

# **ZUE Capital Group**

## **2012 Report on Activities**



**GRUPA ZUE**

Cracow, 14 March 2013

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Abbreviations and definitions:

ZUE, Company	ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,500,000 paid up in full.  Parent company of the ZUE Capital Group
PRK	Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000150723, share capital of PLN 9,500,000 paid up in full.  Subsidiary of ZUE S.A.
BIUP	Biuro Inżynierskich Usług Projektowych Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 19,400 paid up in full.  Subsidiary of ZUE S.A.
RTI	Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 50,000 paid up in full.  Subsidiary of ZUE S.A.
RTI Germany	Railway Technology International Germany GmbH with registered office in Hamburg, Germany. Share capital of EUR 25,000 paid up in full.  Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
BPK	Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, under entry number KRS 0000160302, share capital of PLN 747,500 paid up in full.  Subsidiary of ZUE S.A.
ZUE Group, Capital Group, Group	ZUE Capital Group comprising: ZUE S.A., Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., Biuro Inżynierskich Usług Projektowych Sp. z o.o., Railway Technology International Sp. z o.o., Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. and Railway Technology International Germany GmbH.
PLN	Polish złoty.
EUR	Euro.
Ksh	Polish Companies Act (Dz.U. 2000, no. 94, item 1037, as amended).



## I. ZUE GROUP OPERATION

### 1. Scope of operation

The ZUE Group operates on the entire Polish market. The Group's core business consists of engineering and construction activities related to the construction of urban and rail transport infrastructure. The activities include:

- design, construction and comprehensive modernisation of urban transport systems;
- design, construction and comprehensive modernisation of railway lines;
- services related to power networks and power electronics.

The ZUE Group uses a number of modern and tested solutions on the urban transport infrastructure market to provide as a general contractor the services related to the design, construction and comprehensive modernisation of urban road systems along with the associated infrastructure including, in particular, the construction, upgrade and repairs of OCL networks, tram tracks, OCL substations and street lighting and the construction of traffic lights.

As regards the construction and comprehensive upgrade of tram tracks, the ZUE Group offers comprehensive solutions based on different technologies covering all track widths.

Track design and construction technologies include ballasted and non-ballasted tracks:

- classic tracks on wooden and prestressed concrete sleepers;
- tracks on grass (green), gravel or asphalt/concrete subgrade, embedded in the roadway;
- tracks with a reduced noise level - damping by means of vibration isolation padding or appropriately selected track fasteners.

All the projects, including delivery and assembly at the site, are executed by a team of competent employees and the cooperation with recognised suppliers combined with the specialty equipment and machinery owned by ZUE S.A. guarantee the timely delivery and high quality of the service.

As regards the construction of tracks, the infrastructure elements offered by the ZUE Group include the delivery and assembly of:

- tram point switches;
- crossings;
- safe-locking of point mechanisms;
- state-of-the-art point mechanisms;
- track drainage systems;
- rail lubrication systems.

As part of OCL development and upgrade, the ZUE Group offers:

- comprehensive development and maintenance of tram OCL;
- development, upgrade and maintenance of OCL substations; and
- related design services.

The ZUE Group delivers complete solutions, including the delivery of all necessary elements, relying on Polish and world technologies. It should be emphasised that ZUE was the first company on the

Polish market to develop, implement and construct an OCL section based on technology imported from Western Europe. Today, the Group constructs OCL networks harnessing, depending on the Client's expectations, advanced world-class technologies and initiating state-of-the-art solutions.

The ZUE Group also constructs, upgrades and maintains OCL substations, developed with components manufactured by Polish and international manufacturers, harnessing advanced world-class technologies. The expertise and experience of the Company's personnel coupled with an efficient substation support system make the Company perfectly positioned to respond speedily to emergencies and remove them in an efficient manner.

The urban infrastructure construction contracts executed in 2012 included:

- overhaul and extension of the tramway between the Targowa/Kijowska and Targowa/Zieleniecka interchanges together with the Zieleniecka terminus, including work on tramway subgrade (around 3,200m single track), tramway contact system, power engineering, road works, tramway subgrade drainage, traffic lights and traffic organisation system;
- Szczecin Śródmieście beltway – Phase V;
- design and assembly of three rectifier substations in Lublin;
- design and construction of the rectifier substation CENTRUM at 21/23 Mennicza street in Wrocław;
- Rail Transport System for the Agglomeration Area of Wrocław – Phase I – Task 1.4; Construction of a tramway from the Legnicka and Na Ostatnim Groszu streets intersection to the EURO stadium through the Kozanów district as part of: V02063 (12063) Construction of a tramway from the Legnicka and Na Ostatnim Groszu streets intersection to the EURO stadium through the Kozanów district – construction (assembly) of tramway contact lines for areas I, II, III, IVa and IVb;
- repair of Bagatela junction in Cracow;
- assembly of switch controllers in the Mickiewicza street, Szczecin;
- reconstruction of *Las Arkoński* terminus in Szczecin; and
- construction of tram route OCL infrastructure elements on the Marii Skłodowskiej–Curie Bridge (previously: Północny Bridge) with *Obrazkowa* rectifier substation.

In 2012, the ZUE Group continued to provide construction services on the urban transport infrastructure market and the projects included:

#### Szczecin

- modernisation of a separate tram track together with the contact lines and reconstruction of Arkońska and Niemierzyńska streets;

#### Poznań

- construction of the Franowo tram depot;
- construction work under the investment project "Extension of the tramway of Poznański Szybki Tramwaj (PST – Poznań Speed Tram) to Dworzec Zachodni (Western Railway Station);"
- comprehensive design and construction of a public road - railway works (no road works) with construction of two heated temporary turnouts and traction power supply works in connection with the Integrated Transport Centre in Poznań investment;

- construction of the Lecha district–Franowo tramway.

#### Cracow

- construction of the tram line connecting ul. Brożka and the Jagiellonian University Campus in Cracow, together with the traffic control and monitoring system.

#### Warsaw

- modernisation of the Warszawa Zachodnia – Warszawa Okęcie section of E8 railway line and the construction of the Warszawa Służewiec – Okęcie Airport siding.

#### Bydgoszcz

- construction of a tramway from the city centre to the Bydgoszcz Główny railway station, including the extension of Marszałka Focha, Naruszewicza, Dworcowa and Zygmunta Augusta streets.

In 2012, ZUE also continued work involving ongoing maintenance, servicing and emergency repair of tram infrastructure and street lighting in Cracow (over 65,000 lighting points) under maintenance contracts with the Public Infrastructure and Transport Authority of Cracow. In the period under analysis, the Company again won the tender for the maintenance and emergency repairs of tram infrastructure in Cracow. The new contract was awarded until 2015. In June, a new contract for works was executed to ensure smooth functioning of tracks, switches and overhead contact system at OT and TH as well as managing ongoing operation of the power supply system at MV (15kV) substations OS-1, OS-2 in Cracow, valid until June 2014.

The Group has operated on the rail infrastructure construction market since 2006. In 2010, ZUE purchased from the State Treasury 85% of shares in PRK. This transaction enabled the Group to comprehensively execute the tasks related to design, construction and repairs of railway lines.

The main focus of PRK is on earthworks and substructure, drainage systems, civil structures and buildings (station buildings, depots and switch towers), development of new railway lines and sidings, upgrade and repair of tracks and low-voltage electric installations. In addition, PRK executes the tasks related to clearing landslide from railway lines. Services are provided with the use of modern geosynthetic materials of cellular structure enabling a new engineering approach to the design and development of geotechnical structures used to stabilize and reinforce the land.

The projects executed by the ZUE Group on the rail infrastructure construction market in 2012 included:

- construction works as part of the project “Tychy – Dąbrowa Górnicza High-Speed Regional Rail Line, Stage I: Tychy Miasto – Katowice;
- construction works as part of comprehensive modernisation of stations and tracks in the area of the Działdowo Local Control centre, the Warsaw – Gdynia section of E65/C railway line;
- modernisation of the Biadolino – Tarnów section of E30 railway line Cracow – Medyka;
- reconstruction of the infrastructure of the Katowice railway station at Platforms 2, 3 and 4 as part of the following investment: “Modernisation of the track layout at lines no. 1, 137 and 139 and the passenger infrastructure at the Katowice Osobowa station;”
- reconstruction and modernisation of the Jelcz Miłoszyce-Czernica Wrocławska route on the Legnica – Wrocław - Opole section of E30/CE30 railway line;
- modernisation of the Warszawa Zachodnia – Warszawa Okęcie section of E8 railway line and the construction of the Warszawa Służewiec – Okęcie Airport siding – Phase 3: construction work on the siding;
- reconstruction and modernisation of the Legnica – Wrocław - Opole section of E30/CE30 railway line – reconstruction of the track no. 1 of the Jelcz Miłoszyce-Czernica Wrocławska route with



auxiliary works with the track no. 1, 2 and 3 on the Czernica Wrocławska station - C – E 30 railway line no. 277 Opole Groszowice – Wrocław Brochów with associated works.

Apart from the abovementioned projects, the ZUE Group concluded new contracts in 2012 for:

- reconstruction of the Pyskowice station and the replacement of OCL network in the tracks no. 1 and no. 2 of the Pyskowice – Paczyna route up to 44,480km and the reinforcement of the substructure in the tracks no. 1 and no. 2 between 43,100km and 43,500km of the line 132 as part of the following project: “Upgrade of the railway line no. 132/135 on the Gliwice Łabędy – Strzelce Opolskie – Opole Groszowice section;”
- reconstruction of the railway infrastructure on the line no. 61, Koniecpol - Turów section, as part of the following project: “Revitalization of the track no. 1 of the railway line no. 61;”
- modernisation of the Wrocław – Zgorzelec railway no. 274, section Wrocław – Jelenia Góra – upgrade of OCL network with auxiliary works, track no. 2, Smolec – Kąty Wrocławskie section;”
- construction works as part of the following project: “Reconstruction of railway siding and internal access roads at Elektrownia “Rybnik” S.A. with associated infrastructure;”
- reconstruction of the Tarnów Mościce station (72.8km – 74.6km) involving track, drainage and construction works as part of the following task: “Design and completion of construction works on the Cracow – Medyka – state border railway line, Biadoliny – Tarnów section between 61,300km and – 80,200km” as part of the following Project: “Modernisation of E 30/C-E 30 railway line, Cracow – Rzeszów section, stage III.”

BIUP and BPK complement the Group’s comprehensive activities by developing the following rail transport engineering projects:

- tram infrastructure – design of new OCL networks and tram depots, upgrade of existing tracks;
- rail infrastructure – preparation of upgrade documentation – repair of railway lines, stations and sidings (with drainage), OCL networks, bridges, tunnels and passages;
- power engineering – electric installations and systems – street lighting development and maintenance design and high-, medium- and low-voltage power systems; and
- water, gas and air systems – water supply, sewerage, heat and gas networks.

## 2. Sales structure

The ZUE Group operates in the territory of Poland. The sales structure depends on tenders announced by the authorities managing public transport and rail infrastructure.

In 2012, as in the preceding years, services provided on the urban infrastructure market including design, construction and comprehensive modernisation of urban transport systems delivered the highest sales volume of the Group. The Group companies also operated on the rail market.

In addition, the ZUE Group provided services related to power networks and power electronics in the public transport and rail infrastructure sector.

In 2012, the ZUE Group expanded its power network operations to include high voltage power lines and took part in several related tenders. The Group intends to continue this activity in 2013.

## 3. Reliance on one or several customers

In 2012, the Group companies operated as standalone contractors, contracting consortium leaders or partners as well as subcontractors. As a services provider, the ZUE Group did not depend on a single

customer but cooperated with the authorities managing tram infrastructure in all major cities. The structure of the ZUE Group's customer base in the period under analysis reflected the nature of the services sold by the Group under contracts awarded on a one-off basis through tenders and/or by way of trade negotiations.

The ZUE Group operated on the rail infrastructure market as an independent contractor, consortium member or subcontractor. In 2012, the Group's rail infrastructure repair and construction services were mainly provided to PKP Polskie Linie Kolejowe S.A. Centrum Realizacji Inwestycji.

Customer	Service	% share in 2012
PKP Polskie Linie Kolejowe S.A.	Rail infrastructure	13 %
EDF RYBNIK S.A. Rybnik	Rail infrastructure	11 %
Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	Public transport infrastructure	10 %
Zarząd Transportu Miejskiego w Poznaniu	Public transport infrastructure	10 %
Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu Sp. z o.o.	Public transport infrastructure	10 %
Other	Public transport and rail infrastructure	46 %

#### 4. Supply sources

Given the nature of operations (the provision of specialist construction and assembly services, also as a general contractor), the Group's suppliers mainly include domestic companies operating on the same market as the Group. The table below sets out the Group's major suppliers as at 31 December 2012 according to the value of contracts.

Supplier	Purchase	% share in 2012
Przedsiębiorstwo Budownictwa Inżynieryjnego ENERGOPOL Sp. z o.o.	Construction services	6%
Other	Construction services, purchase of materials	94%

## II. MAJOR CONTRACTS

### 5. Contracts for construction and assembly services and delivery of goods

Major contracts signed in 2012 include:

- On 23 January 2012, PRK and Elektrownia "Rybnik" S.A. with registered office in Rybnik signed the construction contract for the following project: "Reconstruction of railway siding and internal access roads at Elektrownia "Rybnik" S.A. with associated infrastructure." Net value of the contract: PLN 89,975,323.72. Completion date: August 2013.
- On 17 February 2012, ZUE and Tramwaje Warszawskie Sp. z o.o. with registered office in Warsaw signed the construction contract for the following project: "Construction of tram route OCL infrastructure elements on the Marii Skłodowskiej-Curie Bridge (previously: Północny Bridge) with *Obrazkowa* rectifier substation." Net value of the contract: PLN 8,288,600.00 Completion date: According to the Annex no. 1 of 10.01.2013 (to the *Obrazkowa* contract no. TW/TP/Z/86/2012 of 17.02.2012 ), the deadline for the completion of works was extended by 11 months of the contract date until January 2013.
- On 16 April 2012, PRK and Swietelsky Baugesellschaft m.b.h. with registered office in Linz, represented by Swietelsky Baugesellschaft M.B.H Sp. z o.o. Polish Branch with registered office in Cracow, signed the contract for the reconstruction of the Tarnów Mościce station (72.8km – 74.6km) involving track, drainage and construction works as part of the following investment: "Design and completion of construction works on the Kraków – Medyka – state border railway line, Biadoliny – Tarnów section on 61,300km" as part of the following Project: "Modernisation of E 30/C-E 30 railway line, Kraków – Rzeszów section, stage II" ("Main Contract"). Net value of the contract: PLN 21,681,992.42. Completion date: December 2014.
- On 14 May 2012, PRK and PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw signed the contract for the reconstruction of the Pyskowice station and the replacement of OCL network in the tracks no. 1 and no. 2 of the Pyskowice – Paczyna route up to 44,480km and the reinforcement of the substructure in the tracks no. 1 and no. 2 between 43,100km and 43,500km of the line 132 as part of the following project: "Upgrade of the railway line no. 132/135 on the Gliwice Łabędy – Strzelce Opolskie – Opole Groszowice section." Net value of the contract: PLN 27,389,200.00. Completion date: November 2012.
- On 22 June 2012, ZUE and Zarząd Infrastruktury Komunalnej i Transportu w Krakowie signed the contract for ongoing maintenance, servicing and emergency repairs of tram infrastructure in Cracow. Net value of the contract: PLN 26,944,876.10. Completion date: April 2015.
- On 6 August 2012, the following consortium including ZUE:
  - Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. with registered office in Cracow (Leader),
  - Przedsiębiorstwo Remontowo Budowlane "TOR" Sp. z o.o. with registered office in Mysłowice (Partner), and
  - ZUE S.A. with registered office in Cracow (Partner),signed the contract with PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw for the reconstructing of rail infrastructure on the line no. 61, Konięcpol-Turów section as part of the following project: "Modernisation of the track no. 1 of the railway line no. 61." Net value of the contract: PLN 68,452,400.00. Net value of the contract assignable to ZUE: PLN 17,550,000.00.
- On 17 September 2012, ZUE and PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw signed the contract for modernisation of the Wrocław –

Zgorzelec railway no. 274, Wrocław – Jelenia Góra section – upgrade of OCL network with auxiliary works, track no. 2, Smolec – Kąty Wrocławskie section. Net value of the contract: PLN 9,194,290.00. Completion date: May 2013.

- On 6 December 2012, PRK S.A. and PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw signed the annex to the contract for reconstruction of the infrastructure of the Katowice railway station at Platforms 2, 3 and 4 as part of the following investment: “Modernisation of the track layout at lines no. 1, 137 and 139 and the passenger infrastructure at the Katowice Osobowa station.” Total net value of the contract after the annex: PLN 54,667,874.10. Completion date: June 2013.
- On 12 December 2012, ZUE S.A. and Poznań City Center I Sp. z o.o. TriGranit Development signed the construction contract for comprehensive works related to a public road as part of the following project: “Comprehensive railway works (tram with no road works) with construction of two heated temporary turnouts and traction power supply works.” Net value of the contract: PLN 9,575,000.00. Completion date: August 2013.

## 6. Bond and guarantee agreements

Bond and guarantee agreements concluded by the Group in 2012 include:

- On 15 February 2012, ZUE and PRK, the Company’s subsidiary, and Powszechny Zakład Ubezpieczeń S.A. with registered office in Warsaw signed an annex to the agreement of 29 April 2010 (as amended) for project-related bonding products. Under the annex:
  - the maximum limit in respect of the bonding products provided by PZU was increased from PLN 79,700,000.00 to PLN 120,000,000.00; and
  - the term of the agreement was extended until 31 December 2012.
- On 20 February 2012, ZUE and PRK, the Company’s subsidiary, and Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. with registered office in Sopot (the “Guarantor”) signed the agreements for the provision of bonding product (bid bond).

Under the said agreements, the Guarantor provided the bonding product (bid bond) and undertook to pay PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw (the “Beneficiary”), at their first request, between 21 February 2012 and 25 May 2012, the amount up to:

- ZUE: PLN 10,000,000;
- PRK: PLN 22,500,000, respectively.

PRK issued a blank bill of exchange guaranteed by ZUE and ZUE issued a blank bill of exchange guaranteed by PRK to secure any claims the Guarantor may have in connection with the payment under the abovementioned guarantee.

- On 18 April 2012, ZUE and PRK, and Generali Towarzystwo Ubezpieczeń S.A. with registered office in Warsaw (the “Guarantor”) signed an annex to the master agreement of 22 April 2012 for the provision of project-related guarantees under a revolving guarantee facility. Under the annex, the limit of the facility was raised from PLN 39 666 000,00 to PLN 44,200,000.00 with the following breakdown:
  - ZUE: PLN 44,200,000;
  - PRK: PLN 15,000,000.

- On 11 July 2012, ZUE and PRK, and Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. with registered office in Warsaw (the “Guarantor”) signed the agreement for the provision of project-related bonding products (bid bonds, performance bonds, defects liability bonds) under a specified limit of the facility. The maximum limit of the facility: PLN 50,000,000.00. Term of the agreement: June 2013.

## 7. Insurance agreements

Personal and property insurance is provided to ZUE by the following financial institutions:

- PZU S.A.:
  - Third party, accident and comprehensive motor insurance.
- Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.:
  - Comprehensive all risk insurance for the company’s assets (Jugowicka 6A, Czapińskiego 3, Magdalenka ul. Orzechowa 2 in Warsaw, Cracow ul. Półtanki 21, construction sites in the territory of Poland) - buildings and structures, plant and equipment, portable containers, third party property, inventories, employee property, electrical damage to electrical machines, cash in a locker, hardware and electronic equipment;
  - Insurance of electronic equipment against theft, portable equipment, temporary storage or temporary operation stoppage; and
  - Insurance of building machines and equipment in the company’s registered office and the places where the machines are operated in the territory of Poland.
- Towarzystwo Ubezpieczeń Allianz Polska S.A.:
  - Property insurance, liability insurance for construction contracts;
  - Issue prospectus liability insurance; and
  - Liability insurance for members of the company’s governing bodies.
- AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A.:
  - Rolling stock comprehensive insurance.
- GENERALI Towarzystwo Ubezpieczeń S.A.:
  - Construction risks insurance, property insurance, liability insurance for construction contracts; and
  - Technical insurance.
- Leader: AXA Towarzystwo Ubezpieczeń i Reasekuracji S.A.:
  - Business activity and property liability insurance except for Liability for Product and Service.

Personal and property insurance is provided to PRK by the following financial institutions:

- Compensa Towarzystwo Ubezpieczeń S.A.:
  - Vehicle insurance.
- Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.:
  - Buildings and structures, and low value assets insurance.

- Business activity liability insurance; and
  - Electronic equipment insurance.
- Generali Towarzystwo Ubezpieczeń S.A.:
  - Construction risks insurance; and
  - Rolling stock insurance.
- PZU S.A.:
  - Vehicle insurance; and
  - Property insurance against fire and other disasters, theft and burglary.
- Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A.:
  - Vehicle insurance.

Personal and property insurance is provided to BIUP by the following financial institutions:

- GENERALI Towarzystwo Ubezpieczeń S.A.:
  - Liability insurance for the Company; and
  - Comprehensive motor insurance.
- Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.:
  - Bid bond; and
  - Performance bond.
- UNIQA Towarzystwo Ubezpieczeń S.A.:
  - Third party motor insurance.
- PZU S.A.:
  - Employee accident insurance; and
  - Employee medical insurance.

Personal and property insurance is provided to BPK by the following financial institutions:

- Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.:
  - Bonds and guarantees – tenders.
- PZU S.A.:
  - Property insurance against fire and other disasters;
  - Property insurance against theft and burglary;
  - Electronic equipment insurance;
  - Liability insurance; and
  - Professional liability insurance.
- UNIQA Towarzystwo Ubezpieczeń S.A.:
  - Third party and comprehensive motor insurance; and
  - Accident insurance.

- HDI Asekuracja Towarzystwo Ubezpieczeń S.A.:
  - Bonds and guarantees with a specified limit.

## 8. Credit facility agreements

- On 17 February 2012, ZUE and BNP Paribas Bank Polska S.A. with registered office in Warsaw concluded a registered pledge agreement to secure the Bank's claims under the revolving credit facility agreement no. WAR/2001/11/198/CB of 28 September 2011. An application was submitted on 7 March 2012 to enter the registered pledge into the register of pledges maintained by the District Court for Cracow-Śródmieście in Cracow.
- On 17 February 2012, ZUE and BNP Paribas Bank Polska S.A. with registered office in Warsaw concluded an annex no. 1 to the revolving credit facility agreement no. WAR/2001/11/198/CB of 28 September 2011. Changes made under the annex included:
  - credit facility amount: PLN 45,000,000;
  - term of the agreement: until 2 May 2014;
  - security; and
  - additional provision: Appendix no. 1 to the agreement sets out the amount of credit limit in particular months.
- On 21 May 2012, ZUE and BRE BANK S.A. signed an annex no. 8 to the credit facility agreement no. 07/183/04/Z/VV. Under the annex, the overdraft facility amount was changed from PLN 1.6m to PLN 10m. Interest: O/N WIBOR + bank margin. Term of the agreement: until 22 May 2013.
- On 21 August 2012, ZUE and Millenium Bank with registered office in Warsaw signed an annex no. A2/2749/11/475/04 to the revolving credit facility agreement no. 2749/11/475/04 of 23 August 2011. The facility amount was increased to PLN 35,000,000 from 7 December 2011 to 22 August 2013.
- On 9 September 2011, BIUP Sp. z o.o. and Deutsche Bank Polska S.A. with registered office in Warsaw concluded an overdraft facility agreement no. LW\11000080. Facility amount: PLN 500,000. Interest: 3M WIBOR + bank margin. Repayment date: 15 September 2015.

### III. CORPORATE EVENTS

- On 12 June 2012, the Supervisory Board of ZUE resolved to appoint Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw to review the separate and consolidated semi-annual financial statements and to audit the separate and consolidated annual financial statements of the Company for the financial year 2012.
- On 19 June 2012, Ms. Beata Jaglarz resigned from the position of the Chairperson and Member of the Company's Supervisory Board. The resignation took effect on 16 July 2012. Ms. Jaglarz resigned for personal reasons.
- On 16 July 2012, Mr. Michał Lis was appointed a Member of the Supervisory Board of ZUE under the resolution no. 18 adopted by the Ordinary General Meeting of ZUE. Mr. Lis is the husband of Ms. Magdalena Lis, Member of the Supervisory Board of ZUE, and the son-in-law of Mr. Wiesław Nowak, President of the Management Board of ZUE.
- On 16 July 2012, Mr. Mariusz Szubra was appointed the Chairman of the Supervisory Board of ZUE under the resolution no. 19 adopted by the Ordinary General Meeting of ZUE. Mr. Szubra replaced Ms. Beata Jaglarz who resigned on 19 June 2012.
- On 16 July 2012, the Ordinary General Meeting of ZUE resolved to allocate the entire separate net profit for the 2011 financial year of PLN 18,718,177.90 to reserve funds.



#### IV. CURRENT AND FORECAST FINANCIAL SITUATION AND BASIC ECONOMIC AND FINANCIAL INFORMATION OF THE ZUE GROUP

##### 1. Financial result and basic factors and untypical events with a bearing on the result

###### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In 2012, sales revenue generated by the ZUE Group stood at PLN 518,140 thousand; i.e. it dropped by 1.4% when compared with the analogous period of 2011. Cost of sales grew by 3.2% to PLN 495,932 thousand.

Like all construction industry companies, the ZUE Group reported reduced margins in 2012. Gross margin dropped to 4.3% compared to 8.5% in 2011. In 2012, gross profit on sales amounted to PLN 22,207 thousand and profit on operating activities stood at PLN 3,869 thousand. In 2012, the ZUE Group generated a pre-tax profit of PLN 4,624 thousand and a net profit of PLN 3,426 thousand.

Item (PLN '000)	2012	2011	Change	% Change
Sales revenue	518,140	525,341	-7,201	-1.4%
Cost of sales	495,932	480,505	15,427	3.2%
Gross profit (loss) on sales	22,207	44,836	-22,629	-50.5%
General and administrative expenses	16,584	18,398	-1,814	-9.9%
Other operating income	3,950	3,327	623	18.7%
Other operating expenses	5,704	1,070	4,635	433.3%
Profit (loss) on operating activities	3,869	28,696	-24,827	-86.5%
Financial income	4,995	2,836	2,159	76.1%
Financial expenses	4,240	4,207	34	0.8%
Pre-tax profit (loss)	4,624	27,325	-22,701	-83.1%
Corporate income tax	1,198	5,660	-4,462	-78.8%
Net profit (loss) on activities	3,426	21,665	-18,239	-84.2%
Net profit (loss)	3,426	21,665	-18,239	-84.2%

###### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At the end of the reporting period, total assets amounted to PLN 469,272 thousand and grew by PLN 42,800 thousand compared to the figure reported as at 31 December 2011. Thus, the ZUE Group reported a 10% year-on-year increase.

As at 31 December 2012, fixed assets grew by PLN 44,014 thousand; i.e. by 32.2% over the figure as at 31 December 2011. Current assets dropped year-over-year by PLN 1,214 thousand; i.e. by 0.4%.

At the end of the reporting period, equity grew by PLN 3,494 thousand to amount to PLN 188,847 thousand.

Long-term liabilities of the Group as at 31 December 2012 grew by PLN 18,700 thousand when compared with the figure disclosed as at 31 December 2011. A drop was reported in long-term provisions (28%) and deferred tax provision (4.7%). Long-term bank borrowings and other debt

instruments saw the greatest growth and amounted to PLN 25,090 thousand at the end of the reporting period.

Short-term liabilities at the end of 2012 increased year-over-year by PLN 20,606 thousand and amounted to PLN 218,168 thousand. As regards short-term liabilities, the greatest growth was reported in the case of short-term provisions (123.2%) and retentions on construction contracts (120.7%).

Item (PLN '000)	2012	2011	Change	% Change
Tangible fixed assets	66,142	62,858	3,284	5.2%
Investment real property	9,009	9,351	-342	-3.7%
Intangible assets	11,381	10,613	768	7.2%
Goodwill	32,646	31,172	1,474	4.7%
Investments in non-consolidated subsidiaries	29	0	29	-
Advance payments for investments in subsidiaries	0	661	-661	-100.0%
Long-term receivables	37,957	0	37,957	-
Retentions on construction contracts	1,392	3,179	-1,786	-56.2%
Deferred tax assets	21,963	18,293	3,670	20.1%
Other assets	239	617	-378	-61.2%
<b>Total fixed assets</b>	<b>180,758</b>	<b>136,744</b>	<b>44,014</b>	<b>32.2%</b>
Inventories	20,328	18,726	1,602	8.6%
Trade and other receivables	190,328	216,549	-26,222	-12.1%
Retentions on construction contracts	3,677	299	3,377	1127.7%
Current tax assets	585	434	151	34.8%
Other assets	3,732	3,083	648	21.0%
Loans advanced	103	44	59	135.3%
Cash and cash equivalents	69,761	48,392	21,369	44.2%
<b>Current assets</b>	<b>288,514</b>	<b>287,528</b>	<b>986</b>	<b>0.3%</b>
Assets held for sale	0	2,200	-2,200	-100.0%
<b>Total current assets</b>	<b>288,514</b>	<b>289,728</b>	<b>-1,214</b>	<b>-0.4%</b>
<b>Total assets</b>	<b>469,272</b>	<b>426,472</b>	<b>42,800</b>	<b>10.0%</b>

Item (PLN '000)	2012	2011	Change	% Change
Share capital	5,500	5,500	0	0.0%
Share premium account	85,361	85,361	0	0.0%
Retained earnings	88,824	85,551	3,274	3.8%
Equity attributable to shareholders of ZUE	179,685	176,411	3,274	1.9%
Equity attributable to non-controlling interests	9,162	8,941	221	2.5%
<b>Total equity</b>	<b>188,847</b>	<b>185,353</b>	<b>3,494</b>	<b>1.9%</b>
Long-term bank borrowings and other debt instruments and other financing sources	25,090	5,271	19,819	376.0%
Retentions on construction contracts	4,464	4,174	291	7.0%
Other financial liabilities	1,750	0	1,750	-
Liabilities under employee benefits	2,324	2,259	65	2.9%
Deferred tax provision	23,276	24,419	-1,142	-4.7%
Long-term provisions	5,352	7,434	-2,082	-28.0%
Deferred income	0	0	0	0.0%
Other liabilities	0	0	0	0.0%
<b>Total long-term liabilities</b>	<b>62,257</b>	<b>43,557</b>	<b>18,700</b>	<b>42.9%</b>
Trade and other payables	152,378	132,494	19,837	15.0%
Retentions on construction contracts	8,201	3,715	4,486	120.7%
Short-term bank borrowings and other debt instruments and other financing sources	41,185	48,515	-7,330	-15.1%
Other financial liabilities	280	0	280	-
Liabilities under employee benefits	7,773	5,693	2,080	36.5%
Current tax liabilities	124	3,460	-3,336	-96.4%
Short-term provisions	8,226	3,685	4,541	123.2%
<b>Total short-term liabilities</b>	<b>218,168</b>	<b>197,562</b>	<b>20,606</b>	<b>10.4%</b>
<b>Total liabilities</b>	<b>280,425</b>	<b>241,119</b>	<b>39,306</b>	<b>16.3%</b>
<b>Total equity and liabilities</b>	<b>469,272</b>	<b>426,472</b>	<b>42,800</b>	<b>10.0%</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

The Group's cash and cash equivalents at the beginning of the reporting period stood at PLN 48,392 thousand compared to PLN 69,761 thousand at the end of the reporting period. Cash and cash equivalents grew on a year-on-year basis by PLN 21,369 thousand. In 2012, the Group generated positive net cash flows from operating activities of PLN 12,828 thousand, positive net cash flows from investing activities of PLN 2,816 thousand and positive net cash flows from financing activities of PLN 5,712 thousand.

Item (PLN '000)	2012	2011
Cash and cash equivalents at beginning of period	48,392	53,675
Net cash flows from operating activities	12,828	21,866
Net cash flows from investing activities	2,816	-7,852
Net cash flows from financing activities	5,712	-19,296
Total net cash flows	21,356	-5,282
Foreign exchange gains / (losses)	13	-1
Cash and cash equivalents at end of period	69,761	48,392

## 2. Financial analysis

### Profitability indices

In 2012, business conditions for the engineering construction industry significantly deteriorated when compared with previous years. Weak demand from the public sector and, consequently, strong competition on the market had a significant effect on the Group's profitability indices. In addition, growing prices of raw materials and liquid fuels, higher fees charged by subcontractors and unstable EUR/PLN exchange rate resulted in lower margins for the contracts offered by construction companies, including the ZUE Group.

In 2012, gross margin dropped by 4.2 p.p. over the past year to 4.3%. EBITDA decreased by PLN 24,442 thousand to PLN 11,122 thousand and EBITDA margin decreased by 4.6 p.p. 2012 net margin dropped year-on-year by 3.5 p.p. to 0.7%.

Return on assets (ROA) stood at 0.7%; i.e. it dropped by 4.4 p.p. when compared with the analogous figure of 2011. Return on equity (ROE) decreased by 9.9 p.p. to amount to 1.8%.

Item	2012	2011
Gross margin	4.3%	8.5 %
EBITDA	11,122	35,563
EBITDA margin	2.1%	6.8 %
EBIT margin	0.7%	5.5%
Gross margin	0.9%	5.2%
Net margin	0.7%	4.1%
ROA	0.7%	5.1%
ROE	1.8%	11.7%

*Formulas used to calculate the ratios:*

*Gross margin = gross profit / revenue*

*EBITDA = operating profit + depreciation / amortisation*

*EBITDA margin = EBITDA / revenue*

*EBIT margin = EBIT / revenue*

*Gross margin = gross profit / revenue*

*Net margin = net profit / revenue*

*ROA = net profit / assets*

*ROE = net profit / equity*

### Liquidity ratios

At the end of the reporting period, working capital was PLN 70,346 thousand; i.e. it decreased by PLN 21,820 thousand compared to 2011. It resulted from an increase in short-term liabilities at the end of 2012.

Current ratio amounted to 1.3; i.e. it dropped by 0.2 compared to the analogous figure of 2011. Quick ratio stood at 1.2. Cash ratio increased year-on-year by 0.1 to 0.3.

Item	2012	2011
Working capital	70,346	92,166
Current ratio	1.3	1.5
Quick ratio	1.2	1.4
Cash ratio	0.3	0.2

*Formulas used to calculate the ratios:*

*Working capital = current assets – short-term liabilities*

*Current ratio = current assets / short-term liabilities*

*Quick ratio = (current assets – inventory) / short-term liabilities*

*Cash ratio = cash and cash equivalents / short-term liabilities*

### Debt ratios

In 2012, equity ratio remained unchanged and stood at 0.4. Equity to fixed assets ratio dropped by 0.4 to 1.4.

Like in 2011, debt ratio in 2012 stood at 0.6. Debt to equity ratio amounted to 1.5 at the end of 2012 compared to 1.3 at the end of 2011. Long-term debt ratio remained unchanged at 0.1. Likewise, short-term debt ratio did not change when compared with 2011 and stood at 0.5. Interest coverage ratio decreased year-on-year to 1.2.

Item	2012	2011
Debt ratio	0.6	0.6
Debt to equity ratio	1.5	1.3
Equity ratio	0.4	0.4
Equity to fixed assets ratio	1.4	1.8
Short-term debt ratio	0.5	0.5
Long-term debt ratio	0.1	0.1
Interest coverage ratio	1.2	8.9

*Formulas used to calculate the ratios:*

*Debt ratio = (long- and short-term liabilities + provisions for liabilities) / total assets*

*Debt to equity ratio = (long- and short-term liabilities) / equity*

*Equity ratio = equity / total assets*

*Equity to fixed assets ratio = (equity + long-term liabilities) / fixed assets*

*Short-term debt ratio = short-term liabilities / total assets*

*Long-term debt ratio = long-term liabilities / total assets*

*Interest coverage ratio = EBIT / interest*

### 3. Management of financial resources

At the end of the reporting period, the Group's cash amounted to PLN 69,761 thousand and increased year-on-year by PLN 21,369 thousand.

The main financial instruments used by the Group in 2012 included:

- bank borrowings, loans and finance lease whose aim was to obtain funds for the Company's operating and investing activities;
- trade and other receivables and payables, cash and short-term deposits during the course of the Company's operations.

In 2012, the Group companies did not conclude any new credit facility agreements. ZUE and BNP Paribas Bank Polska S.A. signed the annex no. 1 to the revolving credit facility agreement whereby the facility limit decreased by PLN 5m.

At the end of the reporting period, the amount available under the facilities was PLN 127,265.00 thousand.

On 31 August 2012, ZUE terminated the PLN overdraft agreement no. S/122/08/2011/1115/K/OB with Bank Ochrony Środowiska S.A. because it had not used the facility (the agreement came to an end 30 days after the termination; i.e. on 30 September 2012).

Interest on the loan granted by Mr. Wiesław Nowak to ZUE falling due at the end of 2011 was repaid on 3 January 2012.

Chapter X of this Report contains detailed information on credit facility agreements.

The Group's debt under other financing sources amounted in 2012 to PLN 66,323 thousand.

Item (PLN '000)	As at	As at
	31.12.2012	31.12.2011
Bank borrowings and other debt instruments and other financing sources (long-term)	41,184.8	5,271.3
Bank borrowings and other debt instruments and other financing sources (short-term)	25,090.4	48,514.6
Total	66,275.2	53,785.9

Proper management of receivables and payables and optimum use of external financing enabled the Group to maintain liquidity ratios at safe levels in 2012.

### 4. Employees

As at 31 December 2012, the Group companies employed 852 employees, including 130 women.

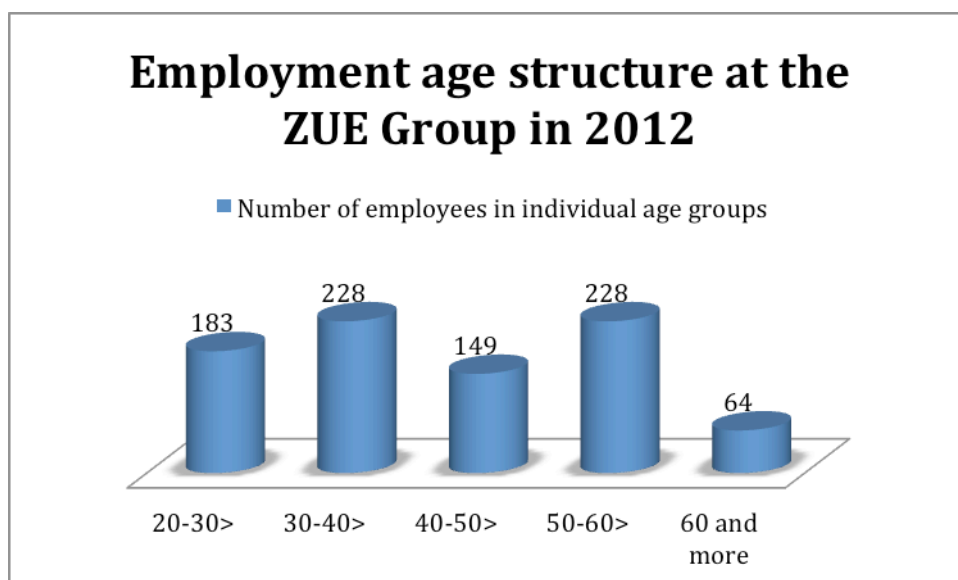
The total number of employees included 327 white collar workers and 525 blue collar workers.

2012 saw a year-on-year increase in the number of employees with higher and secondary education and a decrease in the number of employees with vocational and elementary education. At the end of 2012, employees with higher education accounted for 29% of the total workforce.

Employees aged 30 to 40 and employees aged 50 to 60 form the two largest age groups (228 people each).

Activity	2012	2011
Management and administration	140	126
Sales and marketing	18	13
Production	503	526
Engineers and technicians	191	116
TOTAL	852	781

Education	2012	2011
Elementary	95	117
Vocational	260	272
Secondary	253	228
Higher	244	164
Total	852	781



In 2012, the Group companies paid the gross remuneration of PLN 54,444 thousand under employment contracts and the gross remuneration of PLN 833 thousand under mandate agreements.

## 5. Remuneration of ZUE key management personnel

ZUE Management Board	Period	Remuneration (PLN)
Wiesław Nowak	01.2012 – 12.2012	732,696.15
Marcin Wiśniewski	01.2012 – 12.2012	465,240.00
Maciej Nowak	01.2012 – 12.2012	362,000.00
Jerzy Czeremuga	01.2012 – 12.2012	331,895.14

ZUE Proxy	Period	Remuneration (PLN)
Barbara Nowak	01.2012 – 12.2012	300,033.88

ZUE Supervisory Board	Period	Remuneration (PLN)
Mariusz Szubra	01.2012 – 12.2012	6,000.00
Bogusław Lipiński	01.2012 – 12.2012	109,492.88
Beata Jaglarz	01.01.2012 – 15.07.2012	68,057.66
Magdalena Lis	01.2012 – 12.2012	44,991.28
Michał Lis	16.07.2012 – 31.12.2012	43,277.91
Piotr Korzeniowski	01.2012 – 12.2012	6,000.00

In 2012, members of the Supervisory Board were paid monthly gross remuneration of PLN 500 for their service on the Board. The abovementioned remuneration of Mr. Bogusław Lipiński, Ms. Beata Jaglarz, Ms. Magdalena Lis and Mr. Michał Lis is the remuneration paid under employment contracts plus the remuneration for their service as the Supervisory Board members.

A change in the Supervisory Board composition is described in chapter III of this report.

## 6. Occupational health and safety management

In 2003, ZUE implemented an occupational health and safety management system consistent with OHSAS 18001:1997 to ensure the maximum safety of its employees. In 2012, the Company achieved the OHSAS 18001:2007 certification.

The main goal of PRK's policy for occupational health and safety management system is to ensure a high level and continuous improvement of the occupational health and safety of its employees and the employees of cooperating companies through the implementation of the occupational health and safety management system in conformity with the PN-N 18001:2004 standard. In addition, PRK has held the OHSAS/PN-N18001 Occupational Health And Safety Management System Certificate since 1 September 2008.

No death or collective or serious accident at work was reported in 2012 in any company comprising the ZUE Group. The number of workplace injuries did not substantially change when compared with 2011. The inspections carried out in 2012 by the National Labour Inspectorate did not reveal any major deviations from applicable labour laws.



Positive effects of occupational health and safety have been produced by:

- a systemic approach to quality, environment and occupational health and safety management;
- regular occupational health and safety trainings for employees;
- preventive measures and risks monitoring;
- regular assessments of workplace and contract risks; and
- provision of proper facilities and resources to improve work conditions.

## 7. Quality system management

The ZUE Group companies have for many years provided the highest quality services taking account of the safety of their employees and customers and the needs of the natural environment. This has been confirmed by the certificates awarded to the Group.

In 2000, ZUE implemented a quality management system in compliance with the ISO 9001 standards. It resulted in the improvement of the quality of services and the company's image among counterparties, especially those from the European Union. In 2003, ZUE implemented an occupational health and safety management system based on the ISO 18001 standard to ensure the safety of the employees and customers of ZUE S.A. In 2006, the Company became ISO 14001 certified to provide for the slightest possible impact of its business activity on the natural environment. This improved the identification and classification of environmental aspects, waste management and the ability to predict and identify any hazardous situations likely to have a negative influence on the environment.

The audits conducted in 2012 confirmed that employees complied with the requirements set out in the abovementioned norms.

PKR implemented an ISO 9001 quality management system which was certified as compliant with the standard in the following areas: construction, repair and upgrade of roads and railways and general construction of all categories. The certificate was first issued by KEMA QUALITY in April 1998. It was also the first certificate issued to a company operating in the railway construction industry.

In 2013, the ZUE Group will continue its activities with a focus on the compliance with environmental laws and quality requirements.

## 8. Fundamental risks and growth prospects

### Major external risks

Business activity of Polish companies, including the activity of the Group companies, is limited by the following risks:

- **Risk related to social and economic situation in Poland**

The Group's operation on the urban and rail infrastructure construction market as well as the power market is conditional on Poland's macroeconomic situation including, in particular, GDP growth rate, investments, inflation and unemployment rates and the level of the budget deficit. No new infrastructure contracts and, consequently, lower number of orders is the main contributor to the expected drops in the construction industry in 2013. The new funds from the European Union will be available only in 2014 with a new budget for 2014-2020. Negative changes in Poland's

macroeconomic situation, if any, may create a risk to the Group's business activity and, consequently, influence its financial results.

- **Risk related to inaccurate estimate of costs of planned and executed contracts**

A risk of inaccurate estimate of contract costs may occur in the case of flat-rate services necessary to execute a contract, which are difficult to identify at the stage of the preparation of tenders by the Group. This risk cannot be excluded and its occurrence could have a negative impact on the Group's financial results.

- **Risk related to financial liquidity in construction sector**

Another risk has recently occurred and is related to a loss of financial liquidity by other entities operating in the same sector as the Group. This may have a negative influence on the Group's financial results.

- **Risk related to obtaining administrative decisions, ability to appeal against administrative decisions and third parties' activities influencing the Group's design or construction tasks**

The Group sometimes needs to obtain administrative decisions required to execute certain projects. Such decisions are specified, *inter alia*, in the Construction Law, Code of Administrative Procedure or Environmental Protection Law. One cannot exclude the possibility of a failure to obtain such decisions or to avoid lengthy procedures. A risk of third parties' failure to complete or timely complete the tasks necessary for the Group to begin its projects may also occur. These factors could lead to the failure to execute or timely execute the construction projects and, consequently, have a considerable impact on the Group's financial results.

- **Risk related to joint and several liability to subcontractors and contracting authority**

The Group engages subcontractors to execute its construction projects. Under the Polish Civil Code and the Polish Public Procurement Act, a contractor has a joint and several liability to pay to an engaged subcontractor the remuneration for the subcontractor's services. In addition, consortium members are liable on a joint and several basis to a contracting authority for the proper performance of their obligations under public procurement contracts.

- **Risk related to bonds, contractual penalties and related court disputes**

Construction contracts concluded by the Group companies provide for the obligation to provide performance bonds and defects liability bonds in the form of deposits, or bank or insurance guarantees. Moreover, contracting authorities expect longer warranty periods. These contracts also provide for contractual penalties if a deadline for the completion of the tasks specified therein is missed. The Group cannot exclude the risk of missing a deadline for the completion of construction contracts or the completion of warranty works connected with the removal of defects. Thus, an investor may exercise its right to use the bonds or demand contractual penalties. In addition, the Group cannot exclude the risk of disputes related to the failure to duly or timely perform the contracts. The factors could have a negative impact on the Group's financial results.

- **Risk related to guarantee of payment for construction works**

According to the Polish Civil Code, a contractor commissioned by the Group companies to execute a construction project may at any time demand the payment guarantee from individual companies (the contracting authorities) up to the amount of remuneration payable under a contract and other agreements. The failure to provide a satisfactory guarantee creates an obstacle to the completion of construction works through the fault of the Group. A contractor is then entitled to demand its remuneration under Art. 639 of the Polish Civil Code. Consequently, costs may grow and the execution of construction projects may be delayed or even made impossible. This could have a negative impact on the Group's financial standing.

- **Risk related to change of law, including tax law**

Frequent amendments to and the lack of coherence or uniform interpretation of the law including, in particular, tax law entail a substantial risk related to the legal environment the Group operates in. In particular, tax authorities relying, for instance, on interpretations of the Minister of Finance may question the Group's tax settlements related to its transactions executed as part of its ordinary course of business or other transactions (for instance capital transactions). Consequently, changes of laws or their interpretation, which are disadvantageous to the Group, may have a negative impact on the Group's financial standing.

- **Risk related to winning of new contracts**

The Group participates in public tenders and includes target contracts in their financial plans. A risk that a decision will be unfavourable or the tender will be cancelled by a contracting authority cannot be excluded. Such circumstances could have a negative impact on the Group's financial results.

- **Risk related to awarding contracts and exclusion from public tenders**

Pursuant to the Public Procurement Act, tender participants are able to appeal against illegal appointment of a contractor by a contracting authority or to appeal to the court against the decision issued by the authority hearing the appeal made in public procurement proceedings. Consequently, the date of signing a contract with an investor may be substantially postponed. Moreover, the court may decide that a damage has been done by a company comprising the Group as a result of the company's failure to perform or duly perform a contract. If the decision becomes legally valid, the participation in public tenders is not possible. Such events could have a negative impact on the Group's financial results.

- **Risk related to obtaining funds for construction contracts**

Given the difficult situation in the construction industry, both banks (credit facilities and bonding products guarantees) and insurance companies (bonding products) limit the availability of the sources of finance and other financial instruments, which may reduce the number and scope of operations.

- **Risk related to atmospheric conditions**

The Group's construction tasks related to both urban and rail infrastructure cannot be done in unfavourable weather conditions. Due to low temperatures in autumn and winter, many tasks have to be slowed down or stopped to meet technological regimes. If unfavourable weather conditions continue for too long, the situation may have a negative impact on the Group's financial results.

The Management Board of ZUE believe that other entities operating on the construction market experience the same situation. Thus, competitive entities do not gain advantage over the Group.

#### Major internal risks

The following changes to the ZUE Group's organisational structure have an impact on its business activity:

- standardisation of IT and accounting systems;
- coordination of HR and payroll policy;
- common marketing and purchase policy;
- use of competence and experience of all employees of the ZUE Group; and
- use of complementary assets held by the companies comprising the Group.

The advantages of cooperation within the Group enable the execution of major investments and provide for more flexible margins and completion dates, better service quality management and the

ability to gain a position of independent contractor. In addition, a standardised IT system enables full integration among the Group companies and reduces operating expenses.

#### Financial risk management

The ZUE Group's operations expose it to different financial risks that include foreign exchange risks, interest rate risks, price risks, credit risks and liquidity risks. The Board determine the policies for managing these risks.

The ZUE Group cooperates, as part of both financial and capital transactions, with highly credible financial institutions to reduce the concentration of credit risk.

The Group's financial assets exposed to increased credit risk include trade receivables (excluding the trade receivables from contracting authorities (investors) as part of investments executed pursuant to the Public Procurement Act). A credit risk for the contracts whose value exceeds PLN 16m is assessed and verified by the Group both at the stage of tender submission and at the stage of project execution.

Before a contract is signed, each counterparty is assessed in terms of their ability to fulfil their financial obligations. If the assessment is negative, signing of the contract is conditional at least on the provision of proper security on property or financial security. In addition, the Group tries to make sure that the contracts with investors provide for the right to stop the works if the payment for the services already performed is delayed. If possible, the contracts also provide for the Group's ability to pay its subcontractors after the Group has been paid by an investor.

Compared to previous years, credit risk increased significantly in 2012, especially on the urban infrastructure market where self-governments have no funds to finance investments. An investor is a stronger party of the tender and imposes the terms of project execution, including long payment deadlines, on the contractor. Consequently, contractors provide credit for the operation of contracting authorities and take out credits to maintain their financial liquidity.

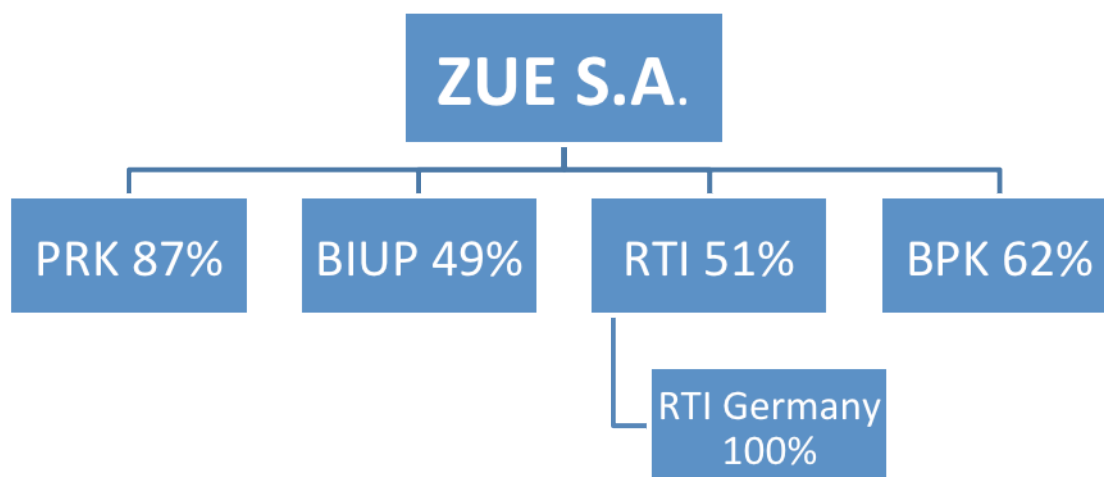
The Group's transactions are sometimes settled in foreign currencies, mainly in EUR. The foreign exchange risk is mainly hedged by concluding contracts with counterparties whereby the risk is transferred to them.

## V. ORGANISATION

### 1. Structure of the ZUE Group

Composition of the ZUE Group:

- ZUE S.A. with registered office in Cracow (the parent) operating mainly on the urban infrastructure construction market with a focus on the construction and upgrade of tramways and associated infrastructure;
- Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. (subsidiary – 87% of shares) whose core business is the provision of comprehensive services related to railway construction including tracks, lines, stations as well as civil structures and buildings;
- Biuro Inżynierskich Usług Projektowych Sp. z o.o. (subsidiary – 49% of shares) whose core business is the development of tram and rail infrastructure projects;
- Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. (subsidiary – 62% of shares) whose core business consists of the preparation of comprehensive design documentation including feasibility studies, concepts, basic designs including construction designs, tender materials and detailed construction designs for high complexity investments in the road, tram and rail infrastructure and power engineering;
- Railway Technology International Sp. z o.o. (subsidiary – 51% of shares) – the company is not operating right now;
- Railway Technology International Germany GmbH (subsidiary of RTI – 100% of shares) whose core business is the winning and execution of foreign projects.



ZUE coordinates the operation of the Group companies and optimizes the Group's operating expenses through, *inter alia*, the coordination of investment projects and bank borrowings, supplies and logistics. In addition, ZUE's task is to create a uniform trade and marketing policy of the Capital Group and to promote the Group's potential among its customers.

## 2. Shares in ZUE related entities held by members of ZUE governing and supervisory bodies

### Value of shares held by members of ZUE governing and supervisory bodies in BIUP as at 31.12.2012

Shareholder	Position at ZUE	Number of shares	Par value per share (PLN)	Total value of shares (PLN)	% share in share capital
Maciej Nowak	Management Board Vice-President	99	50	4,950	25.5%
Magdalena Lis	Supervisory Board Member	99	50	4,950	25.5%

### Value of shares held by members of ZUE governing and supervisory bodies in RTI as at 31.12.2012

Shareholder	Position at ZUE	Number of shares	Par value per share (PLN)	Total value of shares (PLN)	% share in share capital
Wiesław Nowak	Management Board President	290	50	14,500	29%

On 15 November 2012, Mr. Wiesław Nowak sold 200 shares in RTI to other entities.

## 3. ZUE shares in related entities

Entity	Type of company	Number of shares	Par value per share (PLN)	Total value of shares (PLN)	% share in share capital
PRK	Subsidiary	828,245	10	8,282,450	87%
BIUP	Subsidiary	190	50	9,500	49%
RTI	Subsidiary	510	50	25,500	51%
BPK	Subsidiary	880	500	44,000	62%

In 2012, ZUE continued to buy the employee shares of PRK. As at 31 December 2012, ZUE held 828,245 shares in PRK; i.e. 87.18% of the subsidiary's share capital. At the end of the reporting period, ZUE held 830,705 shares; i.e. 87.44 % of the share capital of PRK.

On 19 March 2012, ZUE purchased 830 BPK shares at PLN 1,593.84 per share; i.e. 58.5% of the company's share capital. On 24 April 2012, ZUE bought another 50 BPK shares at PLN 1,593.84 per share. The total of 880 shares in BPK cost PLN 1,402,579.20. The par value of each share was PLN 500. At the end of the reporting period, ZUE held the total of 880 BPK shares; i.e. 62.06% of the company's share capital. As part of the transaction, ZUE acquired cash of PLN 3,932.34.

BPK's core business consists of the preparation of comprehensive design documentation including feasibility studies, concepts and basic designs including construction designs, tender materials and detailed construction designs for high complexity investments with a focus on:

- railway lines, stations and sidings (with drainage);
- tramways;
- roads, streets and crossings;
- road and railway bridges, overpasses, tunnels and passages;
- rail traffic control equipment;
- wire and radio communication, line and junction digitalisation, computer network and computer science devices;
- buildings and structures with technology (stations, switch towers, technical bases);
- tram depots;
- environmental protection and water and sewage management;
- high-, medium- and low-voltage power systems;
- OCL network and non-OCL lines.

The purchase of BPK shares will enable the development of the Group's design activities. The transaction will provide for the execution of major projects on the railway and tram market, more flexible margins and completion dates, lower standing costs of the ZUE Group's operation and better service quality management.

As at 31 December 2012, BPK held 533 shares in Biuro Projektów Kolejowych w Gdańsku Spółka z o.o. On 16 January 2013, BPK purchased another 533 shares and on 31 January 2013, the company signed an intention agreement to purchase further 533 shares.

Biuro Projektów Kolejowych w Gdańsku Spółka z o.o. was established in October 1952. It has operated as a corporation since the transformation in April 2007. The company's core business is the preparation of design documentation for railway lines, roads and bridges, bicycle lanes, buildings and the activities related to the preparation of investments and author's supervision.

On 8 May 2012, Railway Technology International Sp. z o.o. established Railway Technology International Germany GmbH with registered office in Hamburg, Germany. The share capital of RTI Germany amounts to EUR 25,000. RTI holds 100% of shares in the company's share capital. The core business of RTI Germany is the winning and execution of foreign projects.

## VI. INVESTMENTS EXECUTED IN 2012

The ZUE Group's capital expenditure in 2012 was PLN 5,659 thousand. The capital expenditure is detailed in the table below.

Item (PLN '000)	Own funds	Leasing	Bank borrowings	Total
Domestic investments				
Intangible assets	715	0	0	715
Property, plant and equipment, including:	3,029	2,210	0	5,239
- buildings and structures	927		0	927
- plant and equipment	1,122	630	0	1,752
- vehicles	775	1,580	0	2,355
- other	204	0	0	204
Equity investments	0	0	0	0
Total domestic investments	3,744	2,210	0	5,954
Total international investments	0	0	0	0

The Group's major investments in 2012 in property, plant and equipment included:

- purchase of a special car MONTRAKS MAN for the total price of PLN 1,580 thousand. The transaction was financed under a lease contract;
- upgrade of the equipment storage building for the total amount of expenditure of PLN 922 thousand;
- purchase of 2 two-way excavators LIEBHERR for the total price of PLN 630 thousand. The transaction was financed under a lease contract;
- purchase of 6 passenger coaches for the total price of PLN 208 thousand;
- overhaul of an engine for the total amount of expenditure of PLN 373 thousand;
- purchase of Mercedes Benz Sprinter 309 CDI for PLN 53 thousand;
- purchase of Iveco Daily for PLN 41 thousand;
- purchase of a compactor set for PLN 31 thousand; and
- purchase of Opel Vectra for PLN 29 thousand.

The Group's investments in intangible assets in 2012 mainly concerned the purchase of software and licences.



## **VII. CHANGES IN BASIC RULES OF MANAGEMENT OF THE ISSUER'S ENTERPRISE AND ITS CAPITAL GROUP**

The acquisition of a controlling stake in PKR in January 2010 launched the operational integration of the ZUE Group. In 2010, the Management Board of ZUE took measures to improve the efficiency of operational processes in such areas as marketing, supplies, production and the management of construction and railway equipment. In 2012, the integration process continued and was supported through the implementation at ZUE and PRK of a new management information system including:

- integrated management systems for supplies and cooperation and inventory management;
- management system for production technical preparation and planning and production settlement; and
- accounting system and HR and payroll system.

Further improvement of the Group's organisational structure and the enhanced efficiency of its resources will be of key importance to the Group's further growth. In addition, the Group companies plan the continuous professional training of their employees and the improvement of the incentive and controlling system.

**VIII. AGREEMENTS BETWEEN THE ISSUER AND THE BOARD MEMBERS PROVIDING FOR COMPENSATION FOR RESIGNATION OR DISMISSAL FROM THEIR POSITIONS FOR NO IMPORTANT REASON OR AS A RESULT OF THE ISSUER'S MERGER THROUGH ACQUISITION**

No such agreements have been concluded at ZUE.

**IX. INFORMATION ABOUT AGREEMENTS KNOWN TO THE ISSUER LIKELY TO CAUSE CHANGES TO THE PROPORTIONS OF SHARES HELD BY THE EXISTING SHAREHOLDERS**

No such agreements are known to the Issuer at the date of this report.

## X. INFORMATION ON CREDIT FACILITIES, LOANS, SURETIES AND GUARANTIES

### 1. Credit facility agreements in the ZUE Group as at 31.12.2012

The balance of credit facilities as the end of 2012 was PLN 59,766.39 thousand.

Bank / entity	Description	Principal (PLN '000)	Outstanding amount as at 31 12 2012 (PLN '000)	Interest	Maturity
BRE Bank S.A.	Overdraft facility (agreement no. 07/183/04/Z/VV)	10,000.00	0	O/N WIBOR + margin	V 2013
BRE Bank S.A.	PLN working capital facility (agreement no. 07/044/09/Z/OB.)	3,765.00	1,004.00	1M WIBOR + margin	IV 2014
BRE Bank S.A.	Investment facility (agreement no. 07/164/11/Z/IN)	23,000.00	15,333.33	3M WIBOR + margin	XII 2015
Bank Millennium S.A.	Revolving facility (agreement no. 2749/11/475/04)	35,000.00	0	1M WIBOR + margin	VIII 2013
BNP Paribas Bank Polska S.A.	Revolving facility (agreement no. WAR/2001/11/198/CB)	45,000.00	43,429.06	3M WIBOR + margin	V 2014
BRE BANK S.A	Overdraft facility (agreement no. 07/120/11/Z/VV)	10,000.00	0	O/N WIBOR + margin	V 2013
Deutsche Bank	Overdraft facility (agreement no. LW/11000080)	500.00	0	3M WIBOR + margin	IX 2015

The agreement no. 07/044/09/Z/OB with BRE Bank S.A. came to an end at the beginning of 2013. The facility was repaid on 31 January 2013.

The maturity dates were extended for the agreements nos. 07/183/04/Z/VV, 2749/11/475/04 and WAR/2001/11/198/CB.

The overdraft facility agreement no. S/122/08/2011/1115/K/OBR with Bank Ochrony Środowiska S.A. came to an end in 2012.

The credit facility under the agreement no. LW/11000080 is a multi-purpose line and guarantee line taken out in connection with day-to-day operations of BIUP.

No new credit facilities were taken out by the Group in 2012.

### 2. Off-balance sheet items of the ZUE Group

#### Contingent liabilities

The contingent liabilities resulting from guarantees and bill of exchange guarantees include, in particular, the guarantees provided by insurance companies and banks to the Group's counterparties to secure their claims against the Group, mainly under construction contracts. Insurance companies and banks have recourse against the Group.

Contingent liabilities secured by the bills of exchange, mortgages and pledges are mainly the credit facility and lease agreements.

Item (PLN)	As at 31 December 2012
Guarantees	195,837,579.09
Sureties	10,120,414.37
Bills of exchange	157,754,220.79
Mortgages	38,150,550.00
Pledges	15,484,784.94
<b>Total contingent liabilities</b>	<b>417,347,549.19</b>

#### Contingent assets

The contingent assets are used by the ZUE Group to secure the construction contracts concluded between the ZUE Group and subcontractors.

Item (PLN)	As at 31 December 2012
Guarantees	27,799,153.59
Bills of exchange	52,706.20
<b>Total contingent assets</b>	<b>27,851,859.79</b>

## **XI. DIFFERENCES BETWEEN PUBLISHED FORECASTS AND ACTUAL 2012 RESULTS**

The Company has not published any forecasted 2012 separate or consolidate financial statements.

## **XII. PREPARATION BASIS**

The annual consolidated financial statements of the ZUE Group have been prepared in accordance with the International Financial Reporting Standards as approved by the European Union based on the assumption that the Group will continue as a going concern in the foreseeable future.

### **XIII. PROCEEDINGS BEFORE COURT, ARBITRATION COURT OR PUBLIC ADMINISTRATION AUTHORITY AS AT 31 DECEMBER 2012**

As at 31 December 2012, no company comprising the ZUE Group was a party to the proceedings whose total value exceeded 10% of ZUE's equity.



#### **XIV. MAJOR RESEARCH AND DEVELOPMENT PROJECTS**

The ZUE Group's core business does not require its companies to engage in any basic research and development projects.

## **XV. STATEMENT ON COMPLIANCE WITH LAW**

The Management Board of ZUE state that 2012 consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as approved by the European Union.

The scope of information contained in 2012 consolidated financial statements of the ZUE Group complies with the Ordinance by the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent (Dz.U. 2009, no. 33, item 259, as amended).

## **XVI. STATEMENT ON APPOINTMENT OF AUDITOR**

The Management Board of ZUE state that Company's Supervisory Board resolved on 12 June 2012 to appoint Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, Al. Jana Pawła II 19, 00-854 Warsaw, Poland, entered into the register maintained by the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register, under entry no. KRS 31236, to audit the separate and consolidated financial statements of ZUE for the financial year 2012. The entity authorized to audit the financial statements was appointed pursuant to applicable laws. The entity authorized to audit the financial statements and chartered auditors involved in the audit met the requirements necessary to make an unbiased and independent opinion on the audited annual financial statements in accordance with applicable laws and professional standards.

The agreement for the audit of the separate and consolidated financial statement of ZUE for the 12 months ended 31 December 2012 and the review of the abbreviated semi-annual consolidated and separate financial statements of ZUE was concluded with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. on 23 July 2012. The remuneration payable to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. was set at PLN 228.5 thousand.

## **XVII. STATEMENT ON COMPLIANCE WITH CORPORATE GOVERNANCE RULES**

### **1. Scope of application of corporate governance rules**

The document stipulating corporate governance rules and the statement of the Management Board of ZUE on the compliance with such corporate governance rules are available on ZUE's website: [www.grupazue.pl](http://www.grupazue.pl); tab: Investor Relations > Legal Acts > Corporate Governance.

ZUE is subject to the Corporate Governance Rules contained in the Appendix to the Resolution no. 19/1307/2012 of the Warsaw Stock Exchange Supervisory Board dated 21 November 2012 – "Code of Best Practice for WSE Listed Companies" (the amendments made under this Resolution came into force on 1 January 2013).

The Management Board of ZUE state that in the financial year 2012, the Company complied with all Corporate Governance Rules in accordance with the Appendix to the Resolution no. 20/1287/2011 of the Warsaw Stock Exchange Supervisory Board dated 19 October 2011 – "Code of Best Practice for WSE Listed Companies," except for the following rules.

#### Chapter I – Recommendations for Best Practice for Listed Companies

##### Item 1) – Content

*"A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and the latest communication tools ensuring fast, secure and effective access to information.*

*Using such methods to the greatest extent possible, the company should, in particular:*

- maintain its website whose scope and presentation method should be based on the model investor relations service available at <http://naszmodel.gpw.pl/>;*
- ensure adequate communication with investors and analysts using modern methods of Internet communication;*
- enable on-line broadcasts of general meetings over the Internet, record general meetings, and publish the recordings on its website."*

##### Item 1) – Statement of the Issuer

The Issuer will not keep a detailed record (in print or in electronic form) of General Meetings. Minutes prepared by a notary public pursuant to Art. 421 of the Polish Companies Act are the basic record of a General Meeting. A register of minutes may be reviewed by shareholders that may demand their copies certified by the Management Board be issued. According to Art. 421.4 of the Polish Companies Act, the Issuer is obliged to publish the results of voting on particular resolutions on its website. Under the Polish Companies Act, the General Meeting participants may submit their written statements that are attached to the minutes. The Issuer believes that the rights and obligations stipulated by the law ensure the transparency of General Meetings.

##### Item 5) - Content

*"A company should have a remuneration policy and rules of defining the policy. The remuneration policy should define, in particular, the form, structure and level of remuneration of members of supervisory and managing bodies. The Commission Recommendation of 14 December 2004 on fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and the Commission Recommendation of 30 April 2009 complementing that Recommendation*

*(2009/385/EC) should apply in defining the remuneration policy for members of supervisory and managing bodies of the company.”*

Item 5) – Statement of the Issuer

The remuneration of members of the Issuer’s supervisory and managing bodies is defined according to the scope of their tasks, responsibility, the size of the Company and the Company’s economic results. The Issuer does not intend to introduce any remuneration policy to have a greater freedom to decide.

Item 9) – Content

*“The WSE recommends that public companies and their shareholders should have a balanced proportion of women and men in management and supervisory functions in companies to reinforce the creativity and innovation of the companies’ business activity.”*

Item 9) – Statement of the Issuer

The proportion of women and men in management and supervisory functions depends on their competence, skills and effectiveness. Sex is not used as a criterion in the appointment to the Issuer’s supervisory or management bodies. Thus, the Issuer cannot guarantee a balanced proportion of women and men in management and supervisory functions.

Item 10) – Content

*“If a company supports different forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers its activity in this area to be a part of its business mission and development strategy, impacting the innovativeness and competitiveness of the enterprise, it is good practice to publish, in a mode adopted by the company, the rules of its activity in this area.”*

Item 10) – Statement of the Issuer

ZUE S.A. supports a number of social activities, however the Company does not treat them as an important element of its mission or development strategy. These activities have no impact on the Company’s innovativeness.

Item 11) – Content

*“As part of a listed company’s due care for the adequate quality of reporting practice, the company should take a position, expressed in a communication published on its website, unless the company considers other measures to be more adequate, wherever with regard to the company:*

- published information is untrue or partly untrue from the beginning or at a later time;*
- publicly expressed opinions are not based on material objective grounds from the beginning or as a result of later circumstances.*

*This rule concerns opinions and information expressed publicly by company representatives in the broad sense or by other persons whose statements may have an opinion-making effect, whether such information or opinions contain suggestions advantageous or disadvantageous to the company.”*

Item 11) – Statement of the Issuer

The Company publishes all important information relating to the Company using the Electronic Information Processing (ESPI) and Electronic Information Database (EBI) systems and on its website immediately after an event takes place. In addition, the Company’s representatives make authorized statements. Full monitoring by ZUE S.A. of all opinions concerning the Company or its activities or the events relating to the Company as well as the speed of transfer and the receipt by the Company of information on opinion-making effects of statements made by other persons unrelated to the Company is in many cases hampered or even impossible. Consequently, the Company is not able to observe the foregoing rule.

## Item 12) – Content

*“A company should enable its shareholders to participate in a general meeting using electronic communication means through:*

- 1) real-life broadcast of a general meetings;*
- 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;*
- 3) exercise of voting rights at a general meeting personally or through a proxy.”*

## Item 12) – Statement of the Issuer

According to Art. 406[5] of the Polish Companies Act, the participation in a General Meeting with the use of electronic communication means is not mandatory and the Issuer’s Statutes do not provide for it. The Issuer believes that the Company’s Statutes, the provisions of the Polish Companies Act and the Company’s Regulations of the General Meeting govern the course of and the participation in the General Meetings in a comprehensive and sufficient manner.

## Chapter II – Best Practice for Management Boards of Listed Companies

### Item 1) - Content

*“A company should operate a corporate website and publish on it, in addition to information required by legal regulations:*

- 1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;*
- 2) professional CVs of the members of its governing bodies;*
  - 2a) on an annual basis, in the fourth quarter – information about the participation of women and men respectively in the management board and in the supervisory board of the company in the last two years;*
- 3) current and periodic reports;*
- 4) (deleted);*
- 5) where members of the company’s governing body are elected by the general meeting – the basis for proposed candidates for the company’s management board and supervisory board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;*
- 6) annual reports on the activity of the supervisory board taking account of the work of its committees together with the evaluation of the work of the supervisory board and the internal control system and the significant risk management system submitted by the supervisory board;*
- 7) shareholders’ questions on issues on the agenda submitted before and during a general meeting together with answers those questions;*
- 8) information about the reasons for cancellation of a general meeting, change of its date or agenda together with grounds;*
- 9) information about breaks in a general meeting and the grounds for those breaks;*
- 10) information about corporate events such as payment of the dividend or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;*

11) *information known to the management board based on a statement by a member of the supervisory board of any relationship of a member of the supervisory board with a shareholder that holds shares representing not less than 5% of all votes at the company's general meeting;*

12) *where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company in connection with such introduction;*

13) *a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published;*

14) *information about the content of the company's internal rules of changing an entity authorized to audit financial statements or information about the absence of such rule."*

#### Item 1) – Statement of the Issuer

Given the fact the only record of the General Meeting is the minutes prepared by a notary public pursuant to Art. 421 of the Polish Companies Act, the Issuer will not publish on its website any information referred to in the Rule II.1.7.

#### Item 2) – Content

*"A company should ensure that its website is also available in English, at least to the extent described in section II.1."*

#### Item 2) – Statement of the Issuer

Given the size of the Issuer and the expected market capitalization, the Company believes the exposure to foreign investors will be small. Consequently, the costs of preparing and updating the website in English to be incurred by the Issuer would be disproportionate to benefits.

### Chapter IV – Best Practice of Shareholders

#### Item 10) - Content

*"A company should enable its shareholders to participate in a general meeting using electronic communication means through:*

*1) real-life broadcast of a general meetings;*

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

*3) exercise of voting rights at a general meeting personally or through a proxy."*

#### Item 10) – Statement of the Issuer

According to Art. 406[5] of the Polish Companies Act, the participation in a General Meeting with the use of electronic communication means is not mandatory and the Issuer's Statutes do not provide for it. The Issuer believes that the Company's Statutes, the provisions of the Polish Companies Act and the Company's Regulations of the General Meeting govern the course of and the participation in the General Meetings in a comprehensive and sufficient manner.

## **2. Key characteristics of the Group's internal audit and risk management systems related to the preparation of financial statements**

Separate / consolidated financial statements of the ZUE Group are prepared in accordance with the International Financial Reporting Standards, as approved by the European Union.

The responsibility for the implementation of an internal control system in the Group rests with the Management Board of ZUE. Supervision over the preparation of financial statements is entrusted to a person holding the position of Chief Accountant, who is charged with ongoing monitoring of the

work through all its stages. Risks are identified and mitigated by qualified staff of the Group's financial unit. To guarantee an adequate level of security in the preparation of financial statements, accounting books are maintained with the use of the Microsoft Dynamics AX system, which can be accessed by authorised personnel only. The financial reporting process is controlled on an ongoing basis, through its successive stages. The Company's complete separate / consolidated financial statements are submitted to the Management Board for final approval.

The entire process ends with an audit of the financial statements by a duly appointed independent auditor who works directly with, and provides comments to, the Supervisory Board.

Responsibility for the overall monitoring of the control system and its final assessment lies with the Supervisory Board. Pursuant to Art. 86.3 of the Act on Auditors, the Supervisory Board also performs the function of an Audit Committee responsible, *inter alia*, for:

- the internal audit function;
- monitoring the external auditor's independence;
- monitoring the process of preparation of financial statements; and
- monitoring the effectiveness of the risk management system.

### 3. Shareholders directly or indirectly holding substantial blocks of shares

Shareholders holding at least 5% of the total vote at the General Meeting (according to the information held by the Management Board of ZUE as at the end of the reporting period).

Shareholder	Number of shares	Class of shares	Number of votes at the GM	% share
Wiesław Nowak	16,000,000	A	16,000,000	72.73 %
PKO Bankowy OFE	1,126,144	B	1,126,144	5.12 %
Other	4,873,856	B	4,873,856	22.15 %
Total	22,000,000	A and B	22,000,000	100 %



Holdings of ZUE shares by member of the management and supervisory bodies (according to the information held by the Management Board of ZUE as at the end of the reporting period).

Shareholder	Position	Number of shares	Number of votes at the GM	% share
Wiesław Nowak	Management Board President	16,000,000	16,000,000	72.73 %
Maciej Nowak	Management Board Vice-President	7706	7706	0.05 %
Marcin Wiśniewski	Management Board Vice-President	969	969	0.00 %
Jerzy Czeremuga	Management Board Vice-President	136	136	0.00 %
Magdalena Lis	Supervisory Board Member	5120	5120	0.03%
Michał Lis	Supervisory Board Member	661	661	0.00%

#### 4. Holders of securities conferring special control powers

The Company has not issued any securities conferring special control powers.

#### 5. Restrictions on exercise of voting rights

There are no restrictions on the exercise of voting rights at the Company.

#### 6. Restrictions on transferability of securities

There are no restrictions on the transferability of the Company securities.

#### 7. Rules governing appointment and removal from office of managing persons and the managing persons' powers, including authority to decide on share issues or buybacks

Members of the Management Board of ZUE are appointed for a joint term of three years and removed from the office by the Supervisory Board. The Management Board of ZUE is not authorised to make decisions to issue shares. The only body authorised to make such decisions is the General Meeting. Powers of the Management Board of ZUE to make decisions concerning share buybacks are as stipulated in the Polish Companies Act.

#### 8. Amendments to ZUE's Statutes

Pursuant to the Polish Companies Act, the Company's Statutes may be amended by a resolution adopted by the General Meeting.

The amendment is reported by the Management Board to the registry court.

The General Meeting may authorise the Supervisory Board to prepare a uniform text of the amended Statutes or to make other editorial amendments as specified in a resolution of the General Meeting.

## 9. Operation of the General Meeting of ZUE

Pursuant to the Polish Companies Act and the Statutes of ZUE, the General Meeting is convened by the Company's Management Board.

General Meetings are held in the Company's registered office or in Warsaw.

The powers of the General Meeting include:

- review and approval of the Management Board Report on the Company's operations and financial statements for the preceding financial year;
- distribution of profit or coverage of loss and appropriation of funds established by the Company;
- granting discharge to members of the Company's governing bodies in respect of performance of their duties;
- amendments to the Company's Statutes;
- issue of bonds, including convertible bonds or bonds with pre-emptive rights, or issue of subscription warrants;
- sale or lease of the Company's business or any organised part thereof and creation of a limited right *in rem* over them;
- adoption of resolutions on the Company's merger or transformation;
- dissolution and liquidation of the Company; and
- other matters reserved for the General Meeting according to the law or the Statutes.

General Meetings may be held as Ordinary or Extraordinary General Meetings. Ordinary General Meetings are held within six months of the end of each financial year. The Ordinary General Meeting may be convened by the Supervisory Board if the Management Board fails to do so by the date stipulated by the law. Extraordinary General Meetings are convened by the Supervisory Board as it sees fit. The Company's shareholders representing at least a half of the Company's share capital are also entitled to convene an Extraordinary General Meeting.

Moreover, shareholders representing at least one twentieth of the Company's share capital may request that an Extraordinary General Meeting be convened and certain items be put on its agenda.

The notice of the General Meeting is published at least twenty six days before the date scheduled for the General Meeting on the Company's corporate website and in a current report in accordance with the Ordinance by the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent (Dz.U. no. 33, item 259, as amended).

A request by a shareholder or shareholders representing at least one twentieth of the share capital to put certain matters on the agenda of the General Meeting should be submitted to the Management Board at least twenty one days before the date of the General Meeting. The request should state the grounds for and a draft resolution pertaining to the proposed item of the agenda. The request may be sent in electronic form.

Any changes to the agenda requested by a shareholder or shareholders representing at least one twentieth of the share capital are announced by the Management Board promptly and in any case within eighteen days prior the scheduled date of the General Meeting. The announcement is published as prescribed for convening the General Meeting.

The General Meeting may only be attended by persons that are the Company's shareholders sixteen days before the date scheduled for the General Meeting.

A person entitled to participate in the General Meeting may obtain a full text of documents to be submitted to the Extraordinary General Meeting and draft resolutions or comments of the Management and Supervisory Boards from the Company's registered office. Also a list of shareholders entitled to participate in the General Meeting is available in the Company's registered office for three weekdays before the date of the General Meeting.

During the General Meeting, each shareholder may propose draft resolutions concerning items put on the agenda.

Shareholders may participate in the General Meeting in person or by proxy. A power of attorney to participate in the general shareholders meeting of a public company and to exercise voting rights must be granted in written or electronic form.

A General Meeting is opened by the Chairperson of the Supervisory Board or a person appointed by them. Failing them, a General Meeting is opened by the President of the Management Board or a person appointed by the Management Board.

The person opening the General Meeting ensures that a ballot is properly conducted, announces a winner and passes the chairing of the General Meeting to the elected Chairperson.

The Chairperson of the General Meeting is elected from among persons entitled to participate in the General Meeting that are recommended by persons entitled to participate in the General Meeting upon their consent, subject to the Extraordinary General Meeting being convened by shareholders representing at least a half of the Company's share capital or at least a half of the total vote at the Company. In such a case, the Chairperson of the General Meeting is elected by such shareholders.

The Chairperson of the General Meeting is elected in a secret ballot and the candidatures are voted on separately. A person who scores the most votes becomes the Chairperson.

The Chairperson presides over the General Meeting in line with the adopted agenda and in compliance with the applicable laws, the Code of Best Practice for WSE Listed Companies, the Statutes and the Regulations of the General Meeting.

Upon the election, the Chairperson of the General Meeting signs the attendance list containing the names of all participants of the General Meeting, the number of shares they represent and the number of votes conferred by those shares and then – either in person or through designated secretaries of the General Meeting – prepares the attendance list based on the list of shareholders entitled to participate in the General Meeting.

Any appeals, objections, comments and other matters pertaining to the participation in the General Meeting are submitted to the Chairperson of the General Meeting who resolves them at his/her discretion. Decisions of the Chairperson of the General Meeting may be appealed against to the General Meeting.

A Ballot Counting Committee composed of three members is appointed, unless the General Meeting decides otherwise.

Members of the Ballot Counting Committee are elected from among candidates proposed by the Chairperson or persons entitled to participate in the General Meeting and each shareholder of the Company may propose one candidate.

Members of the Ballot Counting Committee are elected by the General Meeting in a secret ballot and the candidatures are voted on separately in alphabetical order. The Ballot Counting Committee is composed of persons who score the most votes.

Once the attendance list is signed and checked, the Chairperson of the General Meeting puts to vote the agenda determined by the Management Board.

The General Meeting may adopt the proposed agenda as it is, rearrange items placed on the agenda or remove certain matters from the agenda. A resolution not to consider an item included in the agenda may only be adopted for important reasons. A motion not to consider an item included in the agenda should be justified to the extent ensuring that a resolution in this respect is well informed. A decision to remove an item from the agenda or not to consider an item placed on the agenda at the request of a shareholder of the Company requires a resolution of the General Meeting, subject to prior consent of all the shareholders present who submitted the request.

The Chairperson of the General Meeting may not at their sole discretion remove items from the agenda, rearrange items on the agenda or add any substantive matters to the agenda. Upon presentation of each agenda item, the Chairperson of the General Meeting prepares a list of persons who have registered for discussion and – when the list is closed – opens the discussion giving the floor to speakers in the order in which they registered for discussion.

A decision to close the discussion is made by the Chairperson of the General Meeting.

Once all items on the agenda have been dealt with, the General Meeting is closed by the Chairperson.

## **10. Composition and rules governing the operation of the Company's managing and supervisory bodies and their committees**

### Management Board of ZUE

Pursuant to the Statutes and the Regulations of the Management Board of ZUE, members of the Management Board are appointed and dismissed by the Supervisory Board. Management Board members are appointed for a joint term of three years. The Management Board is composed of one to five members with a precise number defined by the Supervisory Board.

The Management Board manages the affairs of the Company and represents the Company, subject to the powers vested in the General Meeting or the Supervisory Board under applicable laws or the Statutes.

The Management Board makes its decisions independently, subject to the activities which require the approval of the Company's other bodies under applicable laws or the Statutes.

The President of the Management Board supervises all employees and organisational units of the Company.

The President of the Management Board has the right to individually make final decisions with regard to internal relations including, in particular, employee relations, including the right to reverse the decision of another Management Board member (unless otherwise stated in a resolution previously adopted by the Management Board or applicable laws).

During his/her absence, the President of the Management Board may appoint another Management Board member. The appointed member has all the powers of the President of the Management Board.

Statements of will on behalf of the Company can be made by the President of the Management Board acting individually, two Management Board members acting jointly or one Management Board member together with a commercial proxy.

Members of the Management Board of ZUE were appointed for the three-year term under the resolution of the Ordinary Shareholders Meeting of 26 April 2010. At the end of the reporting period, the Management Board was composed of:

**Wiesław Nowak** – Management Board President – Chief Executive Officer

**Marcin Wiśniewski** – Management Board Vice-President – Director of the Projects Execution Unit

**Maciej Nowak** – Management Board Vice-President – Legal Proxy

**Jerzy Czeremuga** – Management Board Vice-President – Director of the Railway Works Unit

#### Supervisory Board of ZUE

Pursuant to the Statutes and the Regulations of the Supervisory Board of ZUE, the Company's Supervisory Board is composed of five to seven members appointed and dismissed by the General Meeting for a joint term of three years.

Members of the Supervisory Board cannot include members of the Management Board, proxies, liquidators, branch or facility managers, the chief accountant, legal counsel or attorney employed by the Company, other employees directly reporting to a member of the Management Board or a liquidator, as well as members of the management board or liquidators of the Company subsidiaries.

Meetings of the Supervisory Board are convened as needed at least three times in a financial year.

The Supervisory Board meetings are held in the Company's office or another venue specified in the notice of the Supervisory Board meeting.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a tied vote, the Chairperson of the Supervisory Board has the casting vote.

The Supervisory Board performs its duties: 1/ at the Supervisory Board meetings, 2/ through the on-going and *ad hoc* supervisory activities as part of which it is entitled to:

- review the scope of responsibilities of each of the Company departments;
- request the Management Board and employees to provide relevant reports and clarifications;
- review the Company's assets;
- monitor the Company's financial standing;
- inspect accounts and documents;
- oblige the Management Board to engage an expert to prepare an assessment or opinion to be used by the Supervisory Board if a given matter requires specialist knowledge, qualifications, activities or an independent expert's assessment.

Members of the Supervisory Board of ZUE were appointed for the three-year term under the resolution of the Extraordinary General Meeting of 17 June 2010. At the end of the reporting period, the Supervisory Board of ZUE was composed of:

**Mariusz Szubra** – Supervisory Board Chairperson

**Magdalena Lis** – Supervisory Board Member

**Bogusław Lipiński** – Supervisory Board Member

**Piotr Korzeniowski** – Supervisory Board Member

**Michał Lis** – Supervisory Board Member

## **11. Audit Committee**

As the Supervisory Board is composed of five members, pursuant to Art. 86.3 of the Act on Auditors and Their Self-Government, Entities Authorized to Audit Financial Statements and Public Supervision (Dz. U. of 2009, no. 77, item 649), it also performs the duties of an Audit Committee.

The person satisfying requirements of Art. 86.4 of the Act on Auditors and Their Self-Government, Entities Authorized to Audit Financial Statements and Public Supervision (i.e. qualifications in accounting or financial auditing) and independence criteria specified in the Code of Best Practice for the Warsaw Stock Exchange Listed Companies and the Statutes is Mariusz Szubra. The second independent member of the Supervisory Board satisfying the abovementioned independence criteria is Piotr Korzeniowski.

There is no Remuneration Committee in the Supervisory Board.

## **XVIII. INFORMATION ON EMPLOYEE SHARE SCHEME CONTROL SYSTEM**

ZUE has no employee share scheme control system.

Wiesław Nowak – Management Board President .....

Marcin Wiśniewski – Management Board Vice-  
President .....

Maciej Nowak – Management Board Vice-  
President .....

Jerzy Czeremuga – Management Board Vice-  
President .....

Cracow, 14 March 2013