

## **Report concerning the activity of the X-Trade Brokers DM S.A.'s ("Company", "XTB") Supervisory Board in 2017**

### **I. Composition of the Supervisory Board and its Committees**

1. In 2017 the Supervisory Board proceeds in the following composition:
  - Between 1 January 2017 and 10 January 2017:
    - a) Mr. Jakub Leonkiewicz – Chairman of the Supervisory Board;
    - b) Mr. Michał Kędzia – Member of the Supervisory Board;
    - c) Mr. Łukasz Baszczyński - Member of the Supervisory Board;
    - d) Mr. Bartosz Zabocki - Member of the Supervisory Board;
    - e) Mr. Jarosław Jasik - Member of the Supervisory Board.
  - Between 10 January 2017 and 30 May 2017:
    - a) Mr. Jakub Zabłocki – Chairman of the Supervisory Board;
    - b) Mr. Michał Kędzia – Member of the Supervisory Board;
    - c) Mr. Łukasz Baszczyński – Member of the Supervisory Board;
    - d) Mr. Bartosz Zabłocki – Member of the Supervisory Board;
    - e) Mr. Jarosław Jasik – Member of the Supervisory Board.
  - Between 30 May 2017 till the end of 2017:
    - a) Mr. Jakub Leonkiewicz – Chairman of the Supervisory Board;
    - b) Mr. Michał Kędzia – Member of the Supervisory Board;
    - c) Mr. Łukasz Baszczyński – Member of the Supervisory Board;
    - d) Mr. Bartosz Zabłocki – Member of the Supervisory Board;
    - e) Mr. Jarosław Jasik – Member of the Supervisory Board.

### **II. Supervisory Board Committees**

As part of the Supervisory Board operates the Compensation Committee, which tasks are performed in a collective manner by the Supervisory Board pursuant to the resolution of the General Meeting.

Moreover, on 13 October 2018<sup>7</sup> the Company has appointed the Audit Committee which operates as a separate committee.

### **III. Members of the Supervisory Board fulfilling the criteria of independence**

Pursuant to the Articles of Association, from the Date of First Listing, at least one member of the Supervisory Board should the criteria of independence specified in § 20 section 2 of the Articles of Association (the "**Independent Member**"). If in any term of office, there are at least 7 (seven)

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members of the Supervisory Board, at least two of them should be Independent Members, and in the case of the Supervisory Board composed of 9 (nine) members, at least three of them should be Independent Members.

Pursuant to the Articles of Association, as long as the company is an entity of public interest, within the meaning of the Act on Auditors, at least one member of the Supervisory Board should meet the criteria of independence as defined in article 86 item 5 of the Act on Auditors and should be qualified in the field of accountancy or financial auditing. In connection with revocation of the Act on Auditors by virtue of the act of May 11, 2017 on statutory audits, audit firms and on public oversight members of the Supervisory Board performed a review of fulfilment of the criteria of independence within the meaning of article 129 item 3 of the act of 11 May 2017 on statutory audits, audit firms and on public oversight.

The Supervisory Board performed the assessment of relationships and circumstances that may affect the fulfilment of the criteria of independence by the above-mentioned Members of the Supervisory Board.

In 2017 Łukasz Baszczyński, Jarosław Jasik and Bartosz Zabłocki fulfilled the criteria of independence pursuant to § 20 item 2 of the Articles of Association, with a reservation that when Jakub Zabłocki was the Chairman of the Supervisory Board, this means between 10 January 2017 and 30 May 2017 Łukasz Baszczyński and Jarosław Jasik were the members who fulfilled criteria of independence as defined in § 20 item 2 of the Articles of Association.

In 2017 Łukasz Baszczyński, Jarosław Jasik and Jakub Leonkiewicz fulfilled the criteria of independence pursuant to article 129 item 3 of the act of May 11, 2017 on statutory audits, audit firms and on public oversight, with a reservation that when Jakub Zabłocki was the Chairman of the Supervisory Board, this means between 10 January 2017 and 30 May 2017 Łukasz Baszczyński and Jarosław Jasik were the members who fulfilled criteria of independence as defined in article 129 item 3 of the act.

Pursuant to submitted declarations, Jarosław Jasik, Michał Kędzia and Jakub Leonkiewicz possess experience in the field of accountancy or financial auditing.

## **2. Primary Responsibilities of the Supervisory Board**

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The Supervisory Board exercised in 2017, pursuant to generally applicable law, including the Act of 15 September 2000 The Commercial Companies Code and Regulations of the Supervisory Board, supervisory and audit duties, in particular:

- a) evaluation and review of the financial statements for the last financial year and evaluation of the report of the Management Board on the activities of the Company for the last financial year, in terms of their compliance with accounting books and documents, as well as actual state of affairs and review of the distribution of profits or covering the losses proposed by the Management Board;
- b) submitting to the General Meeting the annual written report on the results of the review and evaluation referred to in point a);
- c) determining conditions of remuneration and employment of members of the Management Board;
- d) approving annual budgets, including the budget of the Company, the budgets of the Subsidiaries, and the consolidated budget of the capital group of the Company;
- e) appointing an independent auditor for the Company and the Subsidiaries;
- f) performing tasks of the Compensation Committee, including:
  - expressing opinion on the variable remuneration components policy, including the amount of remuneration and the components of remuneration;
  - expressing opinion on performing the variable remuneration components policy;
  - expressing opinion on and monitoring of payment of the remuneration variable components to the persons holding managerial positions responsible for risk management, internal audit and compliance of the brokerage house's activity with law;
  - determining list of the persons holding managerial positions in the Company, and;
  - approving the amount of remuneration and the components of remunerations of the persons holding managerial positions.
- g) granting consent to the appointment and dismissal of persons in charge of the internal audit and compliance departments of the Company;
- h) review and expressing opinion on matters to be discussed and put to a vote at the General Meeting;
- i) other legal and formal issues related to activity of the Supervisory Board.

#### **IV. Actions taken by the Supervisory Board**

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The activities undertaken by the Supervisory Board were aimed at improvement of the Company's prudent and stable management, both in the financial area and its activity in compliance with applicable laws and decisions, recommendations and guidelines issued by the relevant supervisory authorities. The Supervisory Board's actions and analysis were designed to maximize its financial performance, increase its value, provide long-term growth and stability in the marketplace, and provide an effective internal risk monitoring system and possible prevention of these risks.

In 2017 the Supervisory Board held six meetings on:

1. 10 January 2017 r.;
2. 23 March 2017 r.;
3. 25 May 2017 r.;
4. 27 June 2017 r.;
5. 13 October 2017 r.;
6. 4 December 2017 r.

According to the Regulations of the Supervisory Board during the calendar year at least four meetings of the Supervisory Board should be held, thus the Supervisory Board in 2017 held the meeting in accordance with the Company's internal regulations in force.

In 2017, 55 resolutions were adopted at the Supervisory Board meetings and by way of the circulation procedure. Most important of the adopted resolutions concerned:

1. Changes in the Company's Management Board;
2. Approval of the Company's budget for 2017;
3. Meeting with Ernst & Young Audyt Polska Sp. z o. o. Sp. K. - the statutory auditor of the Company and confirmation of its independence;
4. Acquisition of shares in company CFD's Prime Limited with its seat in Belize;
5. Adoption of report concerning the activity of the Supervisory Board in 2016;
6. Evaluation and adoption of the Company's separate financial statements and the consolidated financial statements of the XTB Capital Group for 2016 and report concerning the activity of the Management Board for the year 2016;
7. Assessment of the Company's Management Board and its members in 2016 and recommendation to the General Meeting of Shareholders of the Company to grant the vote of approval to the Management Board;
8. Opinion concerning the Management Board recommendation on the payment of dividends from the profit achieved in 2016;

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9. Getting acquainted with the semi-annual Reports on the functioning of the compliance system for the second half 2016 and the first half of 2017 and hearing the information from the Compliance Officer;
10. Getting acquainted with the semi-annual Reports on the functioning of the risk management system for the second half of 2016 and the first half of 2017 and the hearing of the Head of Risk Management;
11. Approval of procedures and internal policies related to the Company's Risk Management System;
12. Appointment of the Audit Committee and the Chairman of the Audit Committee.

At the same time, the following issues were discussed at the selected Supervisory Board meetings:

- financial results achieved by the Company, in particular as regard to the Company's liquidity, level of supervised capitals, internal capital and capital adequacy ratio;
- information about the Company's financial results (per each country) in relation to the adopted budget;
- information on the Functioning of Information Technology and ICT Environment in the Company.

## **V. Assessment of the Management Board's report concerning the activity of the Group and the Company in 2017, financial statements for 2017 and the Management Board's proposal concerning the distribution of profit for 2017**

The Supervisory Board presents the report on the results of evaluation of the following reports and conclusions of the Company for the financial year 2017:

### **1. Separate and consolidated financial statements of XTB for 2017**

After reviewing the opinion and the auditor's report on the course and results of the audit of the Company's financial statements for 2017, the Supervisory Board agrees with the opinion of the auditor and states that the Company's financial statements for the financial year 2017 were prepared on the basis of the properly conducted accounting books, are in compliance (in form and content) with the applicable provisions of law and provide all the information relevant for the assessment of profitability and financial result in the audited period as well as the financial standing of the Company and the Group. In view of the above the Supervisory Board requests the General Meeting to approve the separate and consolidated financial statements of XTB for the financial year 2017.

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## **2. Management Board's report concerning the activity of the Group and the Company in 2017**

After the analysis and evaluation of the Management Board's report concerning the activity of the Group and the Company in 2017, the Supervisory Board states that it is in compliance with the books and documents of the Company. As a result, the Supervisory Board adopts the report and requests the General Meeting to approve it.

At the same time, after getting acquainted with the Management Board's report concerning the activity in the year 2017, the Supervisory Board requests the General Meeting to grant the vote of approval to the former President of the Management Board - Mr. Jakub Maly, former President of the Management Board – Mr. Jakub Zabłocki, President of the Management Board – Mr. Omar Arnaout and the following members of the Management Board - Mr. Paweł Frańczak, Mr. Filip Kaczmarzyk and Mr. Paweł Szejko for performance of their duties in the financial year 2017.

## **3. Assessment of the Management Board's proposal concerning the distribution of the Company's profit for 2017**

After reviewing the separate and consolidated financial statements of X-Trade Brokers Dom Maklerski S.A. and the Management Board's proposal concerning the distribution of profit for 2017, as well as based on the discussion about the impact of the profit distribution proposed by the Management Board on the Company's operations, the Supervisory Board approved the recommendation of the Management Board of 8 March 2018 and adopted a resolution on the retainment the profit in the amount of [X], this means allocation of profit to reserve Capital.

## **VI. Assessment of the Company's situation, including assessment of the effectiveness of the operation of the following systems: risk management, compliance, internal control and internal audit**

The Supervisory Board has been exercising constant supervision over the Company's operating activities and has been analysing the Company's financial results. In particular, the Supervisory Board acquainted with information on the Company's performance, including the results of particular branches, information on the liquidity situation of the brokerage house, the level of supervised capital, internal capital and capital adequacy ratio, and information on the feasibility of the annual budget in 2017.

The Group's operating and financial results are primarily influenced by:

- number of active accounts, transaction volume and amount of deposits;

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- volatility in the financial and commodity markets;
- general market, geopolitical and economic conditions;
- FX / CFD market competition; and
- regulatory environment.

In 2017, XTB reported PLN 92 973 thousand of consolidated net profit compared to PLN 77 707 thousand profit a year earlier. This is an increase of PLN 15 266 thousand ie. 19.6%. Operating profit (EBIT) increased y/y by PLN 46 155 thousand 56.2% to PLN 128 270 thousand. Consolidated revenues amounted to PLN 273 767 thousand to PLN 250 576 thousand a year earlier.

The net result for 2017 was shaped mainly by:

- 56,2% increase in operating profit (EBIT) due to:
  - 9,3% increase in operating income resulting from the higher volume of turnover generated by XTB customers with comparable profitability per lot;
  - significant improvement in cost effectiveness as reflected by a decrease in operating costs by PLN 22 964 thousand;
- factors not related to the main operating activity, i.e .:
  - creation of a revaluation write-down of a separate intangible asset in the form of a brokerage license for the Turkish market amounting to PLN 5 612 thousand (one-off event);
  - occurrence of negative exchange rate differences (financial costs) on own funds held by XTB in the amount of PLN 13 588 thousand (2016: positive exchange rate differences amounting to PLN 6 402 thousand) being a consequence of the strengthening of the zloty against other currencies.

In 2017 the retail business segment generated approx. 88% of the total volume of the Group's turnover and the institutional business segment - approx. 12%.

Increase of revenues in 2017 by 9.3% y/y, ie. PLN 23 191 thousand from PLN 250 506 thousand to PLN 273.767 thousand, results mainly from the increase in the volume of trading calculated in lots with comparable profitability per lot. Turnover was higher by 180,9 thousand lots and unit profitability by PLN 0.3.

In 2017, XTB significantly improved cost efficiency in relation to the same period of the previous year, while maintaining increases in new accounts opened and the number of active accounts. During this period operating expenses amounted to PLN 145 497 thousand (2016: PLN 168 461 thousand), which

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means a decrease by 13.6% y/y. This decline was contributed by PLN 24 497 thousand lower marketing costs resulting mainly from lower expenditures on advertising campaigns.

The Supervisory Board correctly assesses the Group's situation and emphasise that the activity is conducted in an adequate and effective manner and that the achieved financial results place the Group at a satisfactory level.

According to the requirement specified in § 10 pt. a) of the Regulations of the Supervisory Board of X-Trade Brokers Dom Maklerski S.A. of 26 April 2016 and the Warsaw Stock Exchange (GPW) Best Practices, we present below an assessment of the effectiveness of the operation of the following systems and functions: risk management, compliance, internal control and internal audit.

### **1. Risk management system**

The Supervisory Board is constantly monitoring the various types of risk, approving internal procedures related to the operation of the risk management system, and regularly gets acquainted with periodic reports of the Risk Management System submitted by the Head of Risk Management. So far, the reports that have been obtained allow us to claim that the risk management system works effectively. Also the current cooperation with the Head of Risk Management makes it possible to accurately assess the functioning of the Risk Control Department and, consequently, the Risk Management System model adopted in the Company. Therefore, the Supervisory Board assess the functioning of the risk management system in the Company as adequate and effective.

### **2. Compliance system**

The compliance system in the Company is the responsibility of the Legal Compliance Supervision Team, which is established under the Legal and Compliance Department and directly subordinated to the President of the Management Board, headed by the Compliance Officer. The Supervisory Board regularly receives reports on the Compliance System and approves changes to the internal procedures governing the operation of the compliance department in the Company. Therefore, the Supervisory Board assess the functioning of the compliance system in the Company as adequate and effective.

### **3. Internal control system**

The Internal Control Team, which is a separate entity within the Legal and Compliance Department, is responsible for proper functioning of the Company's internal control system.

Based on the received reports, the Supervisory Board assess the functioning of the internal control system in the Company as adequate and effective.

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#### **4. Internal audit system**

The internal audit is performed by the Internal Audit Department, which is organisationally subordinated to the Member of the Management Board for Legal Affairs and Risk and is subordinated functionally to the Supervisory Board. The Internal Auditor is responsible for the functioning of the Department. The Supervisory Board constantly supervises the internal audit issues, approves the Audit Plan and the Audit Program, and regularly receives the Internal Audit System reports. Therefore, the Supervisory Board assess the functioning of the internal audit system in the Company as adequate and effective.

#### **VII. Assessment of the Company's compliance with information obligations concerning the application of the corporate governance rules specified in The Warsaw Stock Exchange Rules and regulations concerning current and periodic information provided by issuers of securities**

Considering the Company's obligation to comply with the information duties regarding the application of corporate governance rules under The Warsaw Stock Exchange Rules and the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2009, No. 33, item 259, as amended), the Supervisory Board submits to the General Meeting the Company's assessment of compliance with the obligation described herein.

According to point I.Z.1.13. of the "Best Practice for GPW Listed Companies 2016" the Company presents on its website a statement on the Company's compliance with the corporate governance recommendations and principles contained therein. The information identifies the reasons why the Company does not apply individual recommendations and addresses those that do not apply.

The recommendation contained in point IV.R.2. does not apply. According to this recommendation if justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) real-life broadcast of the general meeting;
- 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;

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- 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

The Company does not apply in a permanent manner of this recommendation because it identifies threats to the proper conduct of the General Meeting, especially legal risks, which in the opinion of the Company would exceed the potential benefits. Slight dissemination of practice of conducting the general meetings by means of electronic communication and inadequate preparation of the market may lead to increased risk of organizational and technical problems that might disrupt the proper running of the general meeting, as well as the risk of a possible undermining of the adopted resolutions of the general meeting, in particular due to technical defects. For the same reasons, the Company does not apply the rule I.Z.1.20 - an audio or video recording of a general meeting and IV.Z.2. according to which, if justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Apart from the above exceptions, the Supervisory Board does not find violations of the " Best Practice for GPW Listed Companies 2016". Consequently, it correctly assesses the manner how the Company fulfills its information duties regarding the application of corporate governance rules.

#### **VIII. Assessment of the rationality of the Company's sponsorship policy**

In 2017, the Company did not carry out any significant sponsorship and charity activities.

#### **IX. Self-assessment of the Supervisory Board's operation**

In 2017, the Company's Supervisory Board held six meetings where the current activities of the Management Board and the Company's financial activity were assessed.

All convened meetings of the Supervisory Board were held in the composition enabling adoption of valid resolutions. During the meetings the Supervisory Board considered issues arising from the provisions of the Commercial Companies Code, other provisions of the applicable law as well as from the needs of the Company's current operation.

During the discussed period, the Supervisory Board remained in regular contact with the Management Board, analysing and consulting important aspects of the Company's activity, as well as evaluating the Company's situation on an ongoing basis.

The Supervisory Board confirms that the cooperation with the Company's Management Board was correct. In addition, the Management Board has provided technical and organizational resources to

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enable the Supervisory Board to perform its duties correctly, has performed its reporting obligations, and information were submitted in a fair and complete manner.

In view of the above, the Supervisory Board believes that in 2017 it performed its duties in an efficient manner.

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## **Report of the Company's Audit Committee for 2017**

### **I. Composition of the Audit Committee**

1. On 13 October 2017 the Supervisory Board has adopted a resolution no. 43/RN/2017 on the appointment of the Audit Committee in the following composition:
  - a. Mr. Jakub Leonkiewicz – Chairman of the Supervisory Board;
  - b. Mr. Michał Kędzia – Member of the Supervisory Board;
  - c. Mr. Łukasz Baszczyński - Member of the Supervisory Board;
  - d. Mr. Bartosz Zabocki - Member of the Supervisory Board;
  - e. Mr. Jarosław Jasik - Member of the Supervisory Board.

The Audit Committee operates as a separate committee.

Composition of the Audit Committee has not changed since the day of appointment by the Supervisory Board.

### **II. Members of the Audit Committee fulfilling the criteria of independence**

Pursuant to article 129 item 1 of the act of 11 May 2017 on statutory audits, audit firms and on public oversight (the "Act") at least one member of the audit committee should be qualified in the field of accountancy or financial auditing.

Pursuant to submitted declarations Mr. Jarosław Jasik, Mr. Michał Kędzia and Mr. Jakub Leonkiewicz are qualified in the field of accountancy or financial auditing, therefore the composition of the Audit Committee fulfils the requirements mentioned in article 129 item 1 of the Act.

Pursuant to article 129 item 3 of the Act majority of the Audit Committee's members, including the chairman of the Audit Committee, is independent of such public-interest entity, if he fulfils the criterions mentioned in article 129 item 3 of the Act.

In 2017 Mr. Łukasz Baszczyński, Mr. Jarosław Jasik and Mr. Jakub Leonkiewicz fulfilled the criterions mentioned in article 129 item 3 of the Act.

### **III. Basic assignments taken by the Audit Committee:**

The Audit Committee takes the following control and supervisory actions:

- a) monitoring the financial reporting process;
- b) monitoring Company's SLC systems, SIC systems, SIA systems including SRM;
- c) monitoring the performance of financial audit activities, particularly an audit performed by an audit firm, taking into account any conclusions and findings of an inspection carried out at the audit firm by the Audit Oversight Commission;

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- d) checking and monitoring the independence of the statutory auditor of permitted non-audit services;
- e) informing the Supervisory Board on the results of the audit and explaining in what way the audit contributed to the honesty of the financial reporting process in the Company, as well as what was the role of the audit committee in the audit process;
- f) monitoring the independence of the statutory auditor and granting consent for performance of services permitted by him other than financial audits;
- g) establishing an audit firm selection policy;
- h) establishing the policy for the provision of permitted non-audit services by the audit firm or member of the audit firm network;
- i) establishing the procedure of an audit firm selection and presenting the recommendation regarding selection of the certified accountants or audit firms to the Supervisory Board;
- j) providing recommendations to ensure reliability of the public-interest entity's financial reporting process.

#### **IV. Actions taken by the Audit Committee**

In 2017 the Audit Committee held two meetings on:

1. 13 October 2017;
2. 4 December 2017.

In 2017 the Audit Committee adopted 3 resolutions on meetings and by way of a circulation voting. Those concerned:

1. Submission to adoption the following documents by the Supervisory Board:
  - (a) Policy for selecting the audit company;
  - (b) Audit company selection procedure;
  - (c) Policy for the provision of permitted non-audit services by the audit firm;
2. Assessment of effectiveness of SLC and SIC, this means Compliance Report for the I half year of 2017; Report of the Risk Management for the I half year of 2017; Report of the effectiveness of the Internal Audit for the I half of 2017.
3. Granting consent for performance of authentication services by E&Y from Luxembourg to XX ZW Investment Group S.A., in which a report regarding payment of the interim dividend by XX ZW Investment Group S.A.

Moreover, during its meetings the Audit Committee met the representative of the Company's auditor – Ernst & Young Polska spółka z ograniczoną odpowiedzialnością sp. k. for the purpose of discussion of the financial reporting process for 2017, including the summary of the screening appointment and the plan of the final audit.

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## **V. Assessment of the Company's situation within the scope of the Audit Committee's responsibilities**

Since appointment of the Audit Committee it supervised the Company's activity within the scope mentioned in the Act. In particular the Audit Committee developed a Policy for selecting the audit company, Audit company selection procedure and took the following actions:

- monitoring the performance of financial audit activities;
- monitoring the compliance systems;
- monitoring the effectiveness of internal control systems;
- monitoring the internal audit;
- monitoring the risk management systems.

As a result of the actions taken the Audit Committee ascertains that all above-mentioned processes and systems are working properly.

The Audit Committee systematically informed the Supervisory Board on its activity and results of the actions taken.

Moreover, the Management Board continuously informed the Audit Committee on the actions taken within the financial reporting process and financial revision taken in the Company, as well as on functioning and reviews of the risk management audit systems and internal audit, therefore it fulfilled the obligations resulting from §6 item 4 of the Audit Committee Regulations.

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