

ZUE S.A.
2014 Report on Activities

Cracow, 12 March 2015

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Abbreviations and definitions:

ZUE, Company, Issuer	<p>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 5,757,520.75 paid up in full.</p> <p>Parent company of the ZUE Capital Group.</p>
PRK	<p>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.</p> <p>On 20 December 2013, PRK was removed from the register as a result of merger with ZUE.</p>
BIUP	<p>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 1,269,400 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI	<p>Railway Technology International 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 0000397032, share capital of PLN 50,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>Railway Technology International Germany GmbH with registered office in Hamburg, Germany. Share capital of EUR 25,000 paid up in full.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
BPK	<p>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 2,170,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
BPK Gdańsk	<p>Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji with registered office in Gdańsk, entered into the National Court Register maintained by the District Court Gdańsk-Północ, VII Commercial Division of the National Court Register, under entry no. KRS 0000273363, share capital of PLN 1,000,000 paid up in full.</p> <p>Associate.</p>
ZUE Group, Group, Capital Group	<p>ZUE Capital Group including ZUE 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.</p>
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Dz.U. 2000, no. 94, item 1037, as amended).

Share capital details as at 31 December 2014.

I. OPERATIONS

Scope of operations

ZUE is a major player in the urban and railway transport infrastructure sector.

ZUE focuses on development services as a general contractor for comprehensive tram and railway tracks development and upgrade projects, along with the ancillary infrastructure (e.g. earthworks and railway substructure, roads, drainage system routes, civil structure and building development, including railway stations) and power engineering.

As part of its core business, ZUE provides comprehensive development, upgrade and maintenance services for OCL (OCL substations) power supply systems and offers development and upgrade services for tram and railway OCL networks. The machinery, vehicles and specialist equipment held by the Company enable it to perform any OCL-related project in basically any city/rail infrastructure conditions.

ZUE has adequate technical potential and human resources to deliver high voltage transmission networks. The Company executes such a project for PSE.

ZUE also builds complete medium and low-voltage power networks, in particular for tram and railway power systems.

The activities of ZUE include:

- design, construction and comprehensive modernisation of urban transport systems and comprehensive tram depot fittings;
- design, construction and comprehensive modernisation of railway lines;
- power networks services; and
- power electronics design and production services.

Other activities of ZUE include the manufacture of steel and aluminium structures, land surveying services, construction equipment services (excavators, bulldozers, cranes, loaders), automotive equipment services (tractors with trailers, dump trucks), rail equipment services (tamping machines, wagons, locomotives) and services in the field of repair and diagnostics of vehicles at the inspection station in the service and repair centre.

Design, construction and comprehensive modernisation of urban transport systems

ZUE 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 track and road systems along with the associated infrastructure including, in particular, the construction, upgrade and repairs of OCL networks, tram tracks, OCL substations as well as the construction of street lighting and traffic lights.

As regards the construction and comprehensive upgrade of tram tracks, ZUE offers comprehensive solutions based on different technologies covering all track widths. Track design and construction technologies include classic tracks on wooden and prestressed concrete sleepers, tracks on grass (green), gravel or asphalt/concrete subgrade, embedded in the roadway and 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 guarantee the timely delivery and high quality of the service, as demonstrated by ISO 9001 certificate awarded for those operations.

As regards the construction of tracks, the infrastructure elements offered by ZUE include the delivery and assembly of tram point switches, crossings, safe-locking of point mechanisms, state-of-the-art point mechanisms, track drainage systems and rail lubrication systems.

As part of OCL development and upgrade, ZUE offers comprehensive development and maintenance of tram OCL, development, upgrade and maintenance of OCL substations and related design services.

The comprehensive services ranging from design to development of tram OCL network have been provided by ZUE almost since its creation. The Company delivers complete solutions, including the delivery of all necessary elements, relying on Polish and European technologies.

The construction, upgrade and maintenance of OCL substations are also the key elements of ZUE's operations. OCL network power supply system is inseparably connected with OCL network. ZUE offers the construction of 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.

Design, construction and comprehensive modernisation of railway lines

On the rail infrastructure market, ZUE specialises in 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, the Company 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.

By offering comprehensive services related to the design, construction and repairs of tracks as well as assembling and delivering railway fittings, the Company has become a contractor able to perform construction contracts on its own.

Services in the field of power networks and power electronic services

Power electronic services are another key area of the Company's activities. Our competence and equipment base allow the Company to perform a variety of works in the field of low and medium voltage networks:

- design and construction of high voltage cable and overhead lines;
- design and construction of fixed and overhead transformer stations;
- design and construction of MV power cable lines;
- design and construction of LV cable lines;
- construction of road traffic signalling from design to implementation and commissioning of the entire system;
- design, installation and maintenance of street lighting; and
- telecommunications technology.

The Company's key activities include:

- *Construction and maintenance of street lighting*

In the field of street lighting, ZUE performs both construction works (from design to completion) and ongoing maintenance of lighting lines using specialized equipment and means of communication allowing thorough maintenance of the lighting system. High competence of ZUE in this field is confirmed by the routine maintenance of street lighting in the City of Cracow (covering a total of more than 65,000 lighting points).

- *Construction of cable lines and fault location*

In the field of construction of the cable lines and fault location, the Company's offer includes the construction and repair of low and medium voltage cable lines, both as regards connections between the existing objects as well as related to the construction of new stations. The Company's power engineering laboratory holds mobile equipment for fault location on various types of power lines to locate common line faults such as short circuits or wire breaks as well as location of more complex defects (search for a damaged wire in a cable bundle etc.).

- *Construction of traffic signalling*

ZUE offers comprehensive construction of street traffic signalling, from design to completion and commissioning of the entire signalling system using signalling products from the suppliers that guarantee high quality of components and timely deliveries.

- *Telecommunications technology*

As regards telecommunications technology, ZUE offers the construction of telecommunications systems for traditional utilities (construction of telecommunications ducts by trenching or jacking) and for fibre-optic lines (special ducts or suspending fibre lines on poles, such as traction poles). Within the framework of its activities, ZUE constructed a number of telecommunication installations, including for customers from the telecommunications sector.

- *Traffic light controllers for public transport rail vehicles*

Traffic light controllers offered by ZUE are complementary to our services of constructing traffic light systems. The controllers offered by ZUE are designed for top comprehensive performance of the signalling tasks, both in terms of operation and work optimization. Their functionality allows to dynamically maximize throughput at an intersection in the microscale and support the network optimization in the macroscale as well as "smart" assigning of priority to public transport and emergency vehicles. In addition, the system supports all the modern detection methods, such as video, induction loops, infrared, laser, ultrasound etc. as well as all the navigation and radio systems.

In 2014, the Company extended its activities to include the design and construction of high voltage cable and overhead lines. To this end, the Power Infrastructure Unit was established. The Power Infrastructure Unit includes the Power Project Preparation Office, which deals with comprehensive preparation of power line projects; i.e. the preparation of technical and legal documentation, design supervision and other tasks required by the Contracting Authority.

1. Sales trends

ZUE operates mainly on the Polish market. In 2014, the Company expanded its operations into the EU (Slovakia and Bulgaria). The Company's business consists in engineering and construction activities related to the construction of urban and rail transport infrastructure and power engineering.

The construction sector uses the EU aid funds. A considerable part of the funding is used to support infrastructure projects, including the construction of roads and railways. The increased expenditure on infrastructure resulted in new contracts entered into between the Group companies and the authorities managing urban and rail infrastructure and power contracts.

The city infrastructure construction contracts performed in 2014 included:

- Construction of trolleybus traction and power supply system, and reconstruction of street lighting system in the following streets: Jana Pawła II (from Armii Krajowej to Nadbystrzycka), Krochmalna (from Nadbystrzycka to Młyńska), Młyńska (from Krochmalna to Dworcowa) and the following intersections: Młyńska / Krochmalna / Gazowa and Młyńska / Dworcowa in Lublin.
- Construction of trolleybus traction with power supply system and *Poręba* substation, and reconstruction of street lighting system in the following streets: Jana Pawła II (from Armii Krajowej to Granitowa), Armii Krajowej (from Jana Pawła II to Orkana) and Granitowa in Lublin.
- Reconstruction of the tramway tracks in the tram traffic routes in Szczecin: the Piastów Avenue, the Wawrzyniaka Street and the intersection of the Bohaterów Warszawy and Jagiellońska Streets.
- Upgrade of the tramway track along the Wolności Street from the Kondratowicza Street up to the border with Gliwice (project no. 50) in Zabrze and Upgrade of the tramway track along the 3 Maja Street in Zabrze (project no. 51).
- Construction of the Franowo tram depot in Poznań.
- Upgrade of a separate tramway track at lines no. 15, 21, 24 and 27 along the 3-go Maja Street, an interchange in Sosnowiec, with platforms.
- Upgrade of crossings in Sosnowiec: 3-go Maja Street, the intersection of the Parkowa and Mościckiego Streets (project no. 28), Upgrade of a tramway in the 3-go Maja Street in Sosnowiec – from the interchange to the Zagórze terminus (project no. 29).
- Reconstruction of the Pogodno tram depot in Szczecin.
- Upgrade of the Motoarena terminus in Toruń.
- Upgrade of the tramway track along the Gliwicka Street from the *Lisa* tram stop to the borders of Katowice and Chorzów. Reconstruction of OCL network (project no. 11a), Upgrade of the tramway track in the tram crossing in the Bracka Street in Katowice.
- Delivery and installation of a flood barrier in an underpass connecting Dworzec Zachodni (Western Railway Station) and Główny PKP (Main Railway Station) in Poznań.

Apart from the continued city infrastructure construction works, the Company signed the following new contracts both home and abroad:

- Construction of the Lema Street and reconstruction of the intersection with the Jan Paweł II Avenue in Cracow.
- Extension of a tramway under the KST project Phase II B including the road system (the Lipska Street – the Wielicka Street) in Cracow.
- Construction of the tram line to Tarchomin in Warsaw.
- Reconstruction of the tram line on the Mogiłskie Roundabout – Al. Jana Pawła II – Plac Centralny section together with the traffic control system in Cracow.
- Completion of Košice integrated track transport system, construction IKD - 1. Stage/Slovakia.

In 2014, ZUE continued the work involving ongoing maintenance, servicing and emergency repair of tram infrastructure and street lighting in Cracow (over 65,000 lighting points) under maintenance contracts entered into with the Public Infrastructure and Transport Authority of Cracow. In the period under analysis, the Company carried out the works 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.

Selected projects executed by ZUE on the rail infrastructure construction market in 2014:

- Modernisation of the Biadoliny – Tarnów section of E30 railway line Cracow – Medyka.
- 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.”
- 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.”
- Design and construction services for the following project: “Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie – Dąbrowa Górnicza Żąbkowice – Jaworzno Szczakowo section.”
- Upgrade of the track no. 2 of the railway line no. 61 Kielce – Fosowskie on the Koniecpol – Częstochowa Stradom section as part of the following project: “Upgrade of the railway line no. 61 and 572 on the Włoszczowa Północ – Częstochowa Stradom section.”
- Comprehensive reconstruction of OCL network in the track no. 2 on the Koniecpol – Turów section, railway line no. 61 Kielce – Fosowskie.

Apart from the continued rail infrastructure construction works, the Company signed the following new contracts:

- Construction works on the section named V Grodzisk Mazowiecki station / track, drainage and platform works /
- Upgrade of the Wrocław Zgorzelec railway line no. 274 on the Wrocław-Jelenia Góra section - upgrade of the railroad surface with auxiliary works, Smolec junction signal box, track no. 1, the Smolec – Kąty Wrocławskie route, track no. 1, the Kąty Wrocławskie – Mietków route and track no. 3 in the Boguszów Gorce Zachód station.”
- Improvement of safety and elimination of risks at railway crossings – stage I POLiŚ 7.1 – 59.

In 2014, the Company began operations related to the construction of high-voltage power networks after it had signed its biggest contract for “Construction of the double track 400 kV Kozienice – Ołtarzew.” The contract is performed in the period 2014 – 2019 by the consortium including ZUE as the consortium leader.

2. Reliance on one or several customers

In 2014, ZUE operated on the urban infrastructure market as standalone contractor, consortium leader or partner and, for certain projects, as subcontractor. As a service provider, ZUE did not depend on a single customer but cooperated with the authorities managing tram infrastructure in all

major cities. The structure of ZUE's customer base in the period under analysis reflected the nature of services sold by the Company under contracts awarded on a one-off basis through tenders and/or by way of trade negotiations.

The Company operated on the rail infrastructure market as an independent contractor, consortium member or subcontractor. In 2014, the Company's rail infrastructure repair and construction services were mainly provided to PKP Polskie Linie Kolejowe S.A. Investment Centre. ZUE is not formally linked to any customer whose share of the sales is at least 10%.

Customer	Service	% share of revenue in 2014
PKP Polskie Linie Kolejowe S.A.	Rail infrastructure construction services	44
Pomorskie Przedsiębiorstwo Mechaniczno-Torowe Sp. z o.o.	Rail infrastructure construction services	10
Other	Urban and rail infrastructure construction services	46

3. Supply sources

Given the nature of operations (the provision of specialist construction and assembly services, also as a general contractor), the Company's suppliers mainly include domestic companies operating on the same market as the Company. The table below sets out the Company's major suppliers in 2014 as at 31 December 2014 according to the value of transactions. The share of a single supplier does not exceed a 10% share in purchases.

Supplier	Type of purchase	% share in 2014
HER-BUD S.C.	Construction services	9
MORIS Spółka z o.o.	Materials	7
Kolejowe Zakłady Automatyki Katowice S.A.	Construction services	4
Wytwórnia Podkładów Strunobetonowych STRUNBET Sp. z o.o.	Materials	4
THYSSENKRUPP GFT Polska Sp. z o.o.	Materials and services	3
e-co BAZA Przedsiębiorstwo Wielobranżowe Stanisław Łukaszewicz	Construction services	3
Other	Design and construction services, supply of materials	70

II. MAJOR CONTRACTS

1. Contracts for construction and assembly services and delivery of goods

Major contracts signed in 2014 include:

21 February 2014	<p>ZUE entered into the contract for a part of the construction works concerning the OCL and track services as part of the following project executed by Mota – Engil Central Europe S.A. of Cracow: “Extension of a tramway under the KST project Stage II B including the road system (the Lipska Street – the Wielicka Street) in Cracow.” The contracting authority: Mota – Engil Central Europe S.A. of Cracow.</p> <p>Net value of the contract: PLN 26,650,000.00.</p> <p>Completion date: 15 August 2015.</p> <p>Term of warranty: 60 months.</p> <p>Performance bond: Standard bond provided by the Company at 5% of the contract gross value.</p>
28 February 2014	<p>ZUE and Tramwaje Warszawskie Sp. z o.o. of Warsaw signed the contract for the construction of the tramway to Tarchomin in Warsaw.</p> <p>Net value of the contract: PLN 52,195,121.13.</p> <p>Completion date: 10 months of the contract date.</p> <p>Term of warranty: 36 months.</p> <p>Performance bond: Standard bond provided by the Company at 5% of the contract gross value.</p>
4 March 2014	<p>ZUE and Pomorskie Przedsiębiorstwo Mechaniczno – Torowe Sp. z o.o. of Gdańsk entered into the contract for the provision of construction services on the section named V Grodzisk Mazowiecki station in connection with the following tasks performed by Pomorskie Przedsiębiorstwo Mechaniczno – Torowe Sp. z o.o. of Gdańsk for PKP Polskie Linie Kolejowe of Warsaw:</p> <ul style="list-style-type: none">• Design and upgrade of the Warsaw – Łódź railway line, stage II, the Warszawa Zachodnia – Miedniewice (Skierniewice) section, as part of the POIIS 7.1 – 24.1 project: “Upgrade of the Warsaw – Łódź railway line, stage II, Lot A – the Warszawa Zachodnia – Skierniewice section;”• Supplementary works related to civil structures, railway substructure and elements of telecommunications engineering on the 6,500km - 54,100km section, line no. 1 Warszawa Centralna – Katowice, as part of the POIIS 7.1 – 24.1 project: “Upgrade of the Warsaw – Łódź railway line, stage II, Lot A – the Warszawa Zachodnia – (Miedniewice) Skierniewice section;”• Supplementary works related to the reinforcement of the track

substructure and reconstruction of the track layout at the Pruszków station, the Pruszków – Grodzisk Mazowiecki route, the Grodzisk Mazowiecki station, the Żyrardów station and power engineering works at the Pruszków station, the Żyrardów station, line no. 1 Warszawa Centralna–Katowice, as part of the POIS 7.1 – 24.1 project: “Upgrade of the Warsaw – Łódź railway line, stage II, Lot A – Warszawa Zachodnia – (Miedniewice) Skierniewice section.”

On 8 May 2014, an inventory of works was made according to section 1.10 of the Contract as a result of which the remuneration was reduced to PLN 71,086,130.42.

/Annex 1/2014 of 2 June 2014.

Completion date: 30 September 2015.

Term of warranty: 12 months.

Performance bond: Standard bond provided by the Company at 5% of the contract gross value.

21 March 2014

ZUE and PKP Polskie Linie Kolejowe S.A. of Warsaw, the contracting authority, entered into the contract for the following project: “Upgrade of the Wrocław Zgorzelec railway line no. 274 on the Wrocław-Jelenia Góra section - upgrade of the railroad surface with auxiliary works, Smolec junction signal box, track no. 1, the Smolec – Kąty Wrocławskie route, track no. 1, the Kąty Wrocławskie – Mietków route and track no. 3 in the Boguszów Gorce Zachód station.”

Net value of the contract: PLN 42,436,450.00.

Completion date: 30 October 2015.

Term of warranty: 36 months.

Performance bond: Standard bond provided by the Company set at 10% of the contract gross value.

25 March 2014

The consortium including ZUE (the Consortium Leader) and Polskie Sieci Elektroenergetyczne S.A. of Konstancin – Jeziorna (the Contracting Authority) signed the contract for the following project: “Construction of the double track 400 kV Kozienice – Ołtarzew.”

Net value of the contract: PLN 469,000,000 (gross value: PLN 576,870,000).

Completion date: 30 June 2019.

In connection with the abovementioned contract, ZUE (the Consortium Leader) provided the Contracting Authority with a standard performance bond. The performance bond set at 10% of the contract gross value was provided in the form of the three bonds of approx. ten, twenty five and sixty five percent, respectively, of the abovementioned performance bond provided by the insurance companies cooperating with the Company (TU Euler Hermes S.A. Česká Pojišťovna a.s and Powszechny Zakład Ubezpieczeń S.A.) as part of the bond limit agreements. The bonds were provided for seven years for the double track 400 kV Kozienice – Ołtarzew and five years for the 400/220/110 kV Kozienice Świerże Górne

4 July 2014

26-900 Kozienice station and the 400/220/110 kV Ołtarzew station. The contractor would be liable under warranty for the same period.

DÚHA a.s. of Prešov, leader of the consortium of:

- 1) DÚHA a.s. of Prešov, Slovakia (consortium leader); and
- 2) ZUE S.A. of Cracow, Poland (consortium partner);

signed a contract (the "Contract") with Košice (Mesto Košice) (the "Contracting Authority").

The Contract provides for comprehensive construction works as part of the following project: "Construction of IKD Košice, Maratónu Mieru Square – Station Yard" in Košice, Slovakia.

Net value of the Contract was EUR 33,284,447.25 and the amount was the equivalent of PLN 138,037,259.64 at the mid-exchange rate quoted by the National Bank of Poland on 7 July 2014. The Company's share was at least 30% of the project (including all the specialist works relating to the construction of tramway track and OCL network) and this corresponded to the net amount of approx. PLN 41.4m.

Completion date: 31 July 2015.

The warranty given by the consortium to the contracting authority was 60 months of the acceptance protocol date.

9 September 2014

ZUE entered into the contract with Kolejowe Zakłady Automatyki Katowice S.A. of Katowice (the "Contracting Authority") for the following project:

"Improvement of safety and elimination of risks at selected railway crossings – part IV I POLiŚ 7.1 – 59."

Net value of the contract: PLN 1,552,900.00.

Completion date: 31 August 2015.

Term of warranty: 60 months.

2. Bond and guarantee agreements

Bond and guarantee agreements signed by ZUE in 2014 include:

- On 1 April 2014, ZUE and BIUP, and Generali TU signed the annex no. 3 of 1 April 2014 to the Master Agreement of 18 April 2011 for the provision of project-related guarantees under a revolving guarantee facility no. GNL-UF/2011/58/UG. Under the annex, the limit of the facility was set at PLN 41,900,000.00 for ZUE and at PLN 200,000.00 for BIUP. The term was extended until 31 March 2015.
- On 10 November 2014, an annex was entered into with TUIR WARTA to the agreement of 10 July 2012 for the provision of project-related bonding products within a specified limit of the facility no. KR/UL/42/2012. Under the annex, the term of the agreement was extended until 10 November 2015.
- On 24 April 2014, an annex was entered into with TU EULER HERMES to the agreement for the provision of project-related guarantees under a revolving guarantee facility. Under the annex, the term of the agreement was extended until 24 April 2015. In addition, the limit of the facility was set at PLN 35,000,000.00.
- On 15 October 2014, the agreement for indefinite period was entered into with the new TU EUROPA. Agreement for the provision of under a revolving guarantee facility no. 6/L/2014 – the limit of PLN 10,000,000.00.
- On 17 March 2014, ZUE and PZU signed the annex no. 8 to the Mandate Agreement of 29 April 2010 for the provision of project-related bonding products no. UO/GKR/11/2010/051-18-0100. Under the annex, the term of the Agreement was extended until 15 March 2015 and the maximum limit was changed. The maximum limit was set at PLN 95,000,000.00 and applied in the period 17 March 2014 – 15 May 2014. Then, the limit was reduced to PLN 77,100,000.00 and applied in the period 16 May 2014 – 5 March 2015.

3. 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.
 - Liability insurance.
 - Carrier's liability insurance.
 - Liability insurance of members of the Company's governing bodies.
- 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.
 - Insurance of building equipment and machinery against damage.
 - Insurance of building equipment and machinery in the company's registered office and the places where the machines are operated in the territory of Poland.
 - Construction risks insurance, property insurance, liability insurance for construction contracts.
- Towarzystwo Ubezpieczeń Allianz Polska S.A.:
 - Property insurance, liability insurance for construction contracts.
 - Issue prospectus liability insurance.
- AXA Towarzystwo Ubezpieczeń i Reasekuracji S.A.:
 - Rolling stock comprehensive insurance.
- GENERALI Towarzystwo Ubezpieczeń S.A.:
 - Construction risks insurance, property insurance, liability insurance for construction contracts.
- TUiR Warta S.A.
 - Property insurance, liability insurance for construction contracts.
- Gothaer TU S.A.
 - Property insurance for construction contracts.

4. Credit facility agreements

- 5 May 2014 ZUE and mBank Spółka Akcyjna signed the Annex no. 12 to the overdraft facility agreement no. 07/183/04/Z/W whereby the term of the facility was extended until 15 May 2015.
- 18 June 2014 ZUE S.A. signed an annex to the revolving credit facility agreement of PLN 35m concluded with Bank Millennium S.A. of Warsaw.
- Under the annex, the term of the credit facility was extended until 22 June 2015. According to the annex, security had to be provided for the term to be extended. The credit facility repayment was secured by the assignment of claims under specified contracts of at least 200% of the principal with the confirmation of existing and future claims under the specified contracts or the contracts taken for the assignment and under the annex, the confirmed assignments could be reduced to 100% of the principal. The credit facility repayment was additionally secured by the power of attorney granted to the bank and authorising it to repay the outstanding debt using the Company's bank accounts maintained with the bank. In connection with the annex, the Company submitted to enforcement under Article 97 of the Banking Law up to the total of PLN 52.5m until 22 June 2018. The remaining material provisions of the Agreement remained unchanged.
- 29 July 2014 ZUE S.A. and mBank S.A. of Warsaw (the "Bank") entered into the cooperation agreement whereby the Company would use the Bank's products and services to finance the Company's day-to-day operations (the "Agreement"). The Bank provided the Company with the right to use the following products within the limit provided by the Bank:
- 1) PLN- and EUR-denominated guarantees valid for up to 60 months and provided by the Bank at the Company's request. Additional security in the form of a deposit (the "Deposit") of 15% of the provided guarantee on the terms and conditions as set out in the Deposit Agreement concluded on 29 July 2014 between the Bank and the Company was required for the bank guarantees expiring after 36 months;
 - 2) PLN-denominated non-revolving working capital facilities granted by the Bank at the Company's request according to the working capital facility agreement concluded each time between the Bank and the Company. The maximum limit provided to the Company by the Bank for all the products was PLN 70m with the following product sub-limits:
 - a) Sub-limit for guarantees up to PLN 30m;
 - b) Sub-limit for non-revolving working capital facilities up to PLN 70m. The limit was provided for a term from the date of the Agreement to 20 July 2017. However, the final guarantee expiry date could exceed the limit's basic expiry date.

The Bank's claims against the Company under the Agreement were secured by:

a) Blanket ordinary mortgage on the developed land located in Magdalenka, Lesznowola administrative district, the Orzechowa Street no. 2 and the developed land located in Cracow in the Półnaki Street no. 21, and the transfer to the Bank of the Company's right to entire damages under the insurance agreement for the abovementioned real property;

b) Assignment to the Bank of the Company's receivables from Polskie Sieci Elektroenergetyczne S.A. of Konstancin - Jeziorna under contract of 25 March 2014; and

c) Deposit paid to the Bank on the terms and conditions as set out in the Deposit Agreement concluded on 29 July 2014 between the Company and the Bank.

The financial terms on which the Company entered into the Agreement and intended to use the limit did not differ from common market terms for this type of agreements.

19 November 2014

The Management Board of ZUE S.A. and BNP Paribas Bank Polska S.A. of Warsaw (the "Bank") entered into a revolving credit facility agreement (the "Agreement"). Under the Agreement, the Bank granted to the Company the revolving credit facility up to the agreed limit of PLN 30m (thirty million złoty) in the period 19 November 2014 – 19 November 2015. The facility was contracted to finance the day-to-day business operations of the Company. The facility bore interest at a variable rate based on 1M WIBOR plus the Bank's margin.

The Bank's claims were secured by:

a) Blank bill of exchange issued by the Company with declaration and the Company's statement on submission to enforcement pursuant to Art. 97 of the Polish Banking Act of 29 August 1997 (Dz.U. of 2002, no. 72, item 665, as amended) up to the amount under the bill of exchange not exceeding PLN 51m (fifty one million złoty);

b) Assignment of receivables under the following contract concluded on 25 March 2013 with PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw: "Design and construction services as part of the following project: Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie – Dąbrowa Górnicza Ząbkowice – Jaworzno Szczakowa section," POIiŚ 7.1-69. The Company informed of the said contract in the current report 6/2013 of 25 March 2013; and

c) The Company's statement on submission to enforcement pursuant to Art. 97 of the Polish Banking Act of 29 August 1997 (Dz.U. of 2002, no. 72, item 665, as amended). The Bank could issue an enforcement order up to the amount of the Bank's claim against the Company of not more than PLN 51m (fifty one million złoty).

29 December 2014 ZUE S.A. and mBank S.A. of Warsaw entered into an annex to the cooperation agreement whereby the Company would use the Bank's products and services to finance the Company's day-to-day operations.

Since the limit had not been used according to the agreement, the parties concluded, at the Company's request, an annex whereby the sub-limit for non-revolving working capital facilities was reduced from PLN 70m to PLN 20m.

The Bank would restore the original sub-limit amount of up to PLN 70m within two business days of the Bank's receipt of the signed notice of the assignment of receivables in line with the agreement for the assignment of receivables under the following contract: "Construction of the double track 400 kV Kozienice – Ołtarzew."

The remaining material provisions of the Agreement remained unchanged.

5. Agreements between shareholders

The Company does not hold any information about any major agreements between the shareholders.

III. CORPORATE EVENTS

9 January 2014	The Supervisory Board of the Company resolved to dismiss Mr. Maciej Nowak from the position of the Vice-President of the Management Board of ZUE S.A. and to appoint him as Member of the Management Board of ZUE S.A. Changes in the Company's organisational structure in connection with the merger of ZUE S.A. and Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. were the reason for the dismissal.
9 January 2014	The Supervisory Board of the Company resolved to appoint Mr. Arkadiusz Wierciński as Member of the Management Board of ZUE S.A.
5 June 2014	The Supervisory Board of ZUE resolved to appoint Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 19, 00-854, 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 years 2014-2016.
18 June 2014	The Ordinary General Meeting of ZUE resolved to allocate the net profit of PLN 7,641,695.79 generated by the Company in the financial year 2013 to reserve funds.
8 December 2014	The Extraordinary General Meeting of ZUE resolved to authorise the Company's Management Board to buy back own shares from the eligible employees of former PRK in the total number of up to 381,217 at the unit price of PLN 10.05 per share and create the reserve capital of PLN 3,950,000. In addition, the Extraordinary General Meeting of ZUE resolved to amend the Regulations of the Supervisory Board of ZUE. Under the resolution no. 6, §8 of the Regulations of the Supervisory Board of ZUE reading: "The Supervisory Board shall ensure that the entity authorised to audit the Company's financial statements is changed at least once in seven financial years" was replaced with: "The Supervisory Board shall ensure that the entity authorised to audit the Company's financial statements is changed at least once in five financial years."

IV. CURRENT AND FORECAST FINANCIAL POSITION AND BASIC ECONOMIC AND FINANCIAL INFORMATION

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

The financial statements of the Company for the period ended 31 December 2014 are the first statements for the entire year of the Company's operations following the merger with Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna effected on 20 December 2013.

Statement of comprehensive income

In 2014, revenue generated by the Company stood at PLN 637,976 thousand and increased year-on-year by 58.4%. Revenue from construction contracts had the highest share of sales. Cost of sales increased by 59% to PLN 602,543 thousand. Gross profit was PLN 35,433 thousand and grew by 49.2% compared to the analogous period of 2013.

Operating profit in 2014 amounted to PLN 15,784 thousand – up by PLN 7,530 thousand compared to 2013. The result was influenced by a decrease in general and administrative expenses of PLN 800 thousand. Other operating income was mainly fuelled by the proceeds from accident compensations and re-invoicing of shared costs to subcontractors and consortium members. Other operating expenses were incurred in connection with the payment of compensations and write-downs of receivables.

Financial income was generated mainly by interest earned on deposit accounts. Financial expenses occurred in connection with the use of a bank loan, foreign exchange losses and finance lease costs.

In 2014, the Company recorded a net profit of PLN 10,622 thousand – up by PLN 2,980 thousand compared with the comparative data of 2013.

Item (PLN '000)	31-12-2014	31-12-2013	Change	% change
Revenue	637,976	402,796	235,180	58.4%
Cost of sales	602,543	379,045	223,498	59.0%
Gross profit (loss)	35,433	23,751	11,682	49.2%
General and administrative expenses	17,067	17,867	-800	-4.5%
Other operating income	3,806	5,327	-1,521	-28.6%
Other operating expenses	6,388	2,958	3,430	115.9%
Operating profit (loss)	15,784	8,254	7,530	91.2%
Financial income	1,333	3,417	-2,084	-61.0%
Financial expenses	3,127	2,238	889	39.7%
Pre-tax profit (loss)	13,989	9,433	4,556	48.3%
Corporate income tax	3,368	1,791	1,577	88.0%
Net profit (loss)	10,622	7,642	2,980	39.0%
Net profit (loss)	10,622	7,642	2,980	39.0%

Statement of financial position

At 31 December 2014, the Company's total assets amounted to PLN 425,838 thousand and increased year-on-year by PLN 35,669 thousand (9.1%).

Total non-current assets as at 31 December 2014 increased over the year by PLN 12,754 thousand; i.e. by 9.0%. When compared with the details at 31 December 2013, the strongest increase was recorded for deferred tax assets – by more than PLN 8,407 thousand. The Company recorded an increase in retentions on construction contracts by 75.1% in connection with an increase in revenue at the end of 2014.

In the period under analysis, total current assets increased by PLN 22,915 thousand to PLN 271,177 thousand. This is linked to the increase in short-term trade and other receivables by more than PLN 4,782 thousand and cash and cash equivalents by more than PLN 21,471 thousand accompanied by a significant drop in short-term retentions on construction contracts by PLN 4,375 thousand.

Item (PLN '000)	31-12-2014	31-12-2013	Change	% change
Property, plant and equipment	68,547	64,166	4,381	6.8%
Investment property	7,823	8,660	-837	-9.7%
Intangible assets	10,969	11,223	-254	-2.3%
Goodwill	31,172	31,172	0	0.0%
Investments in subsidiaries	2,942	3,100	-158	-5.1%
Non-current receivables	0	0	0	0.0%
Retentions on construction contracts	2,879	1,644	1,235	75.1%
Deferred tax assets	30,322	21,915	8,407	38.4%
Other assets	7	27	-20	-74.6%
Total non-current assets	154,661	141,907	12,754	9.0%
Inventories	17,921	18,010	-89	-0.5%
Trade and other receivables	176,478	171,696	4,782	2.8%
Retentions on construction contracts	844	5,219	-4,375	-83.8%
Current tax assets	1,908	0	1,908	0.0%
Other assets	1,772	1,938	-166	-8.6%
Loans advanced	1,139	1,754	-615	-35.1%
Cash and cash equivalents	71,116	49,645	21,471	43.2%
Total current assets	271,177	248,262	22,915	9.2%
Total assets	425,838	390,169	35,669	9.1%

Compared to 2013, retained earnings increased by PLN 10,528 thousand to reach PLN 103,369 thousand at the end of 2014. Equity grew 5.5% to PLN 202,963 thousand.

Compared to the figure reported as at 31 December 2013, total non-current liabilities of the Company as at 31 December 2014 increased by PLN 1,021 thousand. This is a result of the increase in long-term provisions, mainly in connection with deferred tax. The greatest decrease was reported for long-term bank borrowings and other debt instruments, which amounted to PLN 5,224 thousand at the end of 2014. A drop by 45.3% was directly connected with the transfer of the remaining balance of investment credit to short-term bank borrowings and other debt instruments.

Total current liabilities at the end of 2014 increased year-on-year by PLN 24,121 thousand to PLN 176,045 thousand. Increased sales resulted in a greater demand for services and materials. This

was followed by an increase in trade and other payables (by 47.2%). As a reliable partner, the Company uses a trade credit and optimises the cost of foreign capital. In 2014, the Company repaid all revolving facilities of PLN 31,163 thousand. Short-term bank borrowings and other debt instruments and other financing sources amounted to PLN 9,214 thousand. The amount follows from investment credit facility and leases.

Item (PLN '000)	31-12-2014	31-12-2013	Change	% change
Share capital	5,758	5,758	0	0.0%
Share premium account	93,837	93,836	1	0.0%
Retained earnings	103,369	92,841	10,528	11.3%
Total equity	202,963	192,435	10,528	5.5%
Long-term bank borrowings and other debt instruments and other financing sources	5,224	9,551	-4,327	-45.3%
Retentions on construction contracts	8,768	8,958	-190	-2.1%
Other financial liabilities	0	0	0	0.0%
Long-term liabilities under employee benefits	766	705	61	8.6%
Deferred tax liability	23,663	19,959	3,704	18.6%
Long-term provisions	8,410	6,637	1,773	26.7%
Total non-current liabilities	46,831	45,810	1,021	2.2%
Trade and other payables	130,021	88,318	41,703	47.2%
Retentions on construction contracts	18,122	6,630	11,492	173.3%
Short-term bank borrowings and other debt instruments and other financing sources	9,214	40,377	-31,163	-77.2%
Other financial liabilities	3	0	3	0.0%
Short-term liabilities under employee benefits	13,050	7,321	5,729	78.3%
Current tax liabilities	0	2,943	-2,943	-100.0%
Short-term provisions	5,635	6,335	-700	-11.0%
Total current liabilities	176,045	151,924	24,121	15.9%
Total liabilities	222,875	197,734	25,141	12.7%
Total equity and liabilities	425,838	390,169	35,669	9.1%

Statement of cash flows

The Company's cash at the end of 2014 amounted to PLN 71,116 thousand. The Company generated positive net cash flows from operating activities of PLN 72,441 thousand and negative net cash flows from investing activities of PLN -7,431 thousand. The negative figure resulted from greater capital expenditure in 2014. The expenditure will enable the Company to generate revenue in the future. Cash flows include the expenditure on property, plant and equipment, intangible assets and other non-current assets as well proceeds from the sale of these assets. The Company generated negative

net cash flows from financing activities of PLN -43,536 thousand. This was a result of the repayment of credit facilities.

Expenditures include the expenses incurred in connection with the buy-back of own shares, the repayment of debt and decrease in finance lease payments.

Item (PLN '000)	2014	2013
Cash at the beginning of the year	49,645	10,232
Net cash flows from operating activities	72,441	12,030
Net cash flows from investing activities	-7,431	-8,872
Net cash flows from financing activities	-43,536	-22,272
Total net cash flows	21,474	39,402
Foreign exchange gains / (losses)	-3,15	11
Cash at the end of the year	71,116	49,645

2. Financial analysis

Profitability ratios

In 2014, gross margin was 5.55%. Return on assets (ROA) stood at 2.49% - up by 0.49 p.p. compared to the analogous figure of 2013. Return on equity (ROE) increased by 1.39 p.p. to 5.52%.

Item	2014	2013
Gross margin	5.55%	5.90%
EBITDA	24,131	15,498
EBITDA margin	3.78%	3.90%
EBIT margin	2.47%	2.00%
Gross margin	2.19%	2.30%
Net margin	1.66%	1.90%
ROA	2.49%	2.00%
ROE	5.52%	4.00%

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 2014, working capital was PLN 95,132 thousand. Liquidity ratios remained at the level similar to that in 2013 and confirmed the Company's ability to settle its liabilities in a timely fashion. Current ratio at the end of 2014 was 1.5. Cash ratio increased year-on-year by 0.1 p.p. and was 0.4.

Item	2014	2013
Working capital	95,132	96,338
Current ratio	1.5	1.6
Quick ratio	1.4	1.5
Cash ratio	0.4	0.3

Formulas used to calculate the ratios:

Working capital = current assets – current liabilities

Current ratio = current assets / current liabilities

Quick ratio = (current assets – inventory) / current liabilities

Cash ratio = cash and cash equivalents / current liabilities

Debt ratios

Debt ratios at 31 December 2014 remained at the level similar to that at 31 December 2013.

At 31 December 2014, the Company had PLN 14,438 thousand of short-term and long-term credit facilities.

Investment credit (agreement no. 07/164/11/Z/IN) is the only credit used by the Company. Other limits provided by banks in 2014 were not started.

Section XI.1 of these statements contains a detailed description of credit facilities.

No need to finance long-term investments and ongoing activities with credit facilities and positive balance of cash flows are evidence of profitability and good financial standing of the Company.

Item	2014	2013
Debt ratio	0.6	0.5
Debt to equity ratio	1.1	1
Equity to assets ratio	0.5	0.6
Fixed capital to non-current assets ratio	1.6	1.7
Short-term debt ratio	0.4	0.4
Long-term debt ratio	0.1	0.1
Interest coverage ratio	20.9	4.6

Formulas used to calculate the ratios:

Debt ratio = (non-current and current liabilities + provisions for liabilities) / total assets

Debt to equity ratio = (non-current and current liabilities) / equity

Equity to assets ratio = equity / total assets

Fixed capital to non-current assets ratio = (equity + non-current liabilities) / non-current assets

Short-term debt ratio = current liabilities / total assets

Long-term debt ratio = non-current liabilities / total assets

Interest coverage ratio = EBIT / interest

3. Financial resource management

At the end of the reporting period, the Company's cash amounted to PLN 71,116 thousand – up by PLN 21,471 thousand compared to the end of 2013.

The main financial instruments used by the Company in 2014 included:

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

In 2014, ZUE and mBank S.A. entered into the cooperation agreement whereby the Company would use the Bank's products and services to finance the Company's day-to-day operations. In addition, ZUE and BNP Paribas Bank Polska S.A. entered into the revolving credit facility agreement whereby the Company was granted the limit of PLN 30m. The agreements are described in detail in chapter II section 4 – Credit facility agreements.

The term of the use of limits was extended for the credit facility agreement no. 07/183/04/Z/VV (mBank S.A.) and 2749/11/475/04 (Bank Millennium S.A.).

Item (PLN '000)	As at 31.12.2014	As at 31.12.2013
Bank borrowings and other debt instruments and other financing sources (long-term)	5,224	9,551
Bank borrowings and other debt instruments and other financing sources (short-term)	9,214	40,377
Total	14,438	49,928

In 2014, the Company acquired property, plant and equipment of PLN 7,067 thousand under finance lease.

4. Human resource management

At the end of the reporting period, the Company employed 753 people, including 91 women.

Proportion of women and men in management and supervisory functions:

	2014				2013			
	Management Board		Supervisory Board		Management Board		Supervisory Board	
	Number of people	% share	Number of people	% share	Number of people	% share	Number of people	% share
Women	1	17%	1	20%	1	20%	1	20%
Men	5	83%	4	80%	4	80%	4	80%
Total	6	100%	5	100%	5	100%	5	100%

The total number of employees included 274 white collar workers and 479 blue collar workers.

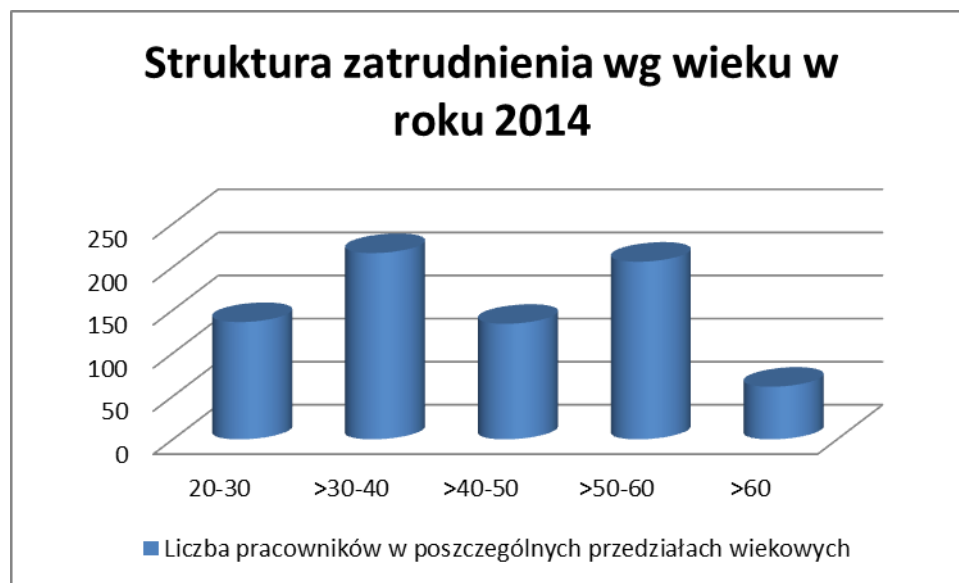
Employment structure at ZUE S.A. according to the types of activity in 2013-2014.

Item	2014	2013
Management and administration	89	102
Sales and marketing	14	15
Production	479	471
Engineers and technicians	171	121
TOTAL	753	709

The Company's employment structure according to education in 2013-2014.

Education	2014	2013
Elementary	75	83
Vocational	233	236
Secondary	236	226
Higher	209	164
TOTAL	753	709

Employment age structure in 2014



Employment age structure in 2014

Number of employees in individual age groups

In 2014, the Company paid the gross remuneration of PLN 49,711 thousand under employment contracts and the gross remuneration of PLN 282 thousand under civil law agreements.

5. Remuneration of ZUE key management personnel

ZUE Management Board	Period	Remuneration (PLN)
Wiesław Nowak	01.2014 – 12.2014	504,589.29
Marcin Wiśniewski	01.2014 – 12.2014	344,875.00
Maciej Nowak	01.2014 – 12.2014	324,516.61
Jerzy Czeremuga	01.2014 – 12.2014	325,922.60
Anna Mroczek	01.2014 – 12.2014	321,888.00
Arkadiusz Wierciński	01.2014 – 12.2014	338,875.00

ZUE Proxy	Period	Remuneration (PLN)
Barbara Nowak	01.2014 – 12.2014	283,532.00

ZUE Supervisory Board	Period	Remuneration (PLN)
Bogusław Lipiński	01.2014 – 12.2014	115,807.20
Magdalena Lis	01.2014 – 12.2014	100,277.31
Michał Lis	01.2014 – 12.2014	102,995.49
Mariusz Szubra	01.2014 – 12.2014	8,500.00

Piotr Korzeniowski	01.2014 – 12.2014	8,500.00
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In the period January 2014 – June 2014, members of the Supervisory Board were paid monthly gross remuneration of PLN 500 for their service on the Board. In the period July 2014 – December 2014, members of the Supervisory Board were paid monthly gross remuneration of PLN 1000 for their service on the Board.

The abovementioned remuneration of Mr. Bogusław Lipiński, 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.

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.

No death or collective or serious accident at work was reported in 2014 at ZUE. The number of workplace injuries did not substantially change when compared with 2013. The inspections carried out in 2014 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 assessment of workplace and contract risks; and
- provision of proper facilities and resources to improve work conditions.

7. Integrated Management System

ZUE has for many years provided the highest quality services taking account of the safety of its employees and customers and the needs of the natural environment. This has been confirmed by the implementation and maintenance of the Integrated Management System based on the following standards:

–	9001:2008 – “Quality Management System. Requirements;”	ISO
–	14001:2004 – “Environmental Management System. Requirements and Guidelines;”	ISO
–	S 18001:2007 – “Occupational Health and Safety Management Systems.”	OHSA

The Integrated Management System at ZUE has been developed and implemented through the management of processes construed as a set of means and activities combined to pass from the initial to final state; i.e. from an offer to final acceptance accompanied by the hand over of a facility and final assessment of a task.

The system has been entered into the Integrated Management System Register and documented in line with the system procedures and instructions.

The Integrated Management System includes:

Design, construction, operation and repairs of:

- tram and railway tracks, streets and roads with infrastructure;
- tram, trolleybus and railway OCL networks;
- steel and reinforced concrete structures;
- lighting, control and signalling systems;
- power and telecommunications cable and overhead cable networks and equipment; and
- repair and rental of construction vehicles, machinery and equipment.

By maintaining the Integrated Management System, ZUE intends to strengthen its position of a reliable company able to satisfy the needs of the most demanding customers and reduce the impact of its processes, products and services on environment and neighbouring community and strictly observe the rules of occupational health and safety imposed both by the law and the Company.

8. Growth prospects

The Strategy for Road Transport by 2020 (with the perspective until 2030) adopted by the Council of Ministers on 22 January 2013 (24 September 2014 Implementation Document – adding details to the Strategy approved of by the government on 22 January 2013) provides for implementation of the following fields of intervention in the field of railway infrastructure conditioning the rail transport development:

- consistent upgrade and revitalization of the existing railway lines so that in 2030, the major part of the network should be in good technical condition (i.e. requiring only maintenance) and that TEN-T lines should facilitate travel of trains at a technical speed of at least 100 km/h;
- revitalization and expansion of railway lines in the functional areas of cities as well as initiating actions to improve the integration of rail and road transport;
- upgrade and construction of terminals adapted to handle intermodal container transport by rail;
- by 2020 – taking decisions on the possible construction of a high speed rail system supplemented by the so-called "Y"-line connecting Warsaw, Łódź, Poznań and Wrocław;
- upgrade of railway infrastructure and railway stations;
- replacement of obsolete locomotives and carriages with modern rolling stock corresponding to the specifics of particular market segments;
- development of infrastructure of systems facilitating the management of passenger and freight transport; the gradual implementation of the European Rail Traffic Management System (ERTMS) on the major rail routes.

Long-term Rail Investment Programme until 2015 contains details of the investments in rail infrastructure.

Financing of investments in rail infrastructure depends on the significance of a line. For the lines of state importance, the funds required for the projects executed by the authority managing the national line network are provided by the State.

By 2020, most of the investments executed by the national rail infrastructure authority will be funded by the Cohesion Fund as part of the Infrastructure and Environment Operational Programme for 2014-2020. At the national level, the funding of the projects will come from the Rail Fund and, to a small extent, local authorities, the State budget (a significant source of national contribution to the Infrastructure and Environment Operational Programme projects) and funds of the infrastructure management, including the financing provided by the European Investment Bank

The sources of financing the rail infrastructure planned for 2010-2015 include:

- the State budget;
- the EU funds;
- the Rail Fund; and
- funds of the infrastructure management (including loans extended by the European Investment Bank).

Apart from the lines of state importance, projects are supported with the funds from the European Regional Development Fund available as part of the Regional Operational Programmes of particular voivodeships. The State's contribution includes the funds provided by local authorities including, in particular, regional authorities, and the funds provided by the authority managing the national rail infrastructure.

The Polish tram market is one of the world's biggest tram markets. It includes 14 tram networks operated by 16 enterprises.

Urban rail transport in Poland is managed by local authorities. There is no central authority responsible for the coordination of this segment. The decisions about investments are made by local authorities and city authorities.

Estimates show that 60-70% of the Polish tram infrastructure needs renovation. The Government declare that more than 160km of tram lines will be built or upgraded in Poland by 2022.

The Management of the ZUE Group believe the public transport segment will develop in connection with:

- required upgrade of old tracks and OCL;
- development of new city districts and the related need to build new tram lines (e.g. the Upper Silesia Łódź, Bydgoszcz, Grudziądz and Częstochowa plan to extend their tram networks while Olsztyn and Płock intend to build the new ones);
- general policy to promote public transport in response to communication problems faced by Poland's biggest cities ((e.g. continued extension of Krakowski Szybki Tramwaj (Cracow Speed Tram)).

PMR Publications, a research company, say that the power industry will mainly be driven by distribution and transmission lines since many major transactions in this sector have been given up.

Experts expect the expenditure on major projects in the segment to reach PLN 10bn. It is estimated that approximately PLN 55bn will be spent on the upgrade of power networks that are more than 30 years old and need to be replaced.

According to the Energy Regulatory Office, the expenditure is expected to grow to reach PLN 7.4bn in 2015.

Changes in the Group's organisational structure in connection with the merger of ZUE and PRK effected in 2013 influenced its operations. The merger has been aimed at a more efficient use of the companies' potential and the achievement of synergies including a better use of their capacity to deliver services and the achievement of economic and financial synergies, including the reduction of business costs (including the reduction of costs related to the maintenance of a separate entity), simplification of the Group's structure and a more efficient management of the Capital Group.

The cooperation as part of one entity will enable the execution of major investments, more flexible margins and completion dates, better service quality management and the achievement of a position of independent contractor.

9. Fundamental risks

Business activity of Polish companies, including the activity of ZUE, is limited by the following risks.

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

ZUE'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 2014. 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 Company's business activity and, consequently, influence its financial results.

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

Accurate estimate of costs of construction projects may have an impact on decisions whether to participate in tender procedures, valuation of contracts and final margins. This risk cannot be excluded because it is strongly connected with external factors beyond the Company's control such as changing prices of materials or fees charged by subcontractors.

- **Risk related to financial liquidity in the 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 Company. This may have a negative influence on the Company's financial results.

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

ZUE 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 Company 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 Company's financial results.

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

The Company 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 stronger competition**

The issue of competition is perceived by the Group as the ability to flexibly and quickly adjust to changing conditions and expectations of the market. To prevent competitive entities from taking over the local market, the Group tries to monitor the policy of construction companies and adjust to changing technological and quality requirements.

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

Construction contracts concluded by the Company 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 Company 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 Company 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 ZUE's financial results.

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

According to the Polish Civil Code, a contractor commissioned by the Company to execute a construction project may at any time demand the payment guarantee from ZUE (the contracting authority) 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 Company. 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 ZUE's financial position.

- **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 Company operates in. In particular, tax authorities relying, for instance, on interpretations of the Minister of Finance may question the Company'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 Company, may have a negative impact on the Company's financial position.

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

ZUE participates in public tenders and includes target contracts in its 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 Company'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 damage has been done by the Company as a result of its 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 Company'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) 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 greater employment costs**

Given the changeable economic conditions, the Company's aspirations for constant development and raising the quality of the Company's services, the costs of employment may grow and influence ZUE's

financial results.

- **Risk related to atmospheric conditions**

ZUE'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 even stopped to meet technological regimes. If unfavourable weather conditions continue for too long, the situation may have a negative impact on the Company'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 Company.

10. Financial risk management

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

The Company'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 Company 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 Company 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 Company's ability to pay its subcontractors after the Company has been paid by an investor.

The credit risk has increased for the Company since 2013 because public sector units more and more frequently expect the contractor to finance the entire project. Under the Public Procurement Act, contracting authorities are entitled to determine the terms of transaction, which provide for postponed dates of payment.

The Company'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.

11. Assessment of intended investments

Investments in tangible fixed assets and intangible assets will be made in 2014 at the replacement level due to the extensive investment programme implemented in previous years.

We believe that the level of financial resources as well as available credit and leasing lines are sufficient and thus we anticipate no changes whatsoever in the financing structure.

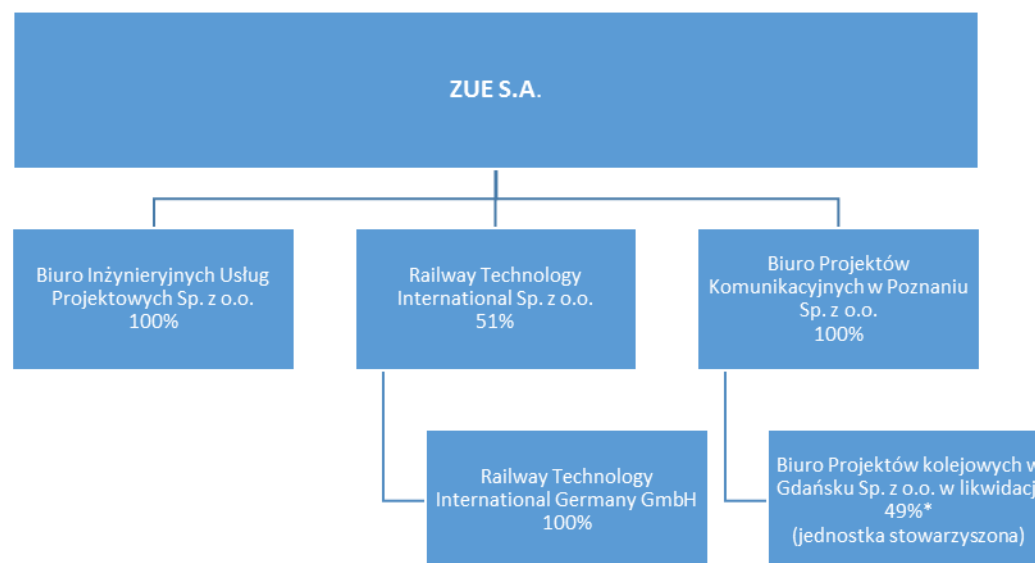
V. ORGANISATION

1. Structure of the ZUE Group

The ZUE Group operates on the entire Polish market. The Group offers comprehensive services in the field of specialized engineering construction in the areas of railway, tram and urban infrastructure, power engineering, power electronics and enclosed structures.

Composition of the ZUE Group:

- ZUE S.A. with registered office in Cracow (the parent);
- Biuro Inżynierskich Usług Projektowych Sp. z o.o. (subsidiary – a 100% interest);
- Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. (subsidiary – a 100% interest);
- Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji (associated with BPK – a 49.06% interest);
- Railway Technology International Sp. z o.o. (subsidiary – a 51.00% interest), the company is not operating; and
- Railway Technology International Germany GmbH (subsidiary of RTI – 100.00% of shares) whose core business is the winning and execution of foreign projects.



Do wykresu: Jednostka stowarzyszona - associate

* Direct interest of BPK Poznań in the share capital of BPK Gdańsk.

ZUE is authorised to manage the financial and operating policy of BIUP and BPK Poznań because it holds 100% of shares in the companies.

ZUE holds 51% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the assets and financial position, Railway Technology International Sp. z o.o. was not consolidated as at 31 December 2014.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial data on the assets and

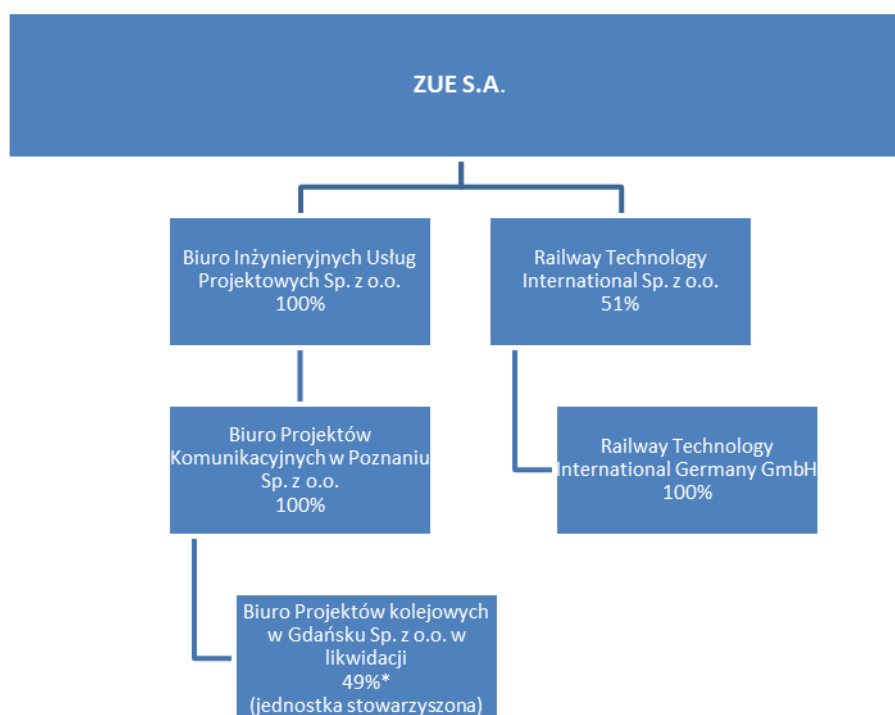
financial position, Railway Technology International Germany GmbH was not consolidated as at 31 December 2014.

At 31 December 2014, Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. held 964 shares in Biuro Projektów Kolejowych w Gdańsku Spółka z o.o. w likwidacji; i.e. a 49.06% interest in the company. The only aim of Biuro Projektów Kolejowych w Gdańsku Spółka z o.o. w likwidacji is to liquidate its assets to satisfy its liabilities. Thus, ZUE does not exercise control within the meaning of IFRS 10 "Consolidated Financial Statements" and, consequently, the financial data of BPK Gdańsk was not consolidated.

On 30 December 2014, the Extraordinary Shareholders Meeting of BIUP resolved to increase the share capital of BIUP from PLN 1,269,400.00 to PLN 2,017,850.00 through the creation of 14,969 new shares with a par value of PLN 50 each. All the shares with the total value of PLN 748,450.00 were acquired by ZUE and paid up with contributions of the total value of PLN 2,993,800 including in-kind contribution in the form of 4,261 shares with a par value of PLN 500 each held by the Company (as the sole shareholder) in the share capital of BPK of Poznań (their carrying amount according to the Company's accounting records was PLN 2,993,735.88) and cash of PLN 64.12.

The increase of the share capital of BIUP was registered on 30 January 2015 by the District Court for Cracow – Śródmieście in Cracow, XI Commercial Division of the National Court Register.

Structure of the Capital Group at this Report approval date:



Do wykresu: Jednostka stowarzyszona - associate

*Direct interest of BPK Poznań in the share capital of BPK Gdańsk.

2. Merger of ZUE and PRK

On 15 July 2013, the Management Board of the Company decided about the merger of ZUE and PRK. On 6 December 2013, the Extraordinary General Meeting of ZUE resolved under the resolution no. 4 to merge ZUE with PRK. The merger took place on 20 December 2013 by registering the transaction with the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register pursuant to Art. 492 § 1.1 of the Act; i.e. by a transfer of all the assets of PRK to ZUE in exchange for ZUE shares issued to the shareholders of PRK taking account of Art. 514 of the Act whereby ZUE, a shareholder of PRK, did not acquire own shares in exchange for the shares of PRK.

On 2 January 2014, the subscription took place in connection with the introduction of ZUE's securities to trading on the stock exchange and the allotment of shares.

The abovementioned subscription was connected with the said merger and concerned 320 class C bearer shares with a par value of PLN 0.25 each which had not been purchased as part of the merger by the existing shareholders of PRK as a result of the exchange ratio determined in the plan of merger, rounding the total number of the merger shares offered to the existing shareholders of PRK down to the nearest integral number and the payment of cash equivalent to a fraction of the merger share that had not been given to them.

In connection with § 2.13 of the resolution no. 4 passed by the Extraordinary General Meeting of ZUE on 6 December 2013 and § 2.13 of the resolution no. 3 passed by the Extraordinary General Meeting of PRK on 9 December 2013, the Management Board of ZUE decided to offer the non-allotted merger shares to a designated purchaser at the issue price equal to the closing bid price applicable on the Warsaw Stock Exchange on the date of the share acquisition agreement but not lower than the value of the merger shares computed for the purpose of the merger; i.e. PLN 9.01 per one non-allotted merger share.

The agreement for the acquisition of the non-allotted merger shares was concluded on 2 January 2014. Under the said agreement, Mr. Wiesław Nowak, President of the Company's Management Board, acquired all 320 shares at the issue price of PLN 10.20 per share. The shares were allotted on 2 January 2014.

3. Shares in ZUE's related entities held by members of ZUE's management and supervisory personnel

Value of shares held by members of the Management Board and Supervisory Board of ZUE in RTI as at 31 December 2014.

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

4. ZUE's ownership interest in related entities as at 31 December 2014

Entity	Type of relationship	Number of shares	Par value per share (PLN)	Total par value of shares (PLN)	Ownership interest (%)
BIUP	Subsidiary	25,388	50	1,269,400	100.00
RTI	Subsidiary	510	50	25,500	51.00
BPK	Subsidiary	4,261	500	2,170,000	100.00
BPK Gdańsk	Associate	964	500	482,000	49.06 ²
RTI Germany	Indirect subsidiary	1	EUR 25,000	EUR 25,000	100.00 ³

²Direct interest of BPK Poznań in the share capital of BPK Gdańsk.

³Direct interest of RTI in RTI Germany.

VI. INVESTMENTS MADE IN 2014

The total capital expenditure in 2014 was PLN 13,221 thousand. The capital expenditure is detailed in the table below.

Item (PLN '000)	Own funds	Leasing	Bank borrowings	Total
Domestic investments				
Intangible assets	466	0	0	466
Property, plant and equipment, including:	5,658	7,097	0	12,755
- buildings and structures	924	0	0	924
- plant and equipment	333	6,266	0	6,599
- vehicles	4,275	831	0	5,106
- other	126	0	0	126
Equity investments	0	0	0	0
Total domestic investments	6,124	7,097	0	13,221
Total international investments	0	0	0	0

The Company's major investments in 2014 in property, plant and equipment included:

- Purchase of Unimat tamping machine for the total price of PLN 5,669 thousand. The transaction was financed under a lease contract.
- Purchase of 4 excavators for the total price of PLN 1,334 thousand. The purchase of 3 excavators was financed with own funds and the purchase of 1 excavator was financed under a lease contract.
- Purchase of a special car Mercedes Unimog for PLN 200 thousand. The transaction was financed with own funds.
- Purchase of Ford Transit with mobile elevator platform for PLN 248 thousand. The transaction was financed under a lease contract.
- Purchase of 15 426Va dump cars for the total price of PLN 1,680 thousand. The transaction was financed with own funds.
- Purchase of BMW series 7 Limousin 750Ld xDrive for PLN 410 thousand. The transaction was financed under a lease contract.
- Purchase of 13 cars for the total price of PLN 742 thousand. The purchase of 12 cars was financed with own funds and the purchase of 1 car was financed under a lease contract.

The Company's investments in intangible assets in 2014 mainly concerned the purchase of software and licences.

VII. TRANSACTIONS WITH RELATED ENTITIES

In the reporting period, major transactions were entered into between ZUE and subsidiaries, and related entities on arm's length terms.

In the reporting period, ZUE entered into the following sales transactions with related entities:

- Lease of rooms and phone services under agreements;
- Fees for language courses for employees;
- Trade in current and non-current assets; and
- Rental of cars under agreements.

In the reporting period, ZUE entered into the following purchase transactions with the related entities:

- Design services;
- Lease of rooms under the agreement and subsequent annexes;
- Printing services.

In the reporting period, ZUE sold the following services to:

BIUP:

O	Lease of offices	PLN 168 thousand
O	Bond and credit guarantees	PLN 34 thousand
O	Car rental	PLN 24 thousand
O	Other services	PLN 10 thousand
O	Loan	PLN 100 thousand
O	Design services	PLN 476 thousand

BPK Poznań:

O	Bill of exchange guarantees	PLN 18 thousand
O	Interest on loan	PLN 10 thousand
O	Other services	PLN 2 thousand

BPK Gdańsk:

O	None	
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RTI:

O	Lease of business establishment	PLN 12 thousand
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Services sold to ZUE by related entities:

BIUP:

O	Sale of non-current assets	PLN 265 thousand
O	Printing services	PLN 5 thousand
O	Preparatory works	PLN 1,150 thousand
O	Design documentation	PLN 155 thousand
O	Selection of foundations	

BPK Poznań :

O	Design services	PLN 2,849 thousand
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RTI Germany:

O	Market research services	PLN 978 thousand
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Wiesław Nowak:

O Lease services

PLN 66 thousand

In the reporting period, RTI leased business establishments on the basis of the lease of 16 November 2012.

The transactions with Mr. Wiesław Nowak occurred as a result of the lease 28 December 2011 and subsequent annexes thereto whereby he leased the office and warehouse space of 160m² out to ZUE. The monthly rent was PLN 8 thousand. The lease was terminated on 10 September 2014.

In the period under analysis, an office was leased to BIUP under the lease of 7 April 2010 and the annexes no. 1, 2, 3, 4 and the annex no. 5 of 13 June 2014 according to which the leased space was 189.50m² and the monthly rent was PLN 8.56 thousand.

In the reporting period, ZUE advanced the following loans to the following subsidiaries:

- RTI (on 06.05.2014) – loan of PLN 10.0 thousand; annual interest rate: 3M WIBOR + margin. An annex was signed whereby the repayment date was extended until 21.12.2015;
- RTI (on 17.11.2014) – loan of PLN 10.0 thousand with the repayment date of 20.12.2015; annual interest rate: 3M WIBOR + margin;
- BPK (on 08.09.2014) – loan of PLN 800.0 thousand. The loan was repaid in October 2014;
- BPK (on 01.12.2014) – loan of PLN 900.0 thousand with the repayment date of 20.12.2015; annual interest rate: 3M WIBOR + margin;
- BIUP (on 16.10.2014) – loan of PLN 100.0 thousand; annual interest rate: 3M WIBOR + margin. An annex was signed whereby the repayment date was extended until 20.02.2015. The loan was repaid on 19.02.2015.

Loans advanced to subsidiaries as at 31 December 2014:

Borrower	Description	Principal	Interest rate	Repayment date
RTI	Loan agreement of 09.05.2012	EUR 25.5 thousand	3M EURIBOR + margin	2015-12-21
RTI	Loan agreement of 06.05.2014	PLN 10.0 thousand	3M EURIBOR + margin	2015-12-21
RTI	Loan agreement no. 2/2014 of 17.11.2014	PLN 10.0 thousand	3M EURIBOR + margin	2015-12-20
BPK	Loan agreement no. 2/2014 of 01.12.2014	PLN 900.0 thousand	3M WIBOR + margin	2015-12-20
BIUP	Loan agreement no. 1/2014 of 16.10.2014	PLN 100.0 thousand	3M WIBOR + margin	2015-02-20

Other revenue / expense transactions with the related entities concerned the services related to repairs, diagnostic testing and lease of equipment, rental fees in connection with the leased office space, language courses and phone bills.

ZUE provided the following bill of exchange guarantees to the following related entities:

Related entity	Beneficiary	Amount	Security	Term
BIUP	Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.	PLN 2.3 thousand	Performance Bond no. 280000018798.	2013-01-08 2016-01-23
Consortium: BIUP i BPK	Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.	PLN 96.9 thousand	Performance Bond no. 280000033427.	2012-08-20 2015-03-24
BPK	HDI Asekuracja TU S.A.	PLN 12.0 thousand	Performance bond and defects liability bond no. 3034774/8400.	2013-11-24 2016-12-08
BPK	Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.	PLN 13.2 thousand	Defects liability bond no. 280000062378 (Preparation of design and construction documentation of intermodal container terminal with access tracks and exit from the track no. E20).	2013-12-01 2014-11-15
BIUP	Powszechny Zakład Ubezpieczeń S.A.	PLN 500.0 thousand	Mandate agreement for temporary provision of project-related bonding products.	2013-04-30 2014-04-29
BIUP	BRE Bank S.A.	PLN 450.0 thousand	Overdraft facility no. 07/113/13/Z/VV.	2013-06-21 2015-06-12
BPK	Towarzystwo Ubezpieczeń Euler Hermes S.A.	PLN 49.0 thousand	Agreement no. B014/UPW/001 of 07.05.2014: Design documentation for "Upgrade of the railway line no. 131 Chorzów Batory – Tczew, the Bydgoszcz Główna - Zduńska Wola Chorzów Batory section" for the works on the Zaryń - Piotrków Kujawski route and the Lipie Góry and Chełmce stations."	2014-06-06 2015-01-27
BPK	Towarzystwo Ubezpieczeń Euler Hermes S.A.	PLN 14.8 thousand	Agreement no. B014/UPW/001 of 07.05.2014: Design documentation for "Upgrade of the railway line no. 131 Chorzów Batory – Tczew, the Bydgoszcz Główna - Zduńska Wola Chorzów Batory section" for the works on the Zaryń - Piotrków Kujawski route and the Lipie Góry and Chełmce stations."	2015-01-28 2017-12-06
BPK	Towarzystwo Ubezpieczeń Euler Hermes S.A.	PLN 20.2 thousand	Preparation of design documentation for the following project: Upgrade of the railway line no. 274 Wrocław - Zgorzelec on the Wrocław - Jelenia Góra section – construction of the integrated Wałbrzych Śródmieście stop.	2014-06-18 2015-05-30
BPK	Towarzystwo Ubezpieczeń Euler Hermes S.A.	PLN 6.1 thousand	Preparation of design documentation for the following project: Upgrade of the railway line no. 274 Wrocław - Zgorzelec on the Wrocław - Jelenia Góra section – construction of the integrated Wałbrzych Śródmieście stop.	2014-05-31 2016-05-15
BPK	Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.	EUR 108.1 thousand	Defects liability bond no. 280000062318: Technical assistance in connection with the designed upgrade of E65 railway line on the Warsaw - Działdowo – Gdynia section.	15-03-2013 30-06-2014
BIUP + BPK	Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.	EUR 85.8 thousand	Performance bond no. 280000064611 Preparation of design documentation for the following project: Upgrade of the Warszawa Włochy - Grodzisk Mazowiecki railway line – preparatory works.	06-09-2013 19-01-2015

BPK + BIUP	Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.	EUR 25.7 thousand	Defects liability bond no. 280000064611: Preparation of design documentation for the following project: Upgrade of the Warszawa Włochy - Grodzisk Mazowiecki railway line – preparatory works.	20-01-2015 04-01-2019
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No costs of debts at risk in connection with the transactions with the related entities were recognised in the reporting period.

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

On 9 January 2014, the Supervisory Board of the Company resolved to dismiss Mr. Maciej Nowak from the position of the Vice-President of the Management Board of ZUE S.A. and to appoint him as Member of the Management Board of ZUE S.A. Changes in the Company's organisational structure in connection with the merger of ZUE S.A. and Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. were the reason for the dismissal.

On 9 January 2014, the Supervisory Board of the Company resolved to appoint Mr. Arkadiusz Wierciński as Member of the Management Board of ZUE S.A.

The following events took place 2014 in connection with ZUE Management Board's decision (made as part of the Group reorganisation) to merge the design companies in order to strengthen the market position and streamline the provision of services to the tram, rail and power industry:

Ownership changes at BIUP

Acting pursuant to Article 255, Article 257 § 1 and Article 258 of the Act, the Extraordinary Shareholders Meeting of BIUP resolved on 18 April 2014 under the resolution no. 1/04/2014 to increase the share capital of BIUP from PLN 19,400 to PLN 1,269,400 through the creation of 25,000 shares with a par value of PLN 50 each. All the newly created shares were the preference shares giving their holders an entitlement to dividend that would exceed by half the non-preference shares dividend. All the newly created shares were fully paid up by ZUE in cash of PLN 1,250,000 in the following way:

- Payment of cash of PLN 20,960.61; and
- Set-off of ZUE's claims against BIUP in connection with the loans advanced to BIUP in the total amount of PLN 1,229,039.39.

On 23 May 2014, the increase of the share capital of BIUP was entered into the National Court Register maintained by the District Court for Cracow – Śródmieście in Cracow, XI Commercial Division of the National Court Register.

On 17 June 2014, Mr. Maciej Nowak and Ms. Magdalena Lis, and ZUE entered into the agreement for the sale of BIUP shares.

Under the agreement:

- Mr. Maciej Nowak sold 99 BIUP shares to the Company for the total of PLN 7,425;
- Ms. Magdalena Lis sold 99 BIUP shares to the Company for the total of PLN 7,425.

Consequently, ZUE holds 100% of BIUP shares.

Ownership changes at BPK Poznań

On 9 May 2014, the Ordinary Shareholders Meeting of BPK Poznań resolved to increase the share capital of BPK Poznań from PLN 1,747,500 to PLN 2,170,000 through the creation of 845 new shares with a par value of PLN 500 each.

Acquisition of shares:

- 1) New shares in the increased share capital are taken up by the existing shareholders of BPK Poznań pro rata to the shares already held by them within 7 days of the relevant resolution passed by the Ordinary Shareholders Meeting of BPK Poznań.
- 2) If the shares are not taken up by the shareholders within 7 days as specified in item 1) above, the shares will be offered by the Management Board of BPK Poznań, within 7 days, to the remaining shareholders pro rata to the shares already held by them.
- 3) If the shares are not taken up by the shareholders within 7 days as specified in item 2) above, the shares will be offered by the Management Board of BPK Poznań to ZUE.
- 4) The shares that have been taken up will be paid up in cash.

In the financial year 2014, ZUE acquired 1381 shares in BPK Poznań.

At this report publication date, ZUE held the total of 4261 shares in BPK Poznań; i.e. a 100% interest in the share capital of BPK Poznań.

Following the reorganisation, the ZUE Group will be composed of the following companies: one strong construction company; i.e. ZUE S.A., the companies dedicated to foreign markets; i.e. Railway Technology International Sp. z o.o. and Railway Technology International Germany GmbH and the company focused on design activities.

IX. 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

All employment contracts signed by the members of the Company's Management Board contain a no competition clause, which continues in force for one year after the contract has been terminated by both the employer and employee.

During the said one-year period, the Company is obliged to pay damages equal to an employee's annual remuneration, except for additional remuneration, in monthly instalments. If an employment contract is terminated by a member of the Company's Management Board, the Company may decide, within 14 days of the receipt of termination notice, to release the member from their obligation to observe the no competition clause without having to pay damages.

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

Buyback of ZUE own shares

Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna emerged as a result of the commercialisation of Przedsiębiorstwo Robót Kolejowych w Krakowie, the state-owned enterprise. The State Treasury was the company's sole shareholder until 6 January 2010. Under the sales agreements of 23 October 2009 and 12 June 2013, ZUE S.A. acquired shares from the State Treasury representing 85% and 0.9%, respectively, of the share capital of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna.

Given the privatisation of PRK, which emerged as a result of the commercialisation of the state-owned enterprise, the eligible employees had the right to acquire, for no consideration, 15% of shares held by the State Treasury on the date of the company's entry in the register. Pursuant to Art. 36 and 38 of the Polish Act on Commercialisation and Privatisation, the eligible employees of PRK had the right to acquire the company shares from the State Treasury for no consideration. Following the privatisation process, the eligible employees acquired the total of 133,982 shares from the State Treasury.

On 16 September 2009, the Trade Unions at PRK (NSZZ Pracowników PRK w Krakowie S.A. and NSZZ „Solidarność”), Zakłady Usług Energetycznych i Komunikacyjnych grupa ZUE S.A. (now ZUE S.A.) and PRK signed the “Package of Social Guarantees; social and employee guarantees for the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie Spółka Akcyjna with registered office in Cracow.” Pursuant to section III item 1 of the said Package, PRK was obliged to acquire, as of 7 January 2015, the employee shares from the employees entitled to acquire the shares for no consideration and the price of one share could not be lower than the price of one share on the date of ZUE S.A.'s purchase of 85% of shares in PRK. In addition, section III item 3 of the said Package read that ZUE would purchase the shares at the price multiplied by 1.5 per share should PRK fail to perform the abovementioned obligation.

On 8 October 2013, the parties to the Social Package signed the annex no. 2 thereto to enable the shared interpretation of the document and make it more detailed. Thus, the document specified the persons authorised to demand the repurchase. The parties agreed that as of 7 January 2015, ZUE would be obliged to acquire ZUE shares received in exchange for the shares in PRK sold directly by the State Treasury from the eligible employees of ZUE or their legal successors. The demands should be reported directly to ZUE and the company shall be obliged to repurchase the shares for PLN 10.05 (ten złoty and five grosz) per share within 90 days of the demand. The said demand will expire if it is not reported within 6 months of 7 January 2015.

On 6 December 2013, ZUE and PRK merged through the transfer of all the assets of PRK to ZUE in exchange for the shares issued by ZUE to the shareholders of PRK.

On the basis of the resolution no. 4 passed by the Company's Extraordinary General Meeting on 8 December 2014, the Company's Management Board was authorised by the General Meeting to acquire the Company employee shares, whose total number would not exceed 381,217, to be resold.

At the date of this report approval, the Company acquired 223,408 shares, which carried 223,408 votes at the Company's General Meeting and represented 0.97% of the Company's share capital and total number of votes at the GM.

XI. INFORMATION CREDIT FACILITIES, LOANS, SURETIES AND GUARANTIES

1. Credit facility and loan agreements as at 31.12.2014

The balance of credit facilities at the end of 2014 was PLN 5,111.11 thousand.

Bank	Description	Principal (PLN '000)	Outstanding amount as at 31 12 2014 (PLN '000)	Interest rate	Repayment date
mBank S.A.	Overdraft facility (agreement no. 07/183/04/Z/VV)	10,000.00	0	O/N WIBOR for interbank credits + margin	V 2015
Bank Millennium S.A.	Overdraft facility (agreement no. 5700/13/400/04)	10,000.00	0	1M WIBOR + margin	VI 2015
mBank S.A.	Investment facility (agreement no. 07/164/11/Z/IN)	23,000.00	5,111.11	3M WIBOR + margin	XII 2015
mBank S.A.	Cooperation agreement (agreement no. 07/052/14/Z/PX)	20,000.00	0.00	3M WIBOR + margin	VII 2017
Bank Millennium S.A.	Revolving facility (agreement no. 2749/11/475/04)	35,000.00	0	1M WIBOR + margin	VI 2015
BNP Paribas Bank Polska S.A.	Revolving facility (agreement no. WAR/2001/14/166/CB)	30,000.00	0	1M WIBOR + margin	XI 2015

2. Off-balance sheet items of ZUE

Contingent liabilities

In 2014, ZUE used project-related bonding products provided by banks and insurance companies. At the end of 2014, the balance of the bonding products provided at the request of the Company amounted to PLN 196,926.46 thousand.

Bonds and guarantees were mainly provided by PZU S.A. (PLN 67,752 thousand), Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. (PLN 22,425 thousand) and BNP PARIBAS (PLN 43,929 thousand).

Contingent liabilities secured by the bills of exchange and mortgages mainly include credit facility and lease agreements and guaranties.

Item (PLN '000)	Balance at 31 December 2014
Bonds and guarantees	196,926
Sureties	2,100
Bills of exchange	126,865
Mortgages	51,018
Total	376,909

Contingent assets

Contingent assets secure the construction contracts concluded by the Company with subcontractors.

Item (PLN '000)	Balance at 31 December 2014
Bonds and guarantees	38,902
Bills of exchange	3,735
Other	0
Total	42,637

XII. ISSUE OF CLASS C MERGER SHARES – ISSUER’S USE OF PROCEEDS FROM THE ISSUE OF SHARES BY THE DATE OF THIS REPORT

As a result of the merger of ZUE (the Acquiring Company) and PRK (the Acquired Company) effected in 2013, the Company’s share capital was increased by PLN 257,520.75 through the issue of 1,030,083 new class C bearer (merger) shares with a par value of PLN 0.25 each. The said merger took place pursuant to Art. 492 § 1.1 of the Act; i.e. by a transfer of all the assets of PRK to ZUE in exchange for ZUE (merger) shares issued to the shareholders of PRK taking account of Art. 514 of the Act whereby ZUE was excluded as a shareholder of PRK.

On 2 January 2014, the agreement for the acquisition of non-allotted merger shares was concluded. Under the said agreement, Mr. Wiesław Nowak acquired all 320 shares at the issue price of PLN 10.20. The offered shares were allotted on 2 January 2014.

The Issuer states it did not receive any proceeds from the said issue of class C shares that could be used for the Company’s operations.

XIII. DIFFERENCES BETWEEN PUBLISHED FORECASTS AND 2014 RESULTS

The Company did not publish any forecasted 2014 separate or consolidated financial statements.

XIV. PREPARATION BASIS

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

XV. PROCEEDINGS BEFORE COURT, ARBITRATION COURT OR PUBLIC ADMINISTRATION AUTHORITY AS AT 31 DECEMBER 2014

The court proceedings are discussed in section 34: “Proceedings before court, arbitration court or public administration authority at the date of this report publication” of the financial statements for the financial year ended 31 December 2014.

XVI. MAJOR RESEARCH AND DEVELOPMENT PROJECTS

ZUE's core business does not require it to engage in any basic research or development projects.

XVII. STATEMENT OF COMPLAINE WITH LAW

The Management Board of ZUE state that 2014 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 2014 financial statements of ZUE 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).

XVIII. STATEMENT ON APPOINTMENT OF AUDITOR

The Management Board of ZUE state that Company's Supervisory Board resolved on 5 June 2014 to appoint Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, Al. Jana Pawła II 19, 00-854 Warsaw, Poland, to audit the separate and consolidated financial statements of ZUE for the financial year 2014.

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 2014 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 28 July 2014. The remuneration payable to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. was set at PLN 130 thousand.

XIX. STATEMENT OF 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; 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 2014, the Company complied with all the Corporate Governance Rules specified 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,” except for the following rules.

Chapter I – Recommendations for Best Practice for Listed Companies

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 in order 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 vote personally or through a proxy during a general meeting outside the place where the meeting is held with a use of electronic communication means.”

Item 12) – Statement of the Issuer

According to Art. 406[5] of the Act, the participation in a general meeting with the use of electronic communication means is not mandatory and the Issuer's Articles of Association do not provide for it. The Issuer believes that the Company's Articles of Association, the provisions of the 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 articles of association 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;

9a) audio or video record of a general meeting;

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 of 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 a general meeting is the minutes prepared by a notary public pursuant to Art. 421 of the Act, the Issuer will not publish on its website any information referred to in the Rule II.1.7 and II.1. 9a).

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.”*

Item 10) – Statement of the Issuer

According to Art. 406[5] of the Act, the participation in a general meeting with the use of electronic communication means is not mandatory and the Issuer’s Articles of Association do not provide for it. The Issuer believes that the Company’s Articles of Association, the provisions of the 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 ZUE'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 on this document publication date).

Shareholder	Number of shares	Number of votes at the GM	% share
Wiesław Nowak	14,400,320	14,400,320	62.53
METLIFE OFE ⁵	1,400,000	1,400,000	6.08 ⁶
PKO Bankowy OFE	1,500,000	1,500,000	6.51 ⁷
Other	6,041,960	6,041,960	24.88
Total	23,030,083	23,030,083	100.00

⁵ Previously Amplico OFE.

⁶ Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of ZUE held on 8 December 2014 provided in the current report 41/2014 of 8 December 2014.

⁷ Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 18 June 2014 provided in the current report 31/2014 of 18 June 2014.

Holdings of ZUE shares by members of the management and supervisory bodies (according to the information held by the Management Board of ZUE on this document publication date).

Shareholder	Position	Number of shares	Number of votes at the GM	% share
Wiesław Nowak	Management Board President	14,400,320	14,400,320	62.53 ⁸
Maciej Nowak	Management Board Member	7,706	7,706	0.03
Marcin Wiśniewski	Management Board Vice-President	2,300	2300	0.01
Jerzy Czeremuga	Management Board Vice-President	136	136	<0.01
Magdalena Lis	Supervisory Board Member	7,190	7,190	0.03
Michał Lis	Supervisory Board Member	661	661	< 0.01

⁸ On 2 January 2014, the agreement for the acquisition of non-allotted merger shares was concluded. The shares were offered by ZUE to the shareholders of PRK as part of the merger effected in 2013 (Chapter V item 2 of this Report contains detailed information about the merger of ZUE and PRK). Under the said agreement, Mr. Wiesław Nowak acquired all 320 shares at the issue price of PLN 10.20. The offered shares were allotted on 2 January 2014. On 3 February 2014, ZUE learnt from Mr. Wiesław Nowak that as a result of the registration of ordinary class C bearer shares with the Central Securities Depository of Poland on 30 January 2014, a share of Mr. Wiesław Nowak in the total number of votes at the Company's General Meeting decreased to 62.53%.

4. Holders of securities conferring special control powers

The Company did not issue 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's 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 Act

8. Amendments to ZUE's Articles of Association

Pursuant to the Act, the Company's Articles of Association 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 Articles of Association 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 Act and the Articles of Association 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 Articles of Association;
- 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 Articles of Association.

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 Articles of Association 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 Articles of Association and the Regulations of the Management Board of ZUE, members of the Management Board are appointed and dismissed by the Company's Supervisory Board. Management Board members are appointed for a joint term of three years.

The Management Board is composed of one or more members and the number of members is defined by the Supervisory Board. The Supervisory Board appoints one member of the Management Board to the position of Management Board President and may appoint one or more members to the positions of Management Board Vice-Presidents.

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 Articles of Association.

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 Articles of Association.

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 a new three-year term under the resolution of the Supervisory Board of ZUE of 27 May 2013.

On 9 January 2014, the Supervisory Board of the Company resolved to appoint Mr. Arkadiusz Wierciński as Member of the Management Board of ZUE. In addition, on 9 January 2014, the Supervisory Board of the Company resolved to dismiss Mr. Maciej Nowak from the position of the Vice-President of the Management Board of ZUE and to appoint him as Member of the Management Board of ZUE.

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 City Infrastructure Unit

Jerzy Czeremuga – Management Board Vice-President – Director of the Power Infrastructure Unit

Anna Mroczek – Management Board Member – Financial Director

Maciej Nowak – Management Board Member – Legal and Corporate Director

Arkadiusz Wierciński – Management Board Member – Strategy and Investor Relations Director

Supervisory Board of ZUE

Pursuant to the Articles of Association 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 a new three-year term under the resolutions of the Ordinary General Meeting of 27 May 2013. The composition of the Supervisory Board remained unchanged and at the end of the reporting period, it was composed of:

- **Mariusz Szubra** – Supervisory Board Chairman
- **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 Articles of Association 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.

XX. 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	
Jerzy Czeremuga – Management Board Vice- President	
Maciej Nowak – Management Board Member	
Anna Mroczek – Management Board Member	
Arkadiusz Wierciński – Management Board Member	

Cracow, 12 March 2015