consolidated financial statement of Stalexport Autostrady S.A. Group for 2016;
- for the acknowledgement of the fulfilment of duties by the members of the Company's Management Board in 2016;
- adoption of a resolution on distribution of net profit for 2016, in accordance with the motion submitted by the Company's Management Board.

**Deputy Chairman  
of the Supervisory Board**

  
/Aleksander Galos/

**Chairman  
of the Supervisory Board**

  
/Roberto Mengucci/

March 2, 2017

**APPENDIX NO. 1****LIST OF RESOLUTIONS OF THE SUPERVISORY BOARD ADOPTED IN 2016**

<b>No.</b>	<b>Resolution no.</b>	<b>Resolution regarding:</b>	<b>Adopted on</b>
1	01/03/2016	approval of the Supervisory Board's reports for the financial year 2015	02.03.2016
2	02/03/2016	providing an opinion on the draft resolutions of the Ordinary General Meeting of Shareholders of Stalexport Autostrady S.A. regarding: the election of the chairman of the Ordinary General Meeting, the decision not to elect the Returning Committee and approval of the agenda	02.03.2016
3	03/03/2016	providing an opinion on the draft resolutions of the Ordinary General Meeting of Shareholders of Stalexport Autostrady S.A. regarding: the approval of the Management Board's report on the Company's activities in the financial year 2015, the separate financial statements of Stalexport Autostrady S.A. for 2015 and distribution of net profit for the financial year 2015	02.03.2016
4	04/03/2016	providing an opinion on the draft resolutions of the Ordinary General Meeting of Shareholders of Stalexport Autostrady S.A. regarding: the approval of the Management Board's report on the activities of Stalexport Autostrady S.A. Group in the financial year 2015 and of the consolidated financial statements of Stalexport Autostrady S.A. Group for the financial year 2015	02.03.2016
5	05/03/2016	providing an opinion on the draft resolution of the Ordinary General Meeting of Shareholders (no. 9) regarding the acknowledgement of the fulfilment of duties in the financial year 2015 by the President of the Management Board, Emil Wąsacz	02.03.2016
6	06/03/2016	providing an opinion on the draft resolution of the Ordinary General Meeting of Shareholders (no. 10) regarding the acknowledgement of the fulfilment of duties in the financial year 2015 by the Vice-President of the Management Board, Mariusz Serwa	02.03.2016
7	07/03/2016	providing an opinion on draft resolutions of the Ordinary General Meeting (no. 11–17) regarding the acknowledgement of the fulfilment of duties by members of the Supervisory	02.03.2016

		Board (Supervisory Board members in alphabetic order)	
8	08/03/2016	providing an opinion on draft resolution of the Ordinary General Meeting (no. 18) regarding amendments to the Company's Statutes	02.03.2016
9	09/03/2016	providing an opinion on draft resolution of the Ordinary General Meeting (no. 19) regarding changes in the method of remunerating Supervisory Board members	02.03.2016
10	10/03/2016	providing an opinion on draft resolutions of the Ordinary General Meeting (no. 20; 21-x) regarding the determination of the number of members of the Supervisory Board for the ninth term and their appointment	02.03.2016
11	11/03/2016	appointment of the President of the Management Board of Stalexport Autostrady S.A.	02.03.2016
12	12/03/2016	appointment of the Vice-President of the Management Board of Stalexport Autostrady S.A.	02.03.2016
13	13/03/2016	amendments to the Regulations of the Company's Supervisory Board	02.03.2016
14	01/05/2016	election of the Chairman of the Company's Supervisory Board	20.05.2016
15	02/05/2016	election of the Deputy Chairman of the Company's Supervisory Board	20.05.2016
16	03/05/2016	election of the Secretary of the Company's Supervisory Board	20.05.2016
17	04/05/2016	election of the members of the Audit Committee of the Supervisory Board of Stalexport Autostrady S.A.	20.05.2016
18	05/05/2016	election of the members of the Remuneration Committee of the Supervisory Board of Stalexport Autostrady S.A.	20.05.2016
19	06/05/2016	granting of the annual reward for 2015 to Members of the Management Board	20.05.2016
20	07/05/2016	assessment of performance with regard to the 3-year incentive scheme (2013–2015) for Management Board Members	20.05.2016
21	08/05/2016	setting bonus tasks for 2016 for the Management Board Members	20.05.2016
22	09/05/2016	adoption of the consolidated text of the Company's Statutes	20.05.2016
23	01/11/2016	granting authorisation to perform an audit with regard to the compliance of the Company's activities with the regulations binding upon the Company (Compliance Audit).	22.11.2016
24	01/12/2016	determination of a three-year incentive scheme for the years	06.12.2016

		2016–2018 for the members of the Company’s Management Board	
<b>25</b>	02/12/2016	approval of the investment plan for the Company and for Stalexport Autostrady Group for 2017	06.12.2016