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**DIRECTORS' REPORT ON THE ACTIVITIES OF ZUE S.A.  
AND ZUE CAPITAL GROUP**

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**between 1 January 2017 and 31 December 2017**

**Cracow, 16 March 2018**

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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>
BPK Poznań	<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 0000332405, share capital of PLN 5,866,600 paid up in full.</p> <p>Subsidiary of ZUE.</p>
Railway gft	<p>Railway gft Polska 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 0000532311, share capital of PLN 300,000 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 225,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>Railway Technology International Germany GmbH with registered office in Görlitz, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Dresden (<i>Amtsgericht Dresden</i>) under entry number HRB 36690. 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>
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
USD	American dollar.
Act	Polish Companies Act (Journal of Laws 2017, item 1577).

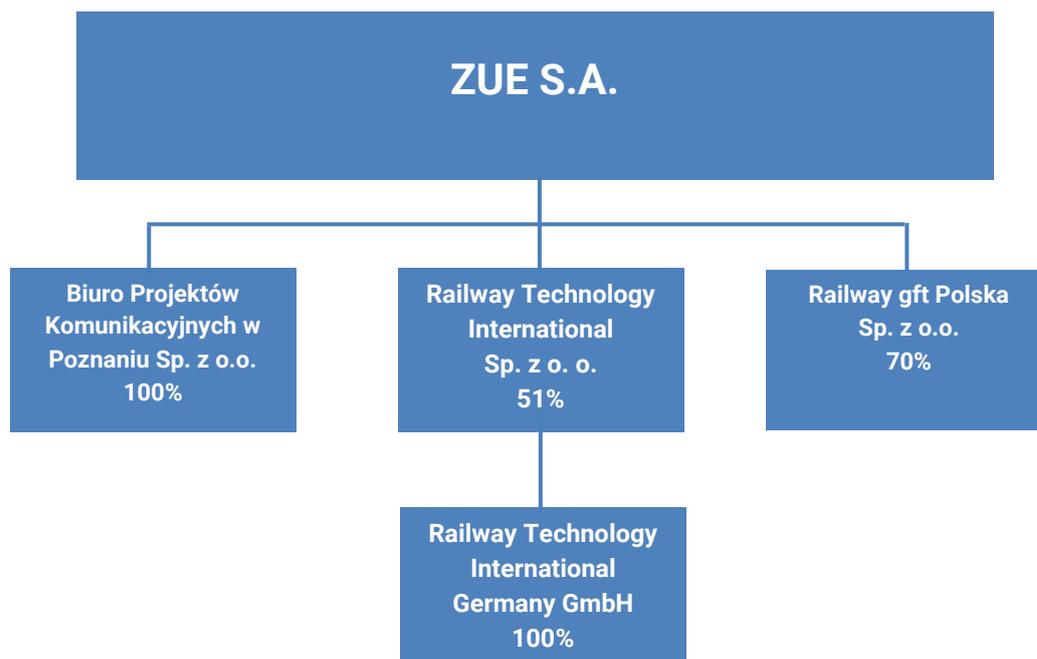
Share capital details as at 31 December 2017.

## OPERATIONAL INFORMATION – STATEMENT ABOUT NON-FINANCIAL INFORMATION

### 1. Organisation of the Capital Group

#### 1.1. Structure of the Group

Structure of the Capital Group at 31 December 2017 and at the date of approval of these financial statements.



**ZUE S.A.** is the **parent company** of the Capital Group. The Company has been incorporated on 1 June 1991 and operated in its current legal form since 20 May 2002 on the basis of the notarial deed of 20 May 2002 prepared in the Notary's Office in Cracow, Rynek Główny 30 (Rep. A No. 9592/2002). The Company has been 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 no. KRS 0000135388. The share capital of PLN 5,757,520.75 has been paid up in full.

**Subsidiary – Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.** has been established under the deed of 15 June 2009 signed in the Notary's Office in Cracow, Rynek Główny 30 (Rep. A no. 5322/2009). Poznań is the company's registered office. The company has been registered with the District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, under entry no. KRS 0000332405.

**Subsidiary – Railway gft Polska Sp. z o.o.** has been established under the deed of 21 October 2014 in the Notary's Office in Cracow, ul. Lubicz 3 (Rep. A no. 3715/2014). Cracow is the company's registered office. The company has been 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 no. KRS 0000532311.

**Subsidiary – Railway Technology International Sp. z o.o.** has been established under the deed of 20 July 2011 in the Notary's Office in Warsaw, al. Jerozolimskie 29/26 (Rep. A no. 2582/2011). Cracow is the company's registered office. The company has been 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 no. KRS 0000397032.

**Subsidiary (indirectly through RTI) – Railway Technology International Germany GmbH** has been established under the deed of 8 May 2012 in the Notary's Office in Radebeul, Rathenaustrasse 6, Germany (no. 1090/2012). Görlitz (Germany) is the company's registered office. On 1 June 2017, RTI changed its registered office from Hamburg to Görlitz.

The companies comprising the Capital Group have been incorporated for indefinite period. The financial statements of all subsidiaries have been prepared for the same reporting period as the parent company using consistent accounting policies. The parent company and the subsidiaries use a calendar year as their financial year.

Companies consolidated with full method in 2017:

- Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. (after merger); and
- Railway gft Polska Sp. z o.o.

ZUE holds a 51% interest in Railway Technology International Sp. z o.o. and Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiaries' financial data on the Group's economic and financial condition, Railway Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, the companies are not consolidated as at 31 December 2017. The Group companies have no branches.

## 1.2. Changes to the structure of the Parent Company and the Group and the consequences thereof

No changes to the Group's structure occurred in the reporting period.

## 2. Activities of the Capital Group

### 2.1. Business model

At present the Group identifies the three aggregate operating segments:

- Construction activities conducted by ZUE;
- Design activities conducted by BPK Poznań; and
- Sales activities conducted by Railway gft Polska Sp. z o.o.

**Construction** activities include:

- **Urban infrastructure**, including:
  - Construction and upgrade of tram tracks, tram and trolleybus traction networks, traction substations, street lighting, cable lines, street traffic signalling, road systems, buildings and telecommunications technology;
  - Maintenance of tram and street lighting infrastructure.
- **Rail infrastructure**, including:
  - Construction and upgrade of railway tracks, railway traction, railway traffic control devices and telecommunications technology, traction substations, stations and civil structures.
- **Distribution and transmission lines power infrastructure**, including:
  - Construction and upgrade of high and very high voltage cable and overhead lines, transformer stations, including telecommunications technology equipment and MV and LV cable lines.

**Design activities** concerning urban and rail transport systems and power industry supplement the abovementioned construction activities.

As part of its **sales activities**, the Group offers materials and accessories necessary to build tracks, including:

- Rails for railways, tramways and cranes; special profiles, light rails and narrow-gauge railway;
- Steel, wooden and pre-stressed concrete sleepers;
- Crossovers and crossover components;
- Accessories required to build tram and railway tracks;
- Aggregate;
- Special technologies: RHEDA 2000® slab tracks, RHEDA CITY C, RHEDA CITY GREEN tram systems,

"Ypsilon" steel sleepers.

## 2.2. Principal place of business

Cracow is the registered office of ZUE, Railway gft and RTI. BPK Poznań has its registered office in Poznań and RTI Germany in Görlitz (Germany). The Group operates mainly on the Polish market but it also undertakes the activities to win construction contracts abroad. In 2017, the Group carried out urban infrastructure contracts in such cities as Warsaw, Elbląg, Lublin, Szczecin or Cracow where, apart from construction works, it performed tram and lightening infrastructure maintenance contracts. The Group executes rail infrastructure projects throughout Poland. In 2017, the biggest rail contracts were performed in such regions as Łódź Kaliska – Zduńska Wola, Chybie – Żory, Żychlin – Barłogi, Częstochowa – Zawiercie, Trzebinia – Oświęcim and Skarżysko Kamienna – Sandomierz.

## 2.3. Value chain

The largest portion of the Group's revenue is derived from the comprehensive performance of urban, rail and power infrastructure construction contracts. Revenue from construction contracts is mainly generated by the construction and modernisation of rail and tram tracks, tractions and other related infrastructure. These are complex projects of social significance and require a professional contractor and several other factors to deliver a top quality product according to the needs of an investor. A number of key factors and values are involved for the Group to meet the high expectation of its customers.

The key factors are:

- 1) Production capital;
- 2) Human capital; and
- 3) Financial capital.

Production capital mainly includes specialist equipment necessary to carry out construction work. The equipment base is expanded on a regular basis to meet the demands. Production capital also includes the buildings and infrastructure owned by the Group.

Human capital is the collective experience, knowledge and work of the people employed by the Group and the ethical values they hold. Human capital is developed through the activities undertaken to ensure the employees' self-fulfilment and development, e.g. through trainings. Safety at work is equally important.

Financial capital is the funds necessary to carry out contracts and includes cash held by the Group, credit lines or bond lines.

The Group performs the contracts using its experience and know-how about effective contract performance, including tested internal regulations and procedures, in order to provide its customers with a maximally efficient final product.

## 3. Sales markets

In the reporting period, the Group continued its construction, design and sales activities. The Group's sales markets reflect the segments and the scope of activities discussed in section 2.1.

The table below sets out the biggest contracts performed in 2017:

Contract*	Contracting authority	Completed in 2017 / pending	Contract net value (PLNm) attributable to ZUE
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Provision of design services and completion of works in connection with the following project: "Preparation of documentation and completion of construction works on the Skarżysko Kamienna – Suchedniów section, railway line no. 8" as part of the following project: "Modernisation of Radom – Kielce railway line no. 8."	PKP PLK S.A.	Pending	26
Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: "Investment project at the Medyka - Mościska II border crossing."	PKP PLK S.A.	Pending	48
Provision of design services and completion of construction works in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 Infrastructure and Environment Operational Programme (IEOP)."	PKP PLK S.A.	Pending	125
Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section)."	PKP PLK S.A.	Pending	53
Upgrade of the railway line no. 273 of the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of tracks, platforms and viaduct in the Zielona Góra station.	PKP PLK S.A.	Pending	31
Construction works on the line no. 95 of the Kościelniki – Podłęże section.	PKP PLK S.A.	Pending	25
Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola."	PKP PLK S.A.	Pending	281
Completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF) EU financial instrument.	PKP PLK S.A.	Pending	233
Preparation of building and detailed designs and the completion of LOT B works as part of "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the	PKP PLK S.A.	Pending	72

Warszawa Okęcie – Radom (LOT A, B, F) section” – Phase II.			
Design and construction services in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 “Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section.”	PKP PLK S.A.	Pending	209
Preparation of design documentation and completion of construction works in connection with a “design-build” contract as part of the following project: “Works on the railway line no. 1 of the Częstochowa – Zawiercie section.”	PKP PLK S.A.	Pending	372
Preparation of design documentation and completion of construction works in connection with a “design-build” contract as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16 “Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section.”	PKP PLK S.A.	Pending	80
Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section, Infrastructure and Environment Operational Programme (POIiŚ) 5.1-12.	PKP PLK S.A.	Pending	303
Design services and construction works in connection with the following project: “Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section” executed as part of Eastern Poland Operating Programme.	PKP PLK S.A.	Pending	379
Design services and construction works in connection with the following project: “Construction of the Czarńca - Włoszczowa Płn. railway line no. 582.”	PKP PLK S.A.	Pending	40
Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes as part of the following project: “Works on the line no. 353 of the Jabłonowo Pom - Iława - Olsztyn – Korsze section.”	PKP PLK S.A.	Completed in 2017	29
Construction of transport hub – the Zawodzie hub as part of the following project: “Katowice System of Integrated Transport Hubs – the Zawodzie hub.”	Tramwaje Śląskie S.A.	Pending	28

Maintenance and repair of tram infrastructure in Cracow in the period 2015-2018.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	Pending	43
Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow and additional contract.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	Pending	60
Reconstruction of the Basztowa Street in Cracow and reconstruction of tramway tracks, OCL network and dehydrating and lightening system as well as reconstruction of colliding technical infrastructure and reconstruction of tramway tracks in the intersection of the Basztowa, Długa and Westerplatte Streets.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	Completed in 2017	19
Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	Zarząd Infrastruktury Komunalnej i Transportu w Krakowie	Pending	16
Sustainable city transport in Gorzów Wlkp. – Reconstruction of tracks in the Walczaka Street.	The City of Gorzów Wielkopolski	Pending	15
Modernisation of E30 railway line Kraków Medyka, the Biadoliny – Tarnów section.	OHL ZS, a.s. S. A. Polish branch	Pending	46

\* Contracts whose net value exceeds PLN 10m.

Design services relating to urban and rail communication systems are provided both to investors and companies which execute “design-build” projects. The biggest clients of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., Poznańskie Inwestycje Miejskie, Tramwaje Warszawskie Sp. z o.o., PGE Dystrybucja S.A. Rzeszów Branch, PGE Dystrybucja S.A. Zamość Branch.

As regards sales activities, Railway gft sold rails, track accessories, sleepers, rail fastening systems and aggregate.

#### 4. Customer profile

The structure of the Group’s customer base in the period under analysis reflected the nature of services sold by the Group under contracts and/or as a result of trade negotiations. In 2017, the Group companies operated as standalone contractors, consortium members or leaders, and, for some projects, as subcontractors.

PKP Polskie Linie Kolejowe S.A. was ZUE’s major customer in 2017 and had a 41% share in the Company’s sales revenue in 2017. Gmina Miejska Kraków [*the City of Cracow*] represented by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie was the second biggest customer of ZUE and had a 19% share in the Company’s total revenue. Gmina Miejska Kraków belongs to the group of customers which manage the city infrastructure.

There is no formal link between ZUE and any of the abovementioned customers.

No company to which sales or design services are provided exceeded 10% of the consolidated sales revenue in 2017.

No ethical audits requested by customers were conducted in 2017.

## 5. Supply sources

ZUE cooperates with the Polish providers of construction services, goods and materials and complements the offer with the materials provided by the EU suppliers. The Company cooperates with the suppliers depending on its actual needs according to the rules of market competition.

No supplier/subcontractor exceeded 10% of the total value of goods and services purchased by ZUE.

The materials purchased directly by Railway gft., a subsidiary, represented 7% of the materials and services purchased by ZUE and 18% of Railway gft.'s sales value.

To secure the performance of contracts, the Group signed a number of master agreements for the supply of strategic materials. The estimate security for the supply of strategic materials required to perform construction contracts won by the Group: rails – about 100%, railway switches – about 70%, breakstone – about 70% and sleepers – about 80%.

No ethical audits, environmental audits or audits concerning occupational health and safety, human rights, forced labour or children's work at suppliers were conducted at the request of the Company in 2017.

## 6. Order book

At this report preparation date, the net value of the Group's book of orders for construction and assembly services is PLN 2,032m and provides it with an ability to provide the services in the period 2018-2021. As for design services, the net value of the signed contracts scheduled for performance in 2018-2020 is PLN 6m. The book of orders for the supply of materials and equipment in 2018 is worth PLN 21m (net).

The value of the signed construction contracts in 2017 is about PLN 2.3bn. At this report preparation date, the Company has the most economically advantageous tender whose net value is PLN 330m. Regardless of this, the Issuer participates in tender procedures for the total estimated value of approx. PLN 2.3bn.

Since the tender procedures have started, the Group's development prospects in 2018 are assessed by the Company's Management Board as good. The Group companies participate in tenders both in Poland and abroad. The Group is interested in winning contracts on the EU markets.

## 7. Regulatory environment

The activities conducted by individual companies comprising the Capital Group require them to observe certain regulations which have a status of the national law (e.g. environmental protection acts and regulations, employment law, tax law or construction law) or result, to a certain extent, from investors' expectations of the Group as the entity cooperating with public companies. As regards the said expectations, the companies are obliged to observe (regardless of the documents which specify the construction work standards) the provisions of contracts, instructions and guidelines of investors binding on ZUE and relating to such issues as communication, waste management, safety or impact on fauna and flora in project execution areas.

No fines were imposed in 2017 on the Group companies in connection with their failure to conduct the activities according to the laws governing social and employee issues, the protection of natural environment, respect of human rights or counteracting corruption. Likewise, no proceedings were instigated in 2017 in connection with the companies' violation of the abovementioned laws.

## 8. Strategic objectives of the Group

The main strategic objective in 2018-2021 is to take a maximum advantage of the current EU perspective.

The Group's strategic objectives include:

- Maintenance of the position of the Group as one of the leaders of the rail transport infrastructure construction market;
- Maintenance of the position of the Group as one of the leaders of the urban transport infrastructure construction market;
- Strengthening of the Group's position on the transport system design market;
- Development of sales services on the track materials manufacture and distribution market.

The Company's Management Board will try to geographically diversify its operations in a short- and long-term perspective by entering foreign markets.

In the long-term perspective, the principal aim of the Group is to develop its offer of the service and maintenance of urban and rail infrastructure.

## 9. Development prospects

The infrastructure construction industry is witnessing the outcome of tenders financed from the EU perspective for the years 2014–2020. Poland may receive up to EUR 82bn under the current EU's Cohesion Policy. The most advanced process of awarding contracts for infrastructure projects under the current perspective concerns the rail infrastructure.

### **Rail infrastructure market**

In November 2016, the Government adopted the amended National Railway Programme (the "NRP") providing for projects worth a total of PLN 66.4bn by 2023. This long-term programme is designed to implement the strategies adopted by the Council of Ministers, including "National Development Strategy 2020" and "Transport Development Strategy until 2020 with the perspective until 2030." The National Railway Programme ensures funding and effective project management with considerable use of the European Union funds. The National Railway Programme aims to implement more than 292 railway projects, divided into primary and secondary tasks, by 2023.

The key objective of the NRP is to strengthen the role of rail transport in the national integrated transport system through development of a coherent and modern railway network. At present, an average speed of freight trains in Poland is approximately 27 km/h. In contrast, the average figure for the total EU is approximately 50 km/h, with about 60 km/h for Germany and France.

The NRP includes the plans to reconstruct 9000 km of railway lines.

NRP's specific objectives:<sup>1</sup>

- a) Strengthening of the rail transport efficiency by shortening transit times and increasing the rail network capacity:
  - 350 km – length of railway lines with speeds above 160 km/h;
- b) Improvement of the passenger and freight transport quality by increasing the number of provincial capitals connected by the upgraded lines and the speed of freight trains:
  - 40 km/h – average speed of freight trains;
  - Ensuring access for provincial cities to rail lines with the average speed of passenger trains of 100 km/h;
- c) Improvement of rail transport safety by extending the length of railway lines fitted with ERTMS/ETCS, increasing the number of two-level crossings and upgraded level crossings and reducing the number of accidents at level crossings:
  - 2000 km – length of railway lines fitted with ETMS/ETCS.

An important objective of the NRP is to increase the capacity of infrastructure serving sea ports in Gdańsk, Gdynia, Szczecin and Świnoujście. The intended projects will increase the network capacity, improve the

<sup>1</sup> National Railway Programme until 2023.

competitiveness of freight transport and shorten the time of freight transport as a result of which the significance of the Polish ports will increase.

The NRP provides also for projects to improve the rail transport in large urban areas. The expenditures on railway infrastructure in large urban areas will allow strengthening the alternative to road transport and building integrated transport hubs and new stations. The integration of urban and railway transport will facilitate commuting to work and school as well as improve the attractiveness of the urban public transport.

Major projects planned in urban areas until 2023:<sup>2</sup>

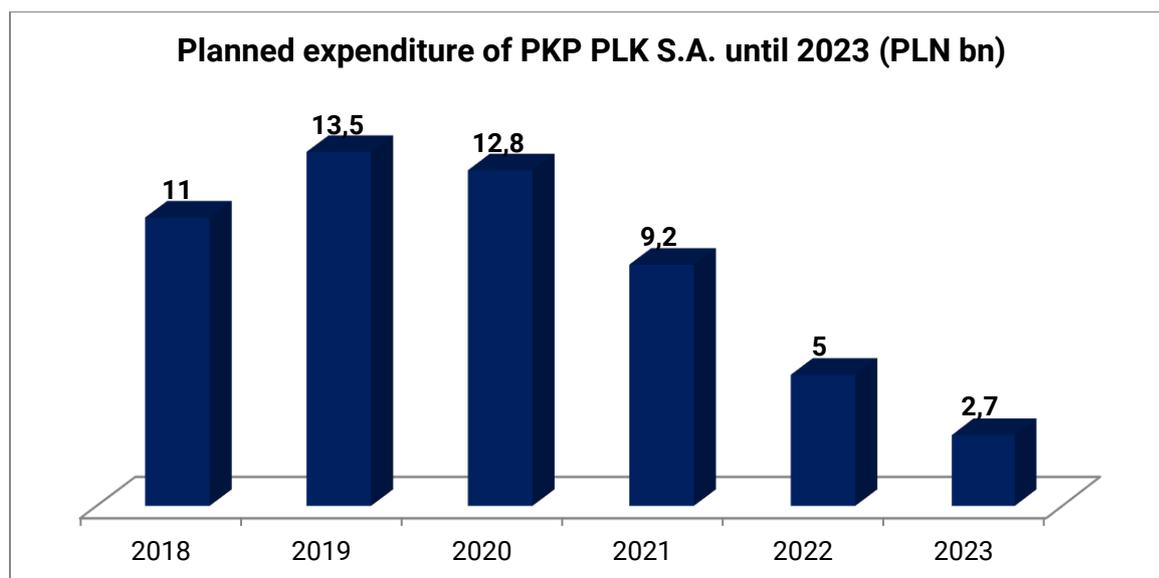
- 1) Warsaw is planning to reconstruct the cross-city line and upgrade the ring rail line (pending). The plans include the conversion of three railway stations and the construction of two new stations;
- 2) Cracow is planning to reconstruct approx. 20 km of railway lines on the Kraków Główny Towarowy – Rudzice section, conversion of four stations and construction of two new ones. Furthermore, bridges over the Vistula River are to be built, and the overhead contact system, railway switchgear and traffic control devices are to be replaced. Additional tracks in the busiest sections within the city will be built;
- 3) Wrocław is planning to build new stations within the urban area and upgrade the railway line from Wrocław to Głogów;
- 4) Łódź intends to build a tunnel to direct rail traffic from the modernized Łódź Fabryczna Station north and south of the city. The tunnel is expected to incorporate the railway stations in the city centre and further stations;
- 5) Poznań is planning to improve rail traffic in the urban area by building new tracks and installing modern traffic control equipment on the lines. There are also plans to upgrade the Wrocław – Poznań line to ensure better access from Leszno.

In the EU perspective for the years 2014-2020, it has been declared that the amount of approx. PLN 42.8bn will be allocated to the Polish railways out of which, up to PLN 40bn may be received by PKP PLK. The National Railway Programme is to be funded largely by the EU Cohesion Fund (including the Operational Programme Infrastructure and Environment 2014-2020 and the funds unspent in the years 2007-2013, Connecting Europe Facility (CEF), and Regional Operational Programmes 2014-2020). The remainder will be financed from the state budget, PKP PLK's own funds and the Railway Fund.

The European Commission approved the applications submitted by PKP PLK in the CEF call for proposals. In the framework of the EU financial perspective for 2014-2020, PKP PLK has received subsidies in the total amount of approx. EUR 4bn for 21 rail projects including the modernisation of about 950 km of lines. PKP PLK is the biggest beneficiary of the CEF in Europe. The programmes financed under the CEF correspond to about 30% of the projects included in the NRP main list. The funds under the facility will be used to finance the high capacity trans-European backbone network.<sup>3</sup>

<sup>2</sup> <http://www.rynek-kolejowy.pl/wiadomosci/plk-inwestuja-w-linie-aglomeracyjne-75274.html>

<sup>3</sup> <http://www.rynek-kolejowy.pl/wiadomosci/ponad-4-mlrd-euro-na-21-projektow-kolejowych-w-ramach-cefu-84713.html>



Source: 2016 execution report and the NRP update until 2023 – resolution no. 106/2017 of the Council of Ministers of 12 July 2017.

In 2017, PKP PLK signed the contracts worth approx. PLN 18.5bn (the estimate value of PLN 23.5bn). At the end of 2017, PKP PLK had the contracts underway whose value amounted to approx. PLN 25bn; i.e. approx. 38% of the NRP. In 2017, works were carried out for about PLN 5bn.<sup>4</sup>

In 2018, PKP PLK intends to carry out the construction works worth approx. PLN 10bn, a record high figure in the history of PKP PLK. The tenders planned in 2018 include more than 200 projects worth more than PLN 11bn.<sup>5</sup>

PKP PLK implemented changes developed in cooperation with contractors to streamline the execution of railway projects. The most important changes include advance payments for partial completion of a project, down payments for the purchase of building materials and a shift in focus from price to quality when selecting a contract engineer.<sup>6</sup>

#### **Urban infrastructure market**

In the EU perspective for the years 2014-2020, which provides for the EU funding of up to 85%, the tram and trolleybus infrastructure will be the preferred direction in the field of the transport system development in the cities with tram and trolleybus lines, which is to account for approx. PLN 13bn of the local governments' spending on development. The plans of the Polish cities provide for the construction of more than 100 km of new and upgrading of 200 km of the existing tram lines.

The table below sets out selected plans of the Polish cities concerning the announcement of major tenders for the construction or upgrade of tramways in 2018.<sup>7</sup>

City	Net amount (PLNm)
Łódź	195
Gorzów Wielkopolski	85
Cracow	773
Olsztyn	454

<sup>4</sup> <http://www.nakolei.pl/ireneusz-merchel-prezes-pkp-plk-s-a-podsumowuje-2017-zmian-intensywnej-pracy/>

<sup>5</sup> <https://www.plk-sa.pl/dla-klientow-i-kontrahentow/forum-inwestycyjne/aktualnosci/aktualnosci-2018/>

<sup>6</sup> <https://www.plk-sa.pl/dla-klientow-i-kontrahentow/forum-inwestycyjne/realizacja-postulatow/postulaty-grupy-roboczej-zapisy-umow/>

<sup>7</sup> Information provided by individual cities about tenders planned in 2018.

Bydgoszcz	124
Poznań	86
Szczecin	57
Total	<b>1,774</b>

The table does not include Warsaw, Toruń, Gdańsk, Elbląg, Grudziądz or Tramwaje Śląskie although they are also planning major projects. For instance, in December 2017, Tramwaje Śląskie signed the agreement for the funding of the first stage of the following project: "Integrated project of upgrade and development of tram infrastructure in the cities of Silesia and Zagłębie and the purchase of tram rolling stock – Stage I." The total value of the project is approx. PLN 767m and a considerable part of the amount will be invested in tram infrastructure<sup>8</sup>. In 2018, Tramwaje Warszawskie intend to announce tenders for about 30 km of new tramways and the construction of the Annapol depot.<sup>9</sup>

### **Power infrastructure market**

Polskie Sieci Elektroenergetyczne S.A. (PSE) is a transmission system operator (TSO) for electricity in Poland. The key and most important responsibility of PSE is to ensure the security of electricity supply – both at present and in the long term. PSE must also create conditions for connecting and feeding electricity from new power plants and renewable energy sources (RES) into transmission grid as well as develop cross-border interconnections. While implementing the Energy Policy of Poland, PSE focuses its investment activities mainly on the development of 400 kV lines, which provide greater transmission capacity compared to 220 kV lines, with lower energy losses. The existing 220 kV lines are gradually replaced with 400 kV lines and a long-term programme has been put in place to replace the existing transformers with the ones ensuring lower losses.

Plans for development of the transmission grid are always coordinated with the distribution grid development plans.

The information contained in the current "Development plan to meet current and future electricity demand for the years 2016 – 2025" reveals that in the period 2016-2025, PSE plans to incur capital expenditures of about PLN 13.3bn.

There is ongoing work on the "Development plan to meet current and future electricity demand for the years 2018 – 2027" – an update of the existing plan. The principal objective of the plan is to identify the needs of the extension of the transmission grid in a long-term horizon of 10 years.

The implementation of projects included in the updated plan for the years 2017-2027 is to ensure:<sup>10</sup>

- Expansion of the national transmission network designed to ensure balanced economic growth in the country and its individual regions as well as cover energy and power needs;
- Power output from the areas of high density of newly constructed conventional generation units as well as renewable energy sources, taking into particular consideration offshore wind farms;
- Increasing capacity for transborder exchange through the development of international connections; and
- Maintaining the operation of existing elements of network infrastructure at a sufficient level of reliability through the modernisation and reconstruction of transmission lines and stations.

## **10. Factors believed by the Issuer to have an influence on the Issuer's and the Group's development**

The factors believed to have a bearing on the Group's financial results in the remaining months of the financial

<sup>8</sup> <http://www.tram-silesia.pl/www/index.php/jrpb/>

<sup>9</sup> <http://www.transport-publiczny.pl/wiadomosci/warszawa-plany-tramwajow-warszawskich-na-2018-r-57731.html>

<sup>10</sup> <https://www.pse.pl/-/pse-rozpoczynaja-konsultacje-projektu-planu-rozwoju-w-zakresie-zaspokojenia-obecnego-i-przyszlego-zapotrzebowania-na-energie-elektryczna-na-lata-2018->

year include:

- **Untimely settlement of liabilities to the Group**

Given the nature of construction activities, the Group must use a considerable part of its working capital to execute contracts due to their relatively high value and a long time of their performance. Thus, a failure of the Group's customers to timely settle their liabilities to the Group directly influences the Group's financial results.

- **Delays or unfavourable outcome of tenders the Group participates in**

A risk related to the terms and procedures of public tenders is specific to the industry the Group operates in. Tender participants have the right 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. The announcing of tenders or awarding contracts by contracting authorities may be delayed. Consequently, the date of signing a contract with an investor may be substantially postponed both on the urban, rail and power infrastructure market. These events could have a negative influence on the Group's financial results.

Not only do the lengthy procurement procedures produce additional costs of the appeal but they also entail a risk of growth in prices of goods and services. Signing a contract at a later date may make a project execution conditional on weather conditions because certain projects must not be executed in low temperatures or heavy snow or rain fall. Project execution may also be conditional on other factors; e.g. the date of closing the tracks by the contracting authority or the dates on which trees and bushes may be cut down. For these reasons, a part of the Group's planned revenue may be transferred from the current to the next financial year.

- **Higher prices of raw materials and liquid fuels**

The Group's construction activities involve the use of products and raw materials such as concrete, aggregates, steel elements (including HV tram and rail traction network posts, lamp posts, rails or crossovers) and copper and aluminium elements (including power cables, lines and contact wires) and, given a big number of machines, liquid fuels (including diesel oil and petrol). Given the fluctuating prices of these materials, the Group companies are exposed to price risk.

- **Higher fees charged by subcontractors**

When performing its contracts, the Group subcontracts certain construction and assembly tasks to specialised companies. Changing prices of raw materials and liquid fuels entail a risk relating to the estimation of costs incurred by subcontractors and, consequently, have a direct influence on the fees charged by subcontractors. This has a negative impact on the Group's financial results. A greater number of tenders may have a negative influence on the Group's ability to engage certain subcontractors.

- **Unstable EUR/PLN exchange rate**

The Group purchases certain imported products in EUR, which entails a foreign exchange risk. This may have a positive or negative impact on the Group's financial results. In addition, although PLN-denominated, certain products purchased from entities operating in Poland are also indirectly exposed to foreign exchange risk as the risk is transferred from a supplier-importer to the Group companies.

- **Outcome of court proceedings**

The Group companies are the parties to the court proceedings concerning both their claims and liabilities. The outcome of these proceedings may have an impact on the financial results reported by the Group.

## 11. Fundamental risks and threats

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

The Group's operation on the urban and rail infrastructure construction market as well as the power market is conditional on Poland's macroeconomic situation including, in particular, GDP growth rate, investments, inflation and unemployment rate and the level of the budget deficit. Any negative changes in Poland's macroeconomic situation may pose a risk to the Group's business activity and, consequently, influence its financial results.

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

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

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

Another risk has occurred in the past years and is related to a loss of financial liquidity by other entities operating in the same sector. Changes in VAT launched in 2017 including, in particular, reverse charges for several dozen of construction services may result in poorer financial liquidity of construction companies. Another factor with an influence on financial liquidity may include the split payment mechanism effective from July 2018. A use of split payment by the buyers may limit the financial liquidity of the sellers because they will not be able to freely use the amounts paid to a VAT account.

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

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

- **Risk related to joint and several liability to subcontractors and consortium members**

The Group engages subcontractors to execute its construction projects and concludes consortium agreements. Under the Polish Civil Code and the Polish Public Procurement Act, a contractor that has entered into a contract with a subcontractor is liable on a joint and several basis for the payment for the construction services provided by further subcontractors. 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. The Group may be obliged to pay the remuneration to further subcontractors and be liable for a consortium member's failure to perform or duly perform their obligations under public procurement contracts. These risks may have a negative impact on the Group's financial results.

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

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

- **Risk of untimely completion of construction works**

The construction contracts entered into by the Group provide for the exact completion dates. If a contracting authority fails to deliver the site or any part thereof in a timely fashion, works may accumulate as a result of which tasks can fail to technologically match each other or deadlines specified in a contract can be missed through no fault of the Group. This may have a negative result on the Group's financial results.

- **Risk related to logistics**

A risk of the accumulation of tender outcomes may limit transport capacity and the ability to obtain strategic materials as well as railway traffic control devices.

- **Risk related to bankruptcy of counterparties**

One cannot exclude the risk of bankruptcy of the Group's counterparties. The Group may not be able to perform a contract or remove defects in a timely fashion following the bankruptcy of its subcontractors, suppliers or

construction members as a result of which it may be obliged to pay contractual penalty or damages. It could also be liable on a joint and several basis for the payment to further subcontractors or the failure to perform a contract by a consortium member. In addition, it would have to cover the cost of the tasks or supplies, which have not been completed by a bankrupt. If the Group's client/contracting authority go bankrupt, the Group may not receive remuneration for the performed services. These factors could have a negative influence on the financial results reported by the Group.

- **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 the Group (its client) up to the amount of remuneration payable under a contract and other agreements. The failure to provide a satisfactory payment guarantee creates an obstacle to the completion of construction works through the fault of the Group. A contractor is then entitled to terminate a contract under Art. 649[4] §1 of the Polish Civil Code and demand its remuneration under Art. 639[4]§3 of the Polish Civil Code. Consequently, costs may increase and the execution of construction projects may be delayed or even made impossible. This could have a negative impact on the Group'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 Group operates in. In particular, tax authorities relying, for instance, on interpretations of the Minister of Finance may question the Group's tax settlements related to its transactions executed as part of its ordinary course of business or other transactions (for instance capital transactions). Consequently, changes of laws or their interpretation, which are disadvantageous to the Group, may have a negative impact on the Group's financial position.

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

The Group 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. In addition, the announcing of tenders or awarding contracts by contracting authorities may be delayed. Another risk includes, for instance, a consortium partner's failure to maintain their bid (extend the bid bond) as a result of which a contract with a specific investor could not be signed and consequently, potential revenue would be lost.

- **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 circumstances may occur in which the Group could be excluded from tender procedure on the terms specified in the Public Procurement Act. Such events could have a negative impact on the Group's financial results.

- **Risk related to obtaining funds for the performance of construction contracts as well as performance and bid bonds**

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

- **Interest rate risk**

The Group is exposed to interest rate risk mainly because it uses such instruments as bank loans and leases. These instruments are based on variable interest rates and expose the Group to financial risk.

- **Risk related to weather conditions**

The Group's construction tasks related to urban, power 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 Group's financial results.

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

## 12. Risks related to social and employee issues, natural environment, respect of human rights and counteracting corruption

- **Risk related to greater employment costs**

Given the changeable economic conditions, the Group's aspirations for constant development, raising the quality of the provided services and insufficient number of employees practicing the professions which require proper licences, skills and experience, the costs of employment may grow and influence the financial results of both ZUE and the entire Group. To reduce the risk, the Issuer undertakes the activities aimed at strengthening the relations with the Group's employees by offering benefits other than salaries and wages and providing opportunities for personal development at the Group.

- **Risk related to influence on natural environment**

The activities conducted by the Group companies require them to observe a number of environmental protection rules relating, *inter alia*, to emissions into the air, waste management, impact on groundwater or protection of flora and fauna in the project execution areas. These rules are imposed by both the common law and individual requirements of investors involved in certain projects. The Issuer takes measures to ensure full compliance with particular requirements by observing internal instructions and procedures included in the environment-related Integrated Management System.

- **Risk related to social issues and human rights**

A dispute may occur between the Issuer and the society (especially local communities) concerning a negative influence of the Issuer's operations or the violation of laws on the protection of human rights in the chain of supplies including the Group. Apart from financial consequences, if any, the dispute may result in serious damage of the Issuer's image which could have an impact on the Issuer's future relations with contracting authorities; i.e. entities which use public funds. Accordingly, activities are undertaken by the Group to eliminate, reasonably restrict or promptly remove the consequences of any negative influence. In addition, the conduct of activities with respect for human rights is the issue of key importance to the Group.

- **Risk related to corruption**

Sales and purchases are the areas at special risk of corruption. In addition, a considerable part of revenue generated by the Group comes from public funds. Therefore, the Issuer's cooperation with its major customers requires a special focus and transparency. Section 18 of the report deals with detailed solutions used by the Issuer to reduce the risk of corruption.

## 13. Major events in the reporting period

### 13.1. Construction works

On 20 January 2017, the consortium of Trakcja PRKil S.A. (Leader), COMSA S.A., ZUE S.A., STRABAG sp. z o.o. and STRABAG Rail a.s entered into the design and construction contract with PKP PLK in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of the Infrastructure and Environment Operational Programme (IEOP) 5.2-5. The Company informed about the submission of the lowest price tender for the said project and the selection of the most economically advantageous tender in the current report 50/2016 and the current report 56/2016, respectively. The contract net value: 373.7m. The contract gross value: PLN 459.7m. The expected net remuneration attributable to the Company: PLN 124.5m. The project completion date: 30 months of the contract conclusion date. **(Current report 4/2017)**

On 17 February 2017, the consortium of Budimex S.A. (Leader), STRABAG sp. z o.o., STRABAG Rail a.s, STRABAG Rail GmbH, STRABAG Általános Építő Kft. and the Company signed the design and construction contract with PKP PLK for the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia - Warszawa Gdańska section)." The Company informed about the selection of the consortium's tender as the most economically advantageous offer in the current report 53/2016. Net value of the contract: PLN 159.7m. The expected net remuneration attributable to the Company: PLN 52.7m. Project completion date: 26 months of the commencement of works. **(Current report 10/2017)**

On 23 February 2017, the Company informed that that the 90-day period of being bound by the tender had expired. The said tender was submitted in the tender procedure for the following project: "Preparation of design documentation and obtaining necessary administrative decisions as well as the construction of KST tram line, stage III (os. Krowodrza Górka – Górka Narodowa) and a two-level interchange along the Opolska Street in Cracow together with accompanying road infrastructure" (the "Project"). The Company informed about the submission of the lowest price tender by the consortium of ZUE and PORR Polska Infrastructure S.A. in the current report 57/2016. ZUE aimed to win the abovementioned contract but eventually the consortium member stopped their efforts for the reasons unrelated to the Company. Consequently, the consortium could not continue to participate in the tender procedure. **(Current report 11/2017)**

On 23 February 2017, the Company learnt about the Company's submission of the lowest price tender in the tender procedure for the development of design documentation and completion of construction works on the Kraków Płaszów – Podbory Skawińskie section as part of the following project: "Works on the railway line no. 94 of the Kraków Płaszów – Skawina – Oświęcim section. Net value of the tender submitted by the Company: PLN 155.9m. Gross value of the tender submitted by the Company: PLN 191.8m. Project completion date: 1065 days of the contract conclusion date. On 15 May 2017, the Company learnt from PKP PLK about the rejection of the Company's tender on 12 May 2017 and the selection of a tender submitted by another tender participant. The Company's tender was rejected as a consequence of the abnormally low price of several items contained therein. Out of 7 tenders submitted by tender participants in the said tender procedure, 5 tenders were rejected by the Contracting Authority, including 4 tenders rejected on the grounds of abnormally low price. Consequently, on 22 May 2017, the Management Board of the Company decided not to take further legal measures to appeal against the said decision of PKP PLK. **(Current reports 12/2017, 34/2017 and 36/2017)**

On 13 March 2017, the Company and PKP PLK entered into the design and construction contract for the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current report 48/2016 and the current report 64/2016, respectively. The contract net value: PLN 281m. The contract gross value: PLN 345.6m. The project completion date: 38 months of the commencement of works. **(Current report 17/2017)**

On 5 April 2017, the consortium of ZUE S.A. (Leader), Budimex S.A., Strabag sp. z o.o., Strabag Rail GmbH, Strabag Rail a.s. and Strabag Általános Építő Kft. entered into the contract with PKP PLK for the completion of construction works in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section in connection with the following project: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF). The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 60/2016 and 8/2017, respectively. The Contract net value including the provisional sum: PLN 560.0m (i.e. the gross amount of PLN 688.8m). The expected net remuneration attributable to the Company: PLN 233m. Completion date: 42 months of the works commencement date. **(Current report 23/2017)**

On 6 April 2017, the consortium of ZUE S.A. (Leader), Przedsiębiorstwo Inżynieryjne "IMB-Podbeskidzie" sp. z o.o. and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. entered into the contract with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie for the completion of the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 62/2016. The Contract net value including the provisional sum: PLN 145.5m (i.e. the gross amount

of PLN 179m). The expected net remuneration attributable to the Company: PLN 49.5m. Completion date: 31 December 2019 **(Current report 24/2017)**

On 11 April 2017, the consortium of Strabag sp. z o.o. (Leader), Strabag Rail GmbH, Strabag Rail a.s, Strabag Általános Építő Kft., ZUE S.A. and Budimex S.A. entered into the contract with PKP PLK for the preparation of building and detailed designs and the completion of LOT B works as part of a "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-3: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II. The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 61/2016 and 5/2017, respectively. The Contract net value including the provisional sum: PLN 216.7m (i.e. the gross amount of PLN 266.5m). The expected net remuneration attributable to the Company: PLN 71.9m. Completion date: 43 months of the works commencement date. **(Current report 26/2017)**

On 5 June 2017, the Company and PKP PLK entered into the contract for design and construction services as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 1/2017 and 19/2017, respectively. The Contract net value: PLN 174.5m. The Contract gross value: PLN 214.7m. Completion date: 28 months of the works commencement date. **(Current report 38/2017)**

On 20 July 2017, the Company and PKP PLK signed the contract for the preparation of design documentation and completion of the "design-build" project as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.2-6 "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 16/2017 and 29/2017, respectively. **(Current report 48/2017)**

On 28 July 2017, the Issuer received the contract signed by the cooperating companies; i.e. 1) ZUE S.A. with registered office in Cracow, 2) Budimex S.A. with registered office in Warsaw, 3) Strabag sp. z.o.o. with registered office in Pruszków (the "Employer") and Biuro Wdrożeniowo – Projektowe SABEL with registered office in Wrocław. Under the Contract, the Employer expected the Subcontractor to perform specific design and construction services in connection with the Employer's execution of the project in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section. The Contract net value was PLN 107.5m and 67% of this amount would be paid by the Company. **(Current report 49/2017)**

On 8 August 2017, the Company learnt about the judgment delivered on the same date by the National Appeal Chamber (the "Chamber"). The Chamber ordered that the selection by the City of Katowice and Tramwaje Śląskie S.A. (the "Contracting Authority") of the most economically advantageous tender submitted in the tender procedure for the construction of transport hub – the Zawodzie hub as part of the following project: "Katowice System of Integrated Transport Hubs" (the "Tender Procedure") be cancelled and the two contractors which ranked first and second, respectively, be excluded. The tenders were opened on 24 May 2017. The tender submitted by the consortium of ZUE S.A. (Leader) and UNIBEP S.A. (hereinafter jointly referred to as the "Consortium") ranked third. The most economically advantageous tender was selected on 10 July 2017. The Consortium appealed against the decision as a result of which the abovementioned judgment was entered by the Chamber. Net value of the tender submitted by the Consortium in the Tender Procedure was PLN 54.0m and the expected net remuneration attributable to the Company was approx. PLN 27m. Gross value of the tender submitted by the Consortium was PLN 66.4m. The project completion date according to the tender was 22 months. The Consortium's tender was selected as the most economically advantageous offer on 29 September 2017. The contract was signed on 22 November 2017 **(Current reports 51/2017, 62/2017, 75/2017)**

On 21 August 2017, the Company and PKP PLK entered into the contract for the preparation of design documentation and the completion of the "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16: "Improvement of capacity of E 20 railway line of the Warsaw – Kutno section; Stage I: Works on the railway line no. 3 of the Warsaw – the Łowicz Local Traffic Control Centre (LCS)." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 45/2017. The Contract net value was PLN 79.8m. The Contract gross

value was PLN 98.2m. The project completion date according to the tender was 33 months of the works commencement date. **(Current report 56/2017)**

On 2 October 2017, the Company and PKP PLK entered into the contract for the preparation of design documentation and completion of construction and assembly works as part of the following project: "Works on the railway line no. 93 Trzebinia – Zebrzydowice of the Trzebinia – Oświęcim section." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 35/2017 and 50/2017, respectively. The contract net value was PLN 303.1m. The contract gross value was PLN 372.8m. The project completion date was specified as 44 months of the works commencement date. **(Current report 63/2017)**

On 9 October 2017, an order (the "Order") was signed by the Company and Budimex S.A. of Warsaw (the "Employer"). On the basis of the Order, ZUE would perform specific construction works ordered by the Employer in connection with the performance of the contract in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section by the consortium including the Employer and the Company. The Company informed about the Contract in the current report 23/2017 of 5 April 2017. The Order net value was PLN 31.1m and the completion date was set for September 2020. **(Current report 66/2017)**

On 13 October 2017, the Management Board of the Company learnt about the cancellation on 12 October 2017 by PKP PLK of the tender procedure for design and construction services in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" and the project no. 2: "Construction of railway link in Chabówka along the Sucha Beskidzka – Chabówka railway line no. 98 and the Chabówka – Zakopane railway line no. 99." The Company submitted the tender whose net value was PLN 330.1m. After all tenders had been analysed by the Contracting Authority, the tender submitted by the Company was selected the most economically advantageous tender. On 6 December 2017, the Management Board of the Company learnt that the Company's tender had been reselected by the Contracting Authority as the most economically advantageous offer. **(Current reports 64/2017, 67/2017 and 78/2017)**

On 25 October 2017, the Company and PKP PLK signed the contract for design services and construction works in connection with the following project: "Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section" executed as part of Eastern Poland Operating Programme. The Company informed about the submission and the selection of the Company's tender as the most economically advantageous offer in the current reports 22/2017 and 46/2017, respectively. The contract net value was PLN 378.8m. The contract gross value was PLN 465.9m. The project completion date: 39 months of the works commencement date. **(Current report 71/2017)**

On 28 December 2017, the Company and PKP PLK the contract for design services and construction works in connection with the following project: "Construction of the Czarnca - Włoszczowa Płn. railway line no. 582." The Company informed about the submission and the selection of the Company's tender as the most economically advantageous offer in the current reports 60/2017 and 79/2017, respectively. The contract net value was PLN 40.2m. The contract gross value was PLN 49.4m. The project completion date: 16 months of the works commencement date. **(Current report 81/2017)**

## 13.2. Financial agreements

Following a review of provisions relating to the performance of construction contracts for the purposes of 2016 financial statements, a decision was made on 6 February 2017 to partially release a provision (the "Provision") for the risks associated with the settlement of the following contract: "Construction of the FRANOWO tram depot in Poznań" (the "Contract"). The Contract was performed on the basis of a contract entered into with Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu (the "Contracting Authority"). The Contract was performed by the Company as part of the consortium including Elektrobudowa S.A. of Katowice (Elektrobudowa). On 1 December 2016, a settlement was reached between the Company and Elektrobudowa (the "Parties") whereby any and all disputes relating to the Contract were resolved finally and amicably (the "Settlement"). The Company informed about the Settlement in the current report 58/2016. As part of the Settlement, the Parties agreed to cooperate in order to resolve any disputes with the Contracting Authority and finally settle the Contract. The

Issuer's decision about a partial release of the Provision (i.e. PLN 9m) was mainly influenced by the abovementioned Settlement. **(Current report 7/2017)**

On 17 February 2017, the Company and AXA TUIR S.A. of Warsaw entered into a mandate agreement. The agreement dealt with the provision of project-related bonding products up to PLN 42m for all bonds, including up to PLN 25m for bid bonds and up to PLN 20m for a single bond. The said bonding products would be provided under a revolving facility. The agreement would be effective until 28 February 2018. On 5 March 2018, an annex was signed whereby the term of said agreement was extended until 28 February 2019. **(Current report 9/2017)**

On 8 March 2017, the Company published preliminary separate and consolidated results for 2016. **(Current report 15/2017)**

On 23 March 2017, the Company and Polska Kasa Opieki S.A. of Warsaw (PEKAO) entered into the agreement for a multi-purpose revolving credit limit up to PLN 30m (the "Limit"). The Company would be able to use the Limit as a revolving credit up to the maximum amount of the Limit or as bank guarantees (up to the maximum amount of the Limit) of any type (including, in particular, bid bonds, performance bonds and defects liability bonds) provided at the Company's request to secure the contracts carried out by the Issuer. The Limit may also be used in USD and EUR. The Agreement would remain in force until 22 March 2018 **(Current report 20/2017)**

On 6 April 2017, an annex to the revolving facility agreement of 15 October 2014 with TU Europa S.A. was signed whereby the limit was raised from PLN 10m to PLN 20m.

On 10 April 2017, an annex was signed to the financing agreement concluded with BGŻ BNP Paribas S.A. on 10 December 2015. Under the said annex, the security in the form of mortgage was replaced with a deposit and the term of the bond line agreement was extended by two years until 8 December 2027.

On 24 April 2017, the Company published preliminary separate and consolidated results for the first quarter of 2017 **(Current report 27/2017)**

On 23 June 2017, the Company and mBank S.A. with registered office in Warsaw (the "Bank") signed an annex to the Cooperation Agreement. Under the said Cooperation Agreement, the Company may use the Bank's products and services to finance its day-to-day operations as part of the limit (the "Limit") provided by the Bank. On the basis of the annex, the Limit was increased from PLN 40m to PLN 50m and would be available from 28 June 2017 to 17 July 2020. In addition, the following sublimits were introduced:

- a) sublimit for bonds up to PLN 50m; and
- b) sublimit for non-revolving working credit facilities up to PLN 30m. **(Current report 43/2017)**

On 26 June 2017, the Company and mBank S.A. with registered office in Warsaw (the "Bank") signed an annex to the Master Agreement. Under the said Master Agreement, the Company may use the bonds as part of the limit (the "Limit") provided by the Bank. On the basis of the Annex, the Limit was increased from PLN 70m to PLN 150m and would be available from 28 June 2017 to 28 June 2018 **(Current report 44/2017)**

On 6 July 2017, the Company received the annexes to the revolving credit facility agreement and the bond line agreement, respectively, entered into with BGŻ BNP Paribas S.A. Following the amendments thereto, the revolving credit facility agreement was terminated. Under the annex to the bond line agreement, the limit was raised to PLN 100m. The scope of the bonds provided by the Bank as part of the Limit was extended and included bid bonds, performance bonds, defects liability bonds and advance payment bonds. **(Current report 47/2017)**

On 18 August 2017, the Company published preliminary separate and consolidated results for the first half of 2017 **(Current report 54/2017)**

On 23 August 2017, the Company and Credit Agricole Bank Polska S.A. of Wrocław (CABP). The Agreement dealt with the bond limit up to PLN 30m. The agreement would remain in effect until 22 August 2018. **(Current report 57/2017)**

On 13 October 2017, the Company published preliminary separate results for the third quarter of 2017 **(Current report 69/2017)**

On 18 October 2017, an annex to the mandate agreement for the provision of project-related bonding products with Gothaer TU S.A. of 25 November 2015 was signed whereby the limit was raised from PLN 10m to PLN 15m.

On 27 October 2017, an annex to the financing agreement with BGŻ BNP Paribas S.A. of 10 December 2015 was signed whereby the limit was raised from PLN 100m to PLN 170m to be used for the revolving credit facility up to PLN 20m and the bond line up to the maximum amount of the limit. **(Current report 72/2017)**

On 31 October 2017, an annex to the multi-purpose revolving credit limit agreement with Bank Polska Kasa Opieki S.A. of Warsaw of 23 March 2017 was signed whereby the limit was raised from PLN 30m to PLN 100m to be used for the revolving credit up to the maximum amount of PLN 20m and the bank guarantees up to the maximum amount of the limit. **(Current report 74/2017)**

### 13.3. Corporate events

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term. **(Current report 6/2017)**

On 15 March 2017, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2016 of PLN 1.5m to reserve funds. **(Current report 18/2017)**

On 30 March 2017, the Company's Supervisory Board gave a favourable opinion on the Management Board's proposal whereby the entire net profit for the financial year 2016 of PLN 1.5m would be allocated reserve funds. **(Current report 21/2017)**

On 6 June 2017, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2016 to reserve funds and change the composition of the Company's Supervisory Board. **(Current report 39/2017)**

On 6 June 2017, the Company's Ordinary General Meeting resolved to dismiss Ms. Magdalena Lis, the Supervisory Board Member, and appoint Ms. Barbara Nowak the Supervisory Board Vice-Chairperson for the current term. **(Current report 41/2017)**

### 13.4. Other events

On 4 January 2017, the Company learnt about the lawsuit of 30 December 2016 (the "Lawsuit") filed against PKP Polskie Linie Kolejowe S.A. (PKP PLK) by an agent of the consortium of OHL ŹS, a.s. (Leader), Swietelsky Baugesellschaft m.b.H and ZUE S.A. performing the following construction contract: Design and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III." The litigation value (the "Amount") was PLN 39.3m. The Company's total share in the Amount was approx. PLN 15.7m. **(Current report 2/2017)**

Following the acceptance on 2 March 2017 by Wytwórnia Podkładów Strunobetonowych S.A. of an order worth PLN 27m for the supply of building materials to the Issuer's subsidiary; i.e. Railway gft, the total value of agreements entered into in the 12 months between Railway gft and Wytwórnia Podkładów Strunobetonowych S.A. amounted to PLN 34m. **(Current report 13/2017)**

Following the acceptance on 6 March 2017 by Track Tec S.A. of an order worth PLN 13.4m for the supply of building materials to the Company, the total value of agreements entered into in the 12 months between the Group companies and Track Tec S.A. amounted to approx. PLN 21.7m. **(Current report 14/2017)**

Following the acceptance on 10 April 2017 by Railway gft of the Company's order for the supply of building materials, the total value of agreements entered into since 15 December 2016 between the Company and Railway gft amounted to PLN 21.3m. **(Current report 25/2017)**

On 5 May 2017, Railway gft, a subsidiary, the Company (the "Assignee") and the Polish manufacturer of power cables (the "Counterparty") signed the agreement for the assignment of a master agreement whose subject matter was the sale and supply of various types of power cables (the "Agreement"). On the basis of the Agreement, the buyer was changed; i.e. Railway gft was replaced with the Issuer and the Issuer acquired any and all rights and obligations of the buyer. The said change was approved of by the Counterparty. **(Current report 28/2017)**

Following the acceptance by the manufacturer of railway materials (the "Counterparty") of an order for the supply of building materials to Railway gft, a subsidiary, the total net value of orders/agreements concluded in the last year between the companies comprising ZUE Capital Group and the companies comprising the capital group of the Counterparty amounted as at 11 May 2017 to approx. PLN 20.2m. **(Current report 32/2017)**

On 5 June 2017, the Company and the Polish manufacturer of prestressed concrete sleepers signed the master agreement for the supply of building materials to the Company of the total estimated net value of approx. PLN 84m. The agreement set out the rules governing the sale of building materials to the Company. The agreement would be performed on the basis of individual orders made by the Company. The agreement would be performed by the end of 2019. **(Current report 37/2017)**

On 8 June 2017, the Company and the manufacturer of prestressed concrete sleepers signed the master agreement for the sale of building materials to the Company of the total estimated net value of approx. PLN 109.7m. The agreement set out the rules governing the sale of building materials to the Company. The agreement would be performed on the basis of individual orders made by the Company. The agreement would be performed on the basis of individual orders made by the Company. The agreement would be performed by the end of 2019. **(Current report 42/2017)**

Following the conclusion on 11 August 2017 by the consortium including the Company of a contract for additional works in connection with the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow," the total net value of the contracts entered into with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie since 6 April 2017 amounted to PLN 26.3m. **(Current report 52/2017)**

On 17 August 2017, the Company and Zakład Automatyki KOMBUD S.A. of Radom (the "Subcontractor") signed the contract for the provision by the Subcontractor of certain design and construction services to the Company in connection with the Company's performance of the contract in the Łódź Kaliska – Zduńska Wola area. The contract net value was PLN 37.8 and the project completion date was defined as April 2020 **(Current report 53/2017)**

On 15 September 2017, the Company learnt about a ruling (the "Ruling") delivered on the same date by the District Court Warsaw in Warsaw XXVI Commercial Division (the "Court") in the case brought by the Company against PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw (the "Contracting Authority") in relation to the payment for additional works performed by the Issuer in connection with the following contract: "Design and construction services as part of the following *POliŚ 7.1 – 69* 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." The Court ruled that the Contracting Authority pay the Petitioner PLN 3.2m plus statutory interest from 5 December 2014 and dismissed the remaining claims. On 24 November 2017, the Company learnt that the said ruling had become final and binding and the Company could collect the payment **(Current report 58/2017, current report 76/2017)**

Following the Company's conclusion on 22 September 2017 of the contract for the maintenance of street lightening and buildings' illumination equipment in Cracow with a breakdown into four regions, the total net value of the contracts entered into with ZIKiT since 12 August 2017 was PLN 21.2m. **(Current report 59/2017)**

On 29 September 2017, the Company and Kolejowe Zakłady Automatyki S.A. of Katowice (the "Subcontractor") signed the contract whereby the Subcontractor would perform specific design and construction services to the Company in connection with the Company's performance of the contract in the Wyczerpy – Chorzew Siemkowice area. The contract net value was PLN 34.3m and the contract performance date was set for June 2019. **(Current report 61/2017)**

Following the acceptance of an order for the supply of building materials to Railway gft, a subsidiary, by the supplier thereof (the "Counterparty"), the total net value of orders/contracts entered into in the past year between Railway gft and the Counterparty amounted as at 5 October 2017 to approx. PLN 82.4m. **(Current report 65/2017)**

Following the acceptance by Railway gft; i.e. the Issuer's subsidiary of an order for the supply of building materials to the company comprising PKP PLK Capital Group, the total net value of orders/contracts entered into between the companies of ZUE Capital Group and the companies of PKP PLK Capital Group (except for the construction contracts referred to by the Company in current reports) since 11 April 2017 (i.e. publication date of the current report 26/2017) was approx. PLN 21m. **(Current report 68/2017)**

On 17 October 2017, the Company and Wizbud sp. z o.o. (the "Subcontractor") signed the contract whereby the Subcontractor would perform construction works on the Wyczerpy – Chorzew Siemkowice section. The contract net value amounted to PLN 23.5m. The contract performance date was set for June 2019 **(Current report 70/2017)**

On 17 October 2017, the Company received a copy of the order signed by the consortium including FIMA POLSKA sp. z o.o. of Warsaw (the "Consortium Leader") and UAB FIMA LT of Vilnius (jointly referred to as the "Subcontractor") whereby the Subcontractor would carry out the construction works on the Trzebinia-Oświęcim section (the "Contract"). The Order net value was PLN 29.5m. The Order would be completed on the same date as the Contract. **(Current report 73/2017)**

Following the acceptance of an order for the supply of building materials to Railway gft, a subsidiary, by the supplier thereof (the "Counterparty"), the total net value of orders/contracts entered into in the past year between Railway gft and the Counterparty amounted as at 1 December 2017 to approx. PLN 19.7m. **(Current report 77/2017)**

On 28 December 2017, an agreement (the "Agreement") was signed between the Company and Kolejowe Zakłady Automatyki S.A. of Katowice (the "Subcontractor"). Under the Agreement, the Subcontractor would provide certain design and construction services to the Company in connection with the Company's performance of the Contract in the Częstochowa – Zawiercie region. The Agreement net value was PLN 79.6m. The Agreement would be performed on the same date as the Contract. **(Current report 80/2017)**

#### 14. Major events after the end of the reporting period

On 14 February 2018, the Company learnt about the conclusion by the other party of the construction agreement (the "Agreement") between the Company and the consortium of FIMA Polska sp. z o.o. of Warsaw and UAB FIMA of Vilnius (the "Subcontractor"). The Agreement dealt with the construction works performed by the Subcontractor on the Trzebinia - Oświęcim section (the "Contract"). The Company informed about the Contract in the current report 63/2017 of 2 October 2017. The Agreement net value was PLN 29.5m. The Agreement completion date was the same as the Contract completion date. **(Current report 2/2018)**

On 15 February 2018, the Company published preliminary financial results for 2017. **(Current report 3/2018)**

On 15 March 2018, the Company's Supervisory Board passed a resolution concerning the cooperation with the auditor. **(Current report 4/2018)**

## 15. Transactions with related entities

Transactions with related entities within the Group included typical transactions entered into on arm's length terms.

Section 7.14 "Transactions with related entities" of the separate and the consolidated financial statements contains detailed information about transactions with related entities.

## 16. Bonds and guarantees

The activities conducted by the Group require it to provide bonds. The bonds include, first and foremost, bid bonds, performance bonds and defects liability bonds provided by banks and insurance companies to the Company's counterparties to secure their claims against the Company. Banks and insurance companies have recourse against the Company.

The value of unused bond lines at 31 December 2017 was PLN 375,613 thousand for the Group and PLN 374,629 thousand for ZUE.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total value of the said guarantees at 31 December 2017 amounted to PLN 20,421 thousand.

As part of their operations, the Group companies are provided by their subcontractors with performance bonds and defects liability bonds in the form of bonds provided by banks and insurance companies or bills of exchange. The Group's contingent assets as at 31 December 2017 amounted to PLN 43,065 thousand.

Section 7.18 of the consolidated financial statements of the Group contains detailed information about off-balance sheet items in 2017.

## 17. Description of policies relating to social and employee issues, natural environments, respect of human rights and counteracting corruption

Formal solutions including, for instance, the code of ethics, policies, procedures, rules or similar regulations have not been implemented at the Group for all the areas covered by this section 17.

However, social and employee issues, the protection of natural environment, the respect of human rights or counteracting the corruption are the matters of great significance to the Group. Although no formal solutions/policies have been introduced to certain areas, the Group companies conduct their activities in compliance with any legal regulations as well as the internal system of universal values and social standards.

ZUE S.A. identifies certain aspects at the Group (relating especially to occupational health and safety and environment protection) and constantly assesses the impact of the Group's operations on the natural environment taking into consideration the changes (for instance legal, economic or social changes) in its neighbourhood and the cycle of life. The aspects are identified and assessed in accordance with relevant procedures relating to the identification of threats and assessment of risks in the given area. No complaints were made in 2017 about any potential violation of ethical standards. Selected contracts with counterparties contain clauses about ethics.

### 17.1. Social issues

Sales and design activities complement the main segment of the Group's operations. Accordingly, the Group's influence on the surrounding areas relates mainly to construction services delivered by the Parent Company. The Group's products and services are offered to public companies including PKP Polskie Linie Kolejowe S.A. or the companies dealing with local infrastructure, for instance Zarząd Infrastruktury Komunalnej i Transportu w Krakowie. The Group carries out the construction contracts in various regions (mainly in Poland) and makes any effort to ensure proper relations with customers and local communities without any negative consequences to

the customers, local communities, natural environment or third parties. The Group follows the principle of prudence and, first of all, prevents any negative influence on neighbouring areas. If any negative influence occurs, the Group tries to mitigate it. The said rule is followed especially in the context of the activities conducted on the basis of the Integrated Management System discussed in greater detail in section 18 of these financial statements.

ZUE's impact on the environment does not end the moment a particular investment is completed. This is because both passengers and transport firms use the infrastructure that we build or modernise long after the work is concluded. It is thus vitally important that we maintain a sufficient level of quality in our work, as this will be reflected in a high standard achieved at the close of the investment. Ensuring appropriate standards of quality is thus our priority at every stage of an investment, i.e. from the moment the right supplies and construction materials are delivered and the project is carried out in accordance with the required construction standards right through to ensuring that the guarantee obligations are observed promptly and reliably. The services provided by the Group are based on internal regulatory arrangements (encompassing instructions and procedures) that are part of integrated management systems, including, among other things, the ISO 9001:2015 – Quality Management System. The above practices ensure the internal cohesion and effectiveness of the operating activities undertaken. Simultaneously, apart from acting in accordance with internal procedures the implementation of every investment necessitates meeting the requirements of generally applicable laws (e.g. in terms of environmental issues or construction law) as well as the specific requirements and the technical and material standards contained in the design documentation of particular projects.

All the materials used in the implementation of construction projects possess the necessary quality certificates and satisfy mandatory material standards.

As a consequence, in 2017 the Group was not involved in any litigation with contracting authorities due to work being of insufficient quality or as a result of our investments breaching safety standards for travellers.

Simultaneously, in spite of precautionary measures and efforts to respect the environment in which construction work was carried out, in 2017 there were a total of six cases involving damage to the assets or property of third parties worth the combined sum of PLN 106,400. In all the above-mentioned cases where damage was sustained in 2017 compensation was paid.

On account of the scale of its activities the Group likewise attaches particular importance to settling accounts with suppliers of the goods or services needed to execute construction contracts. In particular, it strives to ensure the timely settlement of all sums owed, as is evident, among other things, in the fact that in October 2017 ZUE was awarded the Gold Payer 2016 certificate by Euler Hermes Collections sp. z o.o. for maintaining the highest possible payment standards.

In addition, the Group offers financial support, through the activities of ZUE S.A., to both public benefit organisations and private entities in need. The total amount of benefits paid in connection with the abovementioned support was approx. PLN 57,000 and concerned nine projects.

## **17.2. Social issues and issues relating to the respect of human rights**

The Group's employees are the key resource with an influence on the Group's activities and the key factor of the Group's success. We attach great significance to such issues as employees' rights, clear remuneration system, creation of proper work conditions, benefits other than salaries and wages and professional development. No violation of human rights was reported or confirmed in 2017. No special threats to human rights are identified by the Issuer outside the supply chain including the Issuer.

### Work rules

The Company's Work Rules define the organisation of work as well as the relating rights and obligations of both employees and their employer. The Work Rules include such issues as the rights of employees, the employment of women and junior workers, occupational health and safety, fire safety, the employees' rights relating to parenthood and the raising of professional qualifications by employees. Other companies of the Group which

conduct operating activities (e.g. BPK Poznań and Railway gft) also have their work rules governing similar issues.

#### Anti-mobbing rules

The Company makes any effort to be a reputable employer whose aim is to offer a satisfactory job and professional development to its employees. The principal aim of work culture and management at ZUE is to ensure friendly atmosphere at work free from mobbing and any other form of discrimination. In 2015, the Company's Management Board followed the solutions used both in Poland and Europe and established the anti-mobbing policy aimed at counteracting and fighting such behaviours. Pursuant to the said policy, there is the anti-mobbing committee at ZUE whose task is to consider mobbing complaints. Analogous policy is also pursued by BPK Poznań. No discrimination, sexual harassment or mobbing were reported or confirmed in 2017.

#### Corporate collective labour agreement

The Corporate Collective Labour Agreement was concluded between the Company and the two union organisations at ZUE (there is just one organisation today). The Corporate Collective Labour Agreement includes all the employees of ZUE but excludes members of the Company's Management Board and Chief the Accountant. It mainly deals with the employees' remuneration and other benefits as well as social activity. There are also the Rules of the Company Social Benefits Fund at ZUE saying how the Fund should be used by the employees. The employees of the subsidiaries are not the parties to any corporate labour agreement.

#### Diversity of employees

No formal employment diversity policy has been implemented in the Parent Company or the Group. However, the Group observes the universal standards and social values relating to employment and staff policy and ensures equal treatment during recruitment processes and employment. Accordingly, measures are taken to prevent the discrimination of both members of the governing bodies or key managers and ordinary employees of the Group. Respect of and openness to other people is one of the fundamental rules observed by the Group helping it effectively establish business connections and strengthen the bonds with its employees. In particular, we treat people as equal in terms of gender, age or origin when it comes to employment or promotion. Thus, the employment, promotion or development of an employee within the Group depend exclusively on their competence, experience and involvement.

Accordingly, the Group does not accept any obstacles to personal or professional development resulting from any individual features distinguishing a person.

### **17.3. Natural environment**

The Group makes any effort to prevent any negative influence of its business activity on the natural environment. The Company's activity is conducted in compliance with ISO 14001:2004 Environmental Management System. The Group's priority is to ensure a rational and environmentally friendly approach to waste management and constant improvement of its activities to prevent and reduce emissions into the air. These activities are conducted in compliance with environmental regulations following from both the law and individual instructions of contracting authorities involved in particular projects.

The Group has also implemented relevant organisational procedures concerning the disposal of waste, including hazardous waste, in line with applicable laws.

### **17.4. Counteracting corruption**

Potential areas exposed to corruption risk include, in particular, organisational units responsible for purchases and sales.

In 2017 ZUE adopted (as the unit coordinating the Group's activities) a policy aimed at promoting ethical management and providing protection for whistleblowers. The aim of this policy was to promote high legal, ethical and moral standards, observe the principles of integrity, objectiveness, responsibility and honesty, counteract unethical behaviour when bidding for and implementing public procurement projects as well as provide protection for people taking steps to protect the interests of the Company, consisting in reporting irregularities in the Company and its business environment that may cause harm to ZUE or damage its good reputation.

The introduction of the above policy is connected with the implementation by the Company of the public procurement project entitled "Preparation of the design documentation and performance of construction work based on the "Design and Build" formula within the framework of Infrastructure and Environment Operational Programme project 5.2-6 "Work on railway line no. 1 of the Częstochowa – Zawiercie section," which is covered by the Integrity Pact pilot scheme launched in Europe by the European Commission in conjunction with Transparency International. The social observer for the public procurement project is the Stefan Batory Foundation. ZUE is the only contractor from Poland involved in railway investments that participates in the Integrity Pact, which is intended to prevent abuse of European funds spent within the framework of public procurement activities, such as, among other things, obtaining material benefits in exchange for awarding decisions, setting specific conditions that favour one of the bidders, engaging in price fixing or acting in a situation where there is a conflict of interest. Besides the formal connection between this policy and the contract indicated above the solutions introduced therein are also in accordance with the values recognised by the enterprise as well as the Capital Group. The above policy promoting ethical management and whistleblower protection was adopted by the management and then announced to the Employees via email as well as on the company's website – [www.grupazue.pl](http://www.grupazue.pl). Representatives and sub-contractors engaged in the Task were likewise informed of the document. In accordance with the obligations arising from the Policy an advisor was appointed who would be responsible for handling reports on irregularities. Added to the contact form on the Company's webpage is a new tab entitled "Reporting incidents connected with ethical management policy" to provide a channel for anyone wishing to contact the Advisor anonymously. In addition, subcontractor agreements and commission contracts concluded within the framework of the public task covered by the pilot scheme require ZUE's contractors to observe the principles specified in the Policy as well as implement their own internal whistleblower protection rules.

No corruption incidents involving people employed with the Group companies were identified or reported in 2017, also via the Advisor.

## 18. Integrated Management System

ZUE has for many years delivered the highest quality services taking care of the safety of its employees and customers and the needs of the natural environment.

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 handover of a facility and final assessment of a task. The abovementioned system includes the procedures and solutions to ensure that the Company operates with due care and diligence.

The system has been entered into the Integrated Management System Register and is 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 traction networks;
- steel and reinforced concrete structures;
- lighting, control and signalling systems;
- power and telecommunications cable and overhead networks and equipment; and

- repair and rental of construction vehicles, machinery and equipment.

The International Organization for Standardization (ISO) published the new ISO 9001 and ISO 14001 standards on 15 September 2015. They were incorporated into the Polish Standards in 2016 under the following names: PN-EN ISO 9001:2015-10 *Quality Management Systems – Requirements* and PN-EN ISO 14001:2015 *Environmental Management Systems. Requirements with guidance for use*.

Publication of the new standards meant that all ISO 9001:2008 and ISO 14001:2004 certificates would be withdrawn from 15 September 2018.

Since the certificates held by ZUE expire definitely on 15 February 2018, the Company decided to integrate a recertification audit scheduled for January 2018 with a transfer audit whose aim is to make changes to the management system and adjust it to the new requirements.

As regards the requirements of the new quality and environmental standards, ZUE defined certain external and internal factors significant for the strategic aim of the Company's operations and the factors with an influence on the Company's ability to deliver an intended result of the quality and environmental management systems.

ZUE considered certain legal, technological, competition, market, social, cultural and economic issues as well as national, international, local or regional issues as a result of which it was able to understand the external context and the issues relating to the organisation's values, culture, knowledge and operation. This helped the Company to understand the internal context.

The Company considered all the environmental issues under the influence of the organisation or likely to influence the organisation.

The Company uses this approach to define, to the fullest possible extent, the context of the organisation's activity. SWOT analysis highlights both strong and weak points of the organisation as well as risks and opportunities relating to the Company's development.

As a result of implementation and maintenance of the Integrated Management System, ZUE S.A. strengthens its position of a reliable company able to satisfy the needs of the most demanding clients and reduces the impact of its processes, products and services on the environment and neighbouring community by strictly observing the rules of occupational health and safety imposed both by the law and the Company.

An ordered and systemic approach to the management of the company and, in particular, all the employees and the commitment of key management personnel provide the Company with an ability to properly provide its services in Poland but also on the international markets where it intends to perform the contracts.

During the transfer and recertification audits carried out on 04.08.2017, 19/20.12.2017, 04/05.01.2018 and 11/12.01.2018, the Integrated Management System was assessed by DNV GL auditors as effective and compliant with the requirements of the ISO 9001:2015 and ISO 14001:2015 standards and the OHSAS 18001:2007 standard. The auditors recommended that certificates should be issued.

The effectiveness of the Integrated Management System has been confirmed by the certificates awarded on 9 February 2018 and 14 February 2018 for the next three years by DNV GL - Business Assurance Poland.

It has also been demonstrated that there are notable effects of the changes which contribute to increase in the organisation's value.



## 19. Impact on natural environment

### 19.1. Consumption of energy

Below please find information about the consumption of electric energy at the Capital Group.

Type of energy	Consumption		Consumption per PLN 1,000,000 of the Group's revenue	
	2017	2016	2017	2016
Purchased electric energy (MWh)	487	668	1.05	1.95
Purchased thermal energy (GJ)	5,351	4,966	11.50	14.48

The Group companies did not generate electric or thermal energy in 2017.

The Group companies did not use any energy from renewable sources in 2017.

### 19.2. Consumption of materials

Type of material	Consumption		Consumption per PLN 1,000,000 of the Group's revenue	
	2017	2016	2017	2016
Rails (tonnes)	17,448	6,009	37,5	17,5
Breakstone and aggregate (tonnes)	574,879	278,125	1,235,5	810,8
Contact wire (km)	268	92	0,6	0,3
CU line (km)	690	89	1,5	0,3
Pre-stressed concrete sleepers (pieces)	246,120	43,706	528,9	127,4

No recycled materials were used in 2017.

No information about the consumption of water or carried sewage is provided because projects are executed in various parts of the country.

### 19.3. Waste

Type of waste	2017 (tonnes)	2016 (tonnes)
Hazardous waste	909	39
Non-hazardous waste	148,180	164 1

### 19.4. Emission of gases

Type of gas (kg)	2017	2016
CO <sub>2</sub>	17684.0	9354.0
CO	3.2	1.4
Dust	2.3	0.6
NO	13.6	7.2
SO	0.7	0.4

## 19.5. Impact on biodiversity

In 2017, ZUE did not carry out any construction work in the neighbourhood of nature protection areas, especially the areas included in the Natura 2000 network.

## 19.6. Public funds

In 2017, ZUE generated approx. 88% of the Group's revenue. The vast majority of ZUE's revenue comes from the execution of contracts awarded under competitive tendering processes for infrastructure projects.

The Company did not take advantage of any public aid in 2017.

## 20. Human capital management

At 31 December 2017, the Group companies employed 740 people, including 140 women.

The total number of employees included 368 white-collar workers and 372 blue-collar workers.

Information about male and female representation at the Company's Management Supervisory Boards:

Item	31.12.2016				31.12.2017			
	Management Board		Supervisory Board		Management Board		Supervisory Board	
	Number of people	%	Number of people	%	Number of people	%	Number of people	%
Women	1	20%	1	20%	1	20%	1	20%
Men	4	80%	4	80%	4	80%	4	80%
<b>Total</b>	<b>5</b>	<b>100%</b>	<b>5</b>	<b>100%</b>	<b>5</b>	<b>100%</b>	<b>5</b>	<b>100%</b>

Number of full-time employees at the end of the reporting period with a breakdown into types of employment contract:

Type of contract	Sex	ZUE		Group	
		2017	2016	2017	2016
Employment contract for an indefinite period	F	61	61	86.6	86
	M	406	420	431	443
<b>Total</b>		<b>467</b>	<b>481</b>	<b>517.6</b>	<b>529</b>
Employment contract for a fixed period	F	34	12	48.6	22,6
	M	151	124	165	143
<b>Total</b>		<b>185</b>	<b>136</b>	<b>213.6</b>	<b>165.6</b>

Number of new full-time employees:

Type of contract	Sex	ZUE		Group	
		2017	2016	2017	2016
Number of new employees	F	30	6	44.6	15.6
	M	111	45	118	63
<b>Total</b>		<b>141</b>	<b>51</b>	<b>162.6</b>	<b>78.6</b>
Number of leaving employees	F	9	15	19	23
	M	91	123	102	135
<b>Total</b>		<b>100</b>	<b>138</b>	<b>121</b>	<b>158</b>

In 2017, the Group companies were the parties to civil law agreements concluded with 23 people. The total gross amount of benefits paid under these agreements was PLN 175 thousand.

The Group companies did not hire any temporary workers.

At the end of 2017, the Group employed 8 disabled persons (including 7 persons at ZUE) who accounted for 1.1% of the Group's total employment.

The average monthly remuneration of employees employed under employment contract in 2017 amounted to PLN 5.8 thousand for women (PLN 6.1 thousand in 2016) and PLN 6.9 thousand for men (PLN 6.4 thousand in 2016). The average wages of blue-collar workers in 2017 amounted to PLN 4.9 thousand (PLN 4.1 thousand in 2016). The ratio of the average wages of blue-collar workers to a minimum wage was 147% in 2017 and 121% in 2016. The ratio of the average wages of blue-collar workers to the average pay in business sector amounted to 109% in 2017 and 96% in 2016.

At the end of 2017, the Group employed 2 foreigners whose average monthly remuneration amounted to PLN 10.5 thousand.

The ratio of the average gross salary of women to the average gross salary of men in the Group in 2017 was 84%.

The total amount of contributions to the State Fund for Rehabilitation of Disabled Persons (PFRON) was PLN 606 thousand (including PLN 535 thousand for ZUE).

In 2017, there was no situation where a woman returned to work after childbirth and resigned within 12 months of the return.

Employment structure at the Group according to the types of activity in 2017:

Activity	ZUE		Group	
	2017	2016	2017	2016
Management and administration	79	79	99	100
Sales and marketing	17	17	28	30
Production	372	386	372	386
Engineers and technicians	184	135	241	188
<b>Total</b>	<b>652</b>	<b>617</b>	<b>740</b>	<b>704</b>

Employment structure at the Group according to education in 2017:

Education	ZUE		Group ZUE	
	2017	2016	2017	2016
Elementary	54	50	55	52
Vocational	181	194	181	194
Secondary	196	189	207	200
Higher	221	184	297	258
<b>Total</b>	<b>652</b>	<b>617</b>	<b>740</b>	<b>704</b>

Employment structure at the Group according to age in 2017:

Age	ZUE		Group	
	2017	2016	2017	2016
20-30	99	89	121	106
31-40	191	189	223	227
41-50	139	114	156	128
51-60	152	166	158	173
61+	71	59	82	70
<b>Total</b>	<b>652</b>	<b>617</b>	<b>740</b>	<b>704</b>

Average seniority at the Group was 10.6 years in 2017 and 11.0 years in 2016.

In 2017, the Group companies paid salaries and wages under employment contracts in the gross amount of PLN 57,491 thousand (including PLN 52,005 thousand paid by ZUE).

No fines were imposed in 2017 on the Group companies in connection with the employment.

<b>Trainings</b>	<b>2017</b>	<b>2016</b>
Number of trainings	203	111
Number of trained people	793	640

In 2017, the Group organised trainings in project management, finance, office software, HR, or getting new or renewing existing professional qualifications such as licenses entitling their holder to operate construction equipment. The Group also organised language courses for its employees. No trainings in ethics were organised in 2017.

The Group employees are provided with benefits other than salaries and wages such as medical packages, additional life insurance, benefits under the Company Social Benefits Fund (for instance funding for holidays, theatre or swimming pool tickets, housing loans and aids) or Multisport cards.

The Issuer communicates with employees via a trade organisation. Issues, which are reported and need to be discussed, are analysed on an ongoing basis depending on the significance thereof and their impact on the employer/employee relations.

## **21. Occupational health and safety**

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 2015, the Company was recertified with OHSAS 18001:2007.

The system is supervised, improved and corrected on an ongoing basis as a result of regular inspections, audits and records of the control of all activities by the management of ZUE S.A. The effectiveness of the Integrated Management System has been confirmed by the certificates awarded in January 2015 for the next three years by DNV GL.

Positive effects of occupational health and safety at the Group 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.

There is a five-member Health and Safety Committee at ZUE comprising an employee of the Health and Safety Section, a company work standards and safety inspector, an occupational medicine doctor, a representative of social committee and a chairperson.

Work conditions are inspected by the Occupational Health and Safety service and the abovementioned Health and Safety Committee, which prepare relevant protocols. In 2017, about 70 work safety inspections were carried out at the sites where construction works are performed by the Company. The inspection results are contained in protocols and the register of near misses. The conditions of work are inspected to prevent accidents and their frequency depends on the risk relating to particular jobs. If any irregularities are detected, motions and recommendations are submitted to the company's managing personnel in order to remove them and take appropriate measures against people responsible for occupational health and safety.

No fatal or collective or serious accident at work was reported at the Group in 2017. The number of slight accidents decreased by 45% when compared with 2016. The inspections carried out in 2017 by the National Work Standards and Safety Inspectorate did not reveal any significant deviations from applicable laws.

Item	2017	2016
Total accidents, including:	6	11
<i>Fatal</i>	0	0
<i>Serious</i>	0	0
<i>Slight</i>	6	11

Trainings in occupational health and safety organised for the Group's employees are an important preventive measure. The table below sets out the number of trainings organised by the Group in 2017 and 2016.

Item	2017	2016
Occupational health and safety trainings for employees, including:*	619	510
<i>ZUE</i>	545	481
<i>Railway gft</i>	3	9
<i>BPK Poznań</i>	71	20

\*Periodic trainings + trainings for new employees.

No fines relating to occupational health and safety were imposed on the Group in 2017 or 2016.

No on-the-job illnesses were reported in 2017.

## 22. Engagement with local communities

In 2017, the Group supported 9 charity or social projects. The total amount of the support was approx. PLN 57 thousand, including PLN 17 thousand for charity. In 2016, the Group supported 12 projects for the total amount of approx. PLN 87 thousand, including PLN 63 thousand for charity.

There is no corporate volunteering at the Group.

## FINANCIAL INFORMATION

Construction and assembly services delivered by the Parent Company generate the largest portion of the Group's income. Therefore, the scope of major factors influencing the Group's performance and economic condition in 2017 coincides with the factors influencing the standing of ZUE stipulated in sections 23-25.

### 23. Discussion of major items of the statement of profit or loss

ZUE's revenue generated in 2017 was PLN 408,487 thousand. The Company's revenue increased by 31% compared to the revenue reported in 2016 and by PLN 196,207 thousand when compared with the analogous figure reported at the end of the third quarter of 2017. In the fourth quarter of 2017, the Company generated 48% of annual revenue. In the second half of 2017, it generated 75% of annual revenue.

The table below reflects seasonal character of sales at ZUE in 2017:

Item	I quarter	II quarter	III quarter	IV quarter
Revenue (PLN '000)	30,383	69,712	112,185	196,207
% - quarter	7%	17%	27%	48%
% - half year	25%		75%	

In the third and fourth quarter of 2017, the Company effectively took advantage of the opportunities offered by the new contracts whose performance began in 2017. They were mainly railway contracts won in connection with the National Railway Programme whose aim is to implement projects until 2023. A significant increase in revenue accompanied by improved margins in the second half of 2017 produced positive values on all profit levels recorded by ZUE throughout 2017. It should be emphasized that a number of the contracts won in the second half of 2017 was still at an initial stage and did not generate significant revenues.

In the second half of 2017, the Company effectively used the potential of its equipment and human resources. The Board's decision to keep the employees provided the Company with its own staff required to perform the contracts. The Company believes that the said decision will help it perform the contracts in the future. The Company actively recruits employees (with positive effects) on a difficult market of construction workers. It also buys machines depending on the needs of the existing and future contracts.

When compared with 2016, gross profit in 2017 increased by PLN 1,840 thousand; i.e. from PLN 13,851 thousand at the end of 2016 to PLN 15,691 thousand at the end of 2017. Operating profit in the period under analysis increased by PLN 778 thousand and net profit decreased by PLN 641 thousand.

The table below presents the results reported by the Group and the Company in the reporting period:

Item (PLN '000)	ZUE Group		ZUE	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Revenue	465,316	343,017	408,487	311,086
Gross profit (loss)	19,092	16,663	15,691	13,851
Operating profit (loss) (EBIT)	1,641	154	1,521	743
EBITDA*	11,474	9,732	11,274	9,965
Pre-tax profit (loss)	895	1,291	1,504	2,328
Net profit (loss)	233	406	839	1,480

\* Operating profit + depreciation / amortisation.

The table below presents the results reported for the fourth quarter of 2017 and the comparative figures for the fourth quarter of 2016.

Item (PLN '000)	ZUE Group		ZUE	
	IVQ 2017	IVQ 2016	IVQ 2017	IVQ 2016
Revenue	231,857	122,403	196,207	113,522
Gross profit (loss)	15,338	11,746	12,920	10,594
Operating profit (loss) (EBIT)	13,288	7,740	11,393	7,488
EBITDA	15,824	10,150	13,912	9,867
Pre-tax profit (loss)	14,887	8,160	13,252	7,995
Net profit (loss)	12,377	6,512	10,690	6,311

General and administrative expenses of ZUE in 2017 stood at PLN 16,001 thousand and decreased by 2% when compared with the analogous figure of 2016. General and administrative expenses include the costs of tender procedures, for instance bid bonds of PLN 321 thousand.

Other operating income reported by the Company in 2017 was PLN 5,201 thousand – up by 5% when compared with the analogous period of 2016. In 2017, the Company released the investment property impairment loss of PLN 2,200 thousand in connection with investment plans and revisions of estimates relating to the real property in Kościelisko owned by ZUE.

Other operating expenses amounted to PLN 3,370 thousand and increased by 92% compared to 2016. Following the assessment of risks related to trade receivables, write-downs of PLN 1,225 thousand recognised by the Company in the reporting period including the write-down recognised in connection with an invoice for additional works issued by PKP PLK to be enforced in court.

ZUE's financial income between 1 January and 31 December 2017 stood at PLN 2,253 thousand and decreased by 15% when compared with 2016. The decrease in financial income was a result of using more money to conduct operating activities (e.g. to perform the newly won contracts) and, consequently, investing less money in deposits and other financial instruments, for instance bonds.

ZUE's financial expenses in 2017 amounted to PLN 2,270 thousand and increased by 110% compared to 2016. Foreign exchange loss was the main factor contributing to the increase.

## 24. Discussion of major items of the statement of financial position

The table below sets out the main items of the consolidated and separate statement of financial position reported by the Group and ZUE at 31 December 2017 and the comparative data at 31 December 2016.

Item (PLN '000)	ZUE Group		ZUE	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
<i>Property, plant and equipment</i>	95,023	83,416	92,004	80,335
<i>Investment property</i>	5,591	3,717	9,095	7,349
<i>Intangible assets</i>	9,087	9,595	8,594	9,119
<i>Goodwill</i>	31,172	31,172	31,172	31,172
<i>Investments in non-consolidated subsidiaries</i>	0	0	210	210
<i>Retentions on construction contracts</i>	9,696	7,334	9,439	6,819

<i>Deferred tax assets</i>	8,024	8,683	7,803	8,465
<b>Total non-current assets</b>	<b>158,593</b>	<b>143,917</b>	<b>158,317</b>	<b>143,469</b>
<b>CURRENT ASSETS</b>				
<i>Inventories</i>	27,938	11,287	24,239	6,196
<i>Trade and other receivables</i>	192,148	86,609	171,270	74,937
<i>Retentions on construction contracts</i>	4,718	2,177	4,393	2,101
<i>Current tax assets</i>	0	64	0	0
<i>Other financial assets</i>	0	54,935	0	54,935
<i>Other assets</i>	1,097	1,378	909	1,198
<i>Loans advanced</i>	10	289	10	289
<i>Cash and cash equivalents</i>	117,748	62,717	116,144	61,207
<b>Total current assets</b>	<b>343,659</b>	<b>219,456</b>	<b>316,965</b>	<b>200,863</b>
<b>TOTAL ASSETS</b>	<b>502,252</b>	<b>363,373</b>	<b>475,282</b>	<b>344,332</b>

Item (PLN '000)	ZUE Group		ZUE	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
<i>Share capital</i>	5,758	5,758	5,758	5,758
<i>Share premium account</i>	93,837	93,837	93,837	93,837
<i>Treasury shares</i>	-2,690	-2,690	-2,690	-2,690
<i>Retained earnings</i>	112,605	112,391	113,461	112,718
<b>Total equity attributable to shareholders of ZUE</b>	<b>209,510</b>	<b>209,296</b>	<b>210,366</b>	<b>209,623</b>
<i>Equity attributable to non-controlling interests</i>	-91	-14	0	0
<b>Total equity</b>	<b>209,419</b>	<b>209,282</b>	<b>210,366</b>	<b>209,623</b>
<b>NON-CURRENT LIABILITIES</b>				
<i>Long-term loans and bank credits and other financing sources</i>	11,224	8,892	11,205	8,875
<i>Retentions on construction contracts</i>	6,254	6,792	5,755	6,717
<i>Other financial liabilities</i>	350	630	0	0
<i>Liabilities under employee benefits</i>	1,888	1,864	856	740
<i>Long-term provisions</i>	5,756	7,645	5,671	7,556
<i>Other liabilities</i>	0	0	350	630
<b>Total non-current liabilities</b>	<b>25,472</b>	<b>25,823</b>	<b>23,837</b>	<b>24,518</b>
<b>CURRENT LIABILITIES</b>				

Trade and other payables	224,286	82,094	206,425	74,740
Retentions on construction contracts	6,795	9,185	6,663	9,117
Short-term loans and bank credits and other financing sources	14,908	14,194	8,773	5,765
Other financial liabilities	316	317	36	37
Liabilities under employee benefits	17,522	17,928	16,184	16,562
Current tax liabilities	0	0	0	0
Short-term provisions	3,534	4,550	2,998	3,970
<b>Total current liabilities</b>	<b>267,361</b>	<b>128,268</b>	<b>241,079</b>	<b>110,191</b>
<b>Total liabilities</b>	<b>292,833</b>	<b>154,091</b>	<b>264,916</b>	<b>134,709</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>502,252</b>	<b>363,373</b>	<b>475,282</b>	<b>344,332</b>

At 31 December 2017, ZUE's total assets and liabilities stood at PLN 475,282 thousand and increased year-on-year by 38%.

Items with the biggest influence on the said total assets and liabilities:

Item	PLN '000		
	Change (compared to 2016):	Balance at 31-12-2017	Description
<b>Assets</b>			
Property, plant and equipment	+11,669	92,004	Increase as a result of investments in machinery and vehicles.
Inventories	+18,043	24,239	Increase as a result of greater demand for building materials (greater number of projects).
Trade and other receivables	+96,333	171,270	Greater progress of works relating to the performance of new contracts.
Other financial assets	-54,935	0	Completion and settlement of investments in corporate bonds.
Cash and cash equivalents	+54,937	116,144	Increase mainly as a result of settlement of contracts completed in the fourth quarter of 2017.
<b>Liabilities</b>			
Long-term loans and bank credits and other financing sources	+2,330	11,205	Financing of investments in non-current assets (lease).
Trade and other payables	+131,685	206,425	Advance payments made by PKP PLK required to perform construction contracts.
Short-term loans and bank credits and other financing sources	+3,008	8,773	Financing of investments in non-current assets (lease).

## 25. Discussion of items of the statement of cash flows

ZUE's cash flows from operating activities of PLN 16,069 thousand were mainly influenced by changes in retentions, payables and receivables in connection with the performance of the new contracts and the settlement of contracts completed in the fourth quarter of 2017.

Positive cash flows from investing activities of PLN 34,495 thousand were mainly influenced by the settlement of the investment of the Company's funds in corporate bonds.

Cash flows from financing activities of PLN 4,765 thousand were mainly influenced by the leaseback used to finance the purchase of non-current assets and the decrease in liabilities under leases.

Item (PLN '000)	ZUE Group		ZUE	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Cash flows from operating activities	18,863	-38,014	16,069	-33,820
Cash flows from investing activities	34,717	-63,227	34,495	-64,097
Cash flows from financing activities	1,848	-9,065	4,765	-11,355
Total net cash flows	55,428	-110,306	55,329	-109,272
Foreign exchange gains / (losses)	-397	689	-392	684
Cash and cash equivalents at the beginning of the period	62,717	172,334	61,207	169,795
<b>Cash and cash equivalents at the end of the period</b>	<b>117,748</b>	<b>62,717</b>	<b>116,144</b>	<b>61,207</b>
Depreciation / amortisation	9,833	9,578	9,753	9,222

Cash at the end of 2016 does not include the corporate bonds of PLN 54,935 thousand held by ZUE (the said bonds are recognised in Other financial assets). The Company's cash of PLN 116,144 thousand at 31 December 2017 does not include the funds of limited availability of PLN 9,998 thousand, including funds on escrow accounts.

## 26. Discussion of results reported by segments

The total amount of revenue generated by the Group is PLN 465,316 thousand. The largest portion of the Group's revenue is derived from construction activity.

Item (PLN '000)	Construction	Sales	Design	Exclusions	Total
Revenue	408,487	75,383	17,805	-36,359	465,316

Sales activities conducted at the Group by Railway gft in 2017 saw a net loss of PLN 287 thousand (gross profit of PLN 2,479 thousand).

Design activities conducted by BPK Poznań in 2017 produced a gross profit of PLN 1,528 thousand. BPK Poznań ended 2017 with a net profit of PLN 141 thousand. Design activities complement construction activities.

## 27. Analysis of ratios

### 27.1. Debt ratios

Item	ZUE Group		ZUE		Rules of ratio calculation
	31-12-2017	31-12-2016	31-12-2017	31-12-2016	
Net debt	-90,950	-93,619	-96,130	-101,465	(Long- and short-term loans and bank credits and other financing sources + long- and short-term other financial liabilities) – cash

					and cash equivalents – other financial assets (in 2016 – bonds of PLN 54,935 thousand)
Debt ratio	0.6	0.4	0.6	0.4	(non-current and current liabilities + provisions for liabilities) / total assets
Debt to equity ratio	1.4	0.7	1.3	0.6	(non-current and current liabilities) / equity
Equity to assets ratio	0.4	0.6	0.4	0.6	equity / total assets
Fixed capital to non-current assets ratio	1.5	1.6	1.5	1.6	(equity + non-current liabilities) / non-current assets
Short-term debt ratio	0.5	0.4	0.5	0.3	current liabilities / total assets
Long-term debt ratio	0.1	0.1	0.1	0.1	non-current liabilities / equity
Interest coverage ratio	-1.9	-0.2	-2.7	-1.7	EBIT / interest

## 27.2. Liquidity ratios

Item	ZUE Group		ZUE		Rules of ratio calculation
	31-12-2017	31-12-2016	31-12-2017	31-12-2016	
Working capital	76,298	91,188	75,886	90,672	current assets – current liabilities
Current ratio	1.3	1.7	1.3	1.8	current assets / current liabilities
Quick ratio	1.2	1.6	1.2	1.8	(current assets – inventory) / current liabilities
Cash ratio	0.4	0.5	0.5	0.6	cash and cash equivalents / current liabilities

## 27.3. Financing structure ratios

Item	ZUE Group		ZUE		Rules of ratio calculation
	31-12-2017	31-12-2016	31-12-2017	31-12-2016	
Equity to assets ratio	0.4	0.6	0.4	0.6	equity / total assets
Equity to non-current assets ratio	1.3	1.5	1.3	1.5	equity / non-current assets
Debt ratio	0.6	0.4	0.6	0.4	(total assets - equity) / total assets
Debt to equity ratio	1.4	0.7	1.3	0.6	(total assets - equity) / equity

## 27.4. Profitability ratios

Item	ZUE Group	ZUE	Rules of ratio calculation
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	31-12-2017	31-12-2016	31-12-2017	31-12-2016	
Gross margin	4.1%	4.9%	3.8	4.5	<i>gross profit / revenue</i>
EBITDA	11,474	9,732	11,274	9,965	<i>operating profit + depreciation / amortisation</i>
EBITDA margin	2.5%	2.8%	2.8%	3.2%	<i>EBITDA / revenue</i>
EBIT margin	0.4%	0.0%	0.4%	0.2%	<i>EBIT / revenue</i>
Gross margin	4.0%	4.8%	3.8%	4.3%	<i>gross profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
Net margin	0.05%	0.1%	0.2%	0.5%	<i>net profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
ROA	0.05%	0.1%	0.2%	0.4%	<i>net profit / total assets</i>
ROE	0.11%	0.2%	0.4%	0.7%	<i>net profit / equity-net profit</i>

## 28. Unusual factors and events with significant influence on the Group's results

No unusual factors or events occurred in the reporting period.

## 29. Statement by the Management Board of ZUE on forecast financial results

The Company did not publish any forecast separate or consolidated financial results for the financial year 2017.

## 30. Investments

### 30.1. Investments made in 2017

The total capital expenditure incurred at the Group in 2017 amounted to PLN 20,870 thousand. The investments made by ZUE accounted for 99% of the abovementioned amount.

The capital expenditure is detailed in the table below.

Item (PLN '000)	Own funds	Leaseback and finance lease	Credits	Total
Domestic investments				
<b>Intangible assets:</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>
- leasehold	0	0	0	0
<b>Property, plant and equipment, including:</b>	<b>2,131</b>	<b>15,343</b>	<b>0</b>	<b>17,474</b>
- buildings and structures	38	0	0	38
- plant and equipment	282	0	0	282
- vehicles	1,663	15,343	0	17,006
- other	148	0	0	148
<b>Non-current assets under construction</b>	<b>6,309</b>	<b>0</b>	<b>0</b>	<b>6,309</b>
<b>Intangible assets under construction</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>29</b>

<b>Investment property</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>11</b>
Equity investments	0	0	0	0
Advance payment from previous period on current investments	0	-2,967	0	-2,967
<b>Total domestic investments</b>	<b>8,494</b>	<b>12,376</b>	<b>0</b>	<b>20,870</b>

Major investments in property, plant and equipment made by the Group in 2017:

- Krupp 75t railroad crane. Purchase value: PLN 370 thousand. The purchase was financed by own resources.
- Gaz Gazelle car together with jack to carry out maintenance and assembly works worth PLN 235 thousand. The purchase was financed under leaseback.
- IVECO Daily car together with jack to carry out maintenance and assembly works worth PLN 128 thousand. The purchase was financed by own resources.
- 10 TMS-40.01 wagons and one additional conveyor for coupling the TMS-40.01 wagon with the ballast cleaning machine RM80 UHR. Total value: PLN 14,600 thousand. The purchase is financed under leaseback.
- Complete overhauls of machines and vehicles in the total amount of PLN 402 thousand – financed by own resources.
- Purchase of trucks in the total amount of PLN 467 thousand. The purchase is financed under leaseback.

The Group's investments in intangible assets in 2017 concerned the purchase of licence and software.

At the end of 2017, ZUE invested in the following property, plant and equipment:

- Piling station type PV 15RPR on the chassis of a tracked excavator Kobelco SK 230 SR LC-5. Total expenditure as at 31.12.2017: PLN 3,080 thousand. Final acceptance: February 2018.
- Two-way rail welding machine kcm 007. Purchase value: EUR 1,300 thousand. Acceptance date: April 2018.
- 40 SAMMPS wagons of the total value of EUR 900 thousand. The contract is continued successively until May 2018.

Leaseback is presented in the consolidated financial statements as property, plant and equipment financing agreements.

### 30.2. Assessment of intended investments

In 2018, the Group will continue to invest in non-current assets under construction. In January 2018, the Group bought 35 Eaos freight cars of the total value of EUR 1,074 thousand. New investments in property, plant and equipment as well as intangible assets will be made as needed.

The Management Board of ZUE believe that the level of financial resources as well as available credit and lease lines are sufficient and anticipate no changes whatsoever in the financing structure.

## 31. Management of financial resources

The Group cooperates with a number of banks to ensure proper financing and bank guarantees required to conduct its activities. At present, no risks are identified in connection with the Group's ability to repay its liabilities.

The table below sets out the use of bank credits and multipurpose lines as at 31.12.2017.

ZUE				
Bank	Description	Principal according to the agreement [PLN '000]	Amount used as at 31.12.2017 [PLN '000]	Repayment date
mBank S.A.	Overdraft	5,000	0	2018-05-11
mBank S.A.	Cooperation agreement	50,000	2,500	2020-07-17

(ii)	including:			
	sublimit for bonds	50,000	2,500	
	sublimit for working credit facilities	30,000	0	
BGŻ BNP PARIBAS (iv)	Multipurpose credit line agreement	170,000	71,553	2018-10-26
	including:			
	sublimit for bonds	170,000	71,553	
	sublimit for working credit facilities	20,000	0	
PEKAO SA (i) (iii)	Multipurpose credit limit agreement	100,000	16,810	2018-11-30
	including:			
	sublimit for bonds	100,000	16,810	
	sublimit for working credit facilities	20,000	0	
<b>BPK Poznań</b>				
BNP Paribas S.A.	Multipurpose credit line	300	0	2018-07-24
mBank	Overdraft	300	0	2018-06-08
mBank	Working credit facility for contract prefinancing	2,000	598	2018-05-15
BNP Paribas (v)	Non-revolving credit	300	253	2018-02-28
<b>Railway gft</b>				
mBank	Working credit facility	5,000	5,000	2018-08-24
BNP Paribas S.A.	Revolving credit agreement	3,000	0	2018-08-08
<b>Total use of credits at the Group</b>			<b>5,851</b>	
<b>Total use of bonds at the Group</b>			<b>90,863</b>	

(i) ZUE may use the available credit limit for bank guarantees.

(ii) Annex no. 7 of 23.06.2017 whereby the limit was raised to PLN 50,000 thousand.

(iii) Annex no. 1 of 31.10.2017 whereby the limit was raised to PLN 100,000 thousand.

(iv) Annex no. 3 of 27.10.2017 to the Financing Agreement whereby previous agreements are terminated and the new multipurpose credit line agreement is concluded.

(v) New agreement entered into on 11.09.2017.

In 2017, the Company continued to finance its investments with finance lease or leaseback and adjusted the term of liabilities thereunder to its order book. ZUE did not use any credits despite available credit lines. The main task of financial officers was to obtain the new bond lines to secure tender procedures, proper performance of contracts and the term of warranty and guarantee.

At 31 December 2017, the value of unused credit lines available to the Group was PLN 80,049 thousand. The sublimit for the working credit facility was not recognised under unused credit lines of the Group because the Group was able to use the entire sublimit with PEKAO SA for the bonds.

The Group's debt in connection with credits, loans and other sources of finance amounted to PLN 26,132 thousand. The Group's debt under credits was PLN 5,851 thousand (subsidiaries) and the Group's debt under leases was PLN 20,031 thousand.

At the end of 2017, the Group held cash of PLN 128 thousand.

The balance of loans granted by ZUE as at 31 December 2017 was PLN 346 thousand. The loans were granted to RTI Germany (a subsidiary), STE DE GEST N.S.F.C. IYANE/IBRAHIMA I.THIAM and RTI to finance their day-to-day operations. No loans were granted by ZUE's subsidiaries.

No credit or loan agreements were terminated by the Group companies in 2017.

## 32. Financial risk management

The main financial instruments used by the Group include:

- Finance leases and agreements for the financing of property, plant and equipment whose aim is to obtain funds to finance investments;
- Bank credits – loans whose aim is to obtain funds to finance operations;
- Trade and other receivables and payables as well as cash and short-term deposits arising during the course of the Company's operation.

The Group's activities expose it to different financial risks including foreign currency risk, interest rate risk, price risk, credit risk and liquidity risk. The Company's Management Board verify these risks and define the rules governing the management of these risks.

#### **Foreign exchange risk**

As part of its operations, the Group makes settlements 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. If this is not possible, currency exposure (if relevant) is hedged on the financial market using currency futures.

#### **Interest rate risk**

The Group is exposed to interest rate risk mainly because it uses such instruments as leases and multi-purpose lines of credit. These financial instruments are based on variable interest rates and expose the Group to the risk of cash flow fluctuations. The risk is hedged by regular assessments aimed at adjusting interest rates to current situation and readiness to incur a risk.

#### **Price risk**

The Group is exposed to price risk relating to the increase in prices of the most popular products and raw materials such as concrete, aggregates, steel elements (including HV tram and rail traction network posts, lamp posts, rails or crossovers) and copper and aluminium elements (including power cables, lines and contact wires) and, given a big number of machines, liquid fuels (including diesel oil and petrol).

Changes in prices of materials or labour costs may contribute to a change in service fees charged by subcontractors. Prices contained in contracts with investors remain fixed throughout the term of such contracts (usually from 6 to 36 months). However, contracts with subcontractors may be concluded at a later date as the works progress. The Group protects itself against the price risk by signing master agreements for the supply of strategic materials.

Taking the available market data into consideration, on the basis of the Company's knowledge and experience, the risk is assessed as moderate.

#### **Credit risk**

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

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

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

#### **Liquidity risk**

The Group reduces liquidity risk by maintaining sufficient cash and concluding credit line agreements which serve as an additional safeguard against the loss of liquidity. The Group uses own funds or long-term finance lease

agreements to finance its investments and to ensure appropriate stability of financing structure for this type of assets.

Liquidity management is supported by the system of reporting cash flow forecasts.

## STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

### 33. Scope of application of corporate governance principles

The information about the Company's compliance with the principles and recommendations contained in 2017 Code of Best Practice for WSE Listed Companies as well as relevant statement made by the Company's Management Board are available on ZUE's website: [www.grupazue.pl](http://www.grupazue.pl); tab: Investor Relations > Corporate Governance.

In 2017, ZUE was subject to the Corporate Governance principles contained in the Appendix to the Resolution no. 26/1413/2015 passed by the Warsaw Stock Exchange Supervisory Board on 13 October 2015 – "2016 Code of Best Practice for WSE Listed Companies" (amendments made under the said Resolution came into force on 1 January 2016).

The Management Board of ZUE state that in the financial year 2017, the Company complied with the majority of the Corporate Governance principles set out in the Appendix to the Resolution no. 26/1413/2015 passed by the Warsaw Stock Exchange Supervisory Board on 13 October 2015 – "2016 Code of Best Practice for WSE Listed Companies," except for the following principles.

#### Chapter I – Disclosure Policy, Investor Communications

##### I.R.1.) - Content

*"Where a company becomes aware that untrue information is disseminated in the media, which significantly affects its evaluation, it should immediately publish on its website a communiqué containing its position on such information, unless in the opinion of the company the nature of such information and the circumstances of its publication give reasons to follow a more adequate solution."*

##### I.R.1.) – Company's Comment

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. The Company makes any effort to ensure that its 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 is in many cases hampered or even impossible. In addition, the Company has no influence on the speed of transfer or the receipt by the Company of information on opinion-making effects of the statements made by other persons unrelated to the Company.

##### I.R.2.) – Content

*"Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report."*

##### I.R.2.) – Company's Comment

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.

##### I.Z.1.15.) – Content

*"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website."*

##### I.Z.1.15.) – Company's Comment

The Company does not apply any diversity policy to the Company's governing bodies or key managers. The appointment of members of the Company's governing bodies or key managers depends on their competence,

skills and effectiveness. The appointment decisions are made on the basis of these criteria. The Company believes that these assessment criteria help it select the candidates able to pursue the Company's strategy and ensure its development.

#### I.Z.1.16.) – Content

*"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting."*

#### I.Z.1.16.) – Company's Comment

According to Art. 406(5) of the Act, the transmission of a general meeting is not mandatory. There is no transmission of a general meeting at the Company. The Issuer believes that the Company's Articles of Association and the Company's Regulations of the General Meeting govern the course of and the participation in general meetings in a comprehensive and sufficient manner. In addition, the Management Board maintain that the Company's expenses relating to the transmission, recording and broadcasting are incommensurate with investor advantages.

#### I.Z.1.20.) – Content

*"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: an audio or video recording of a general meeting."*

#### I.Z.1.20.) – Company's Comment

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 covered by this principle. All resolutions passed by the Company are published immediately after a general meeting has taken place and investors are able to read the agenda.

## Chapter II – Management Board and Supervisory Board

#### II.R.2.) - Content

*"Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience."*

#### II.R.2.) - Company's Comment

Neither gender nor age is used as a criterion in the appointment to the Issuer's supervisory or management boards. The appointment of members of the Company's governing bodies depends on their competence, skills and effectiveness. The appointment decisions are made on the basis of these criteria. The Company believes that these assessment criteria help it select the candidates able to pursue the Company's strategy and ensure its development.

## Chapter III – Internal Systems and Functions

#### III.Z.2.) – Content

*"Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee."*

#### III.Z.2.) – Company's Comment

The principle according to which persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board is not observed by the Company. Given the type and scope of the Company's activities, not every person responsible for any of these activities reports directly to the president or other member of the management board. The internal audit activities are monitored by the Audit Committee as part of the Committee's tasks and powers. However, relevant changes are planned by the Company and an internal audit unit may be separated from its structures.

#### III.Z.3.) - Content

*"The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks."*

#### III.Z.3.) – Company's Comment

Given the type and scope of the Company's activities, no independent organisational units responsible for internal audit tasks have been separated from its structures. Consequently, there are no objective reasons to state that these standards are observed by the Company. The internal audit activities are monitored by the Audit Committee as part of the Committee's tasks and powers. However, relevant changes are planned by the Company and an internal audit unit may be separated from its structures.

### Chapter IV – General Meeting and Relations with Shareholders

#### IV.R.2.) - Content

*"If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:*

- 1) *real-life broadcast of the general meeting;*
- 2) *real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;*
- 3) *exercise of the right to vote during a general meeting either in person or through a proxy."*

#### IV.R.2.) – Company's Comment

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 general meetings in a comprehensive and sufficient manner. The Issuer also maintains that the Company's expenses relating to the holding of a general meeting with the use of electronic communication means are incommensurate with investor advantages. In addition, the Company identifies major legal risks relating to such a form of a general meeting.

#### IV.Z.7.) – Content

*"A break in the proceedings of the general meeting may only take place in special cases, defined at each time in the justification of the resolution announcing the break, drafted on the basis of reasons provided by the shareholder requesting the break."*

#### IV.Z.7.) – Company's Comment

The Issuer complies with the provisions of Art. 408 § 2 of the Act concerning breaks in the proceedings of a general meeting. According to the Company, these provisions ensure that any breaks only take place in special cases.

#### IV.Z.8.) – Content

*"A resolution of the general meeting announcing a break should clearly set the date and time when the proceedings recommence, and such date and time must not be a barrier for most shareholders, including minority shareholders, to participate in the continuation of the proceedings."*

#### IV.Z.8.) – Company's Comment

The Issuer complies with the provisions of Art. 408 § 2 of the Act concerning breaks in the proceedings of a general meeting.

#### IV.Z.18.) – Content

*"A resolution of the general meeting to split the nominal value of shares should not set the new nominal value of the shares below PLN 0.50, which could result in a very low unit market value of the shares, and which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange."*

#### IV.Z.18.) – Company's Comment

The share nominal value is PLN 0.25 so the principle does not apply to the Company.

## Chapter VI – Remuneration

### VI.R.1.) – Content

*“The remuneration of members of the company’s governing bodies and key managers should follow the approved remuneration policy.”*

### VI.R.1.) – Company’s Comment

Members of the Issuer’s Management Board are paid according to the scope of their tasks, the responsibility connected with their position and their performance. The remuneration of members of the Supervisory Board is defined by the General Meeting. The Issuer does not intend to apply any remuneration policy to members of the Company’s governing bodies in order to have greater freedom to decide. The Company’s Corporate Collective Labour Agreement sets out detailed rules governing the remuneration payable to all employees of the Company, including key managers but excluding members of the Management Board and Chief Accountant.

### VI.R.3.) – Content

*“If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.”*

### VI.R.3.) – Company’s Comment

The Company’s Supervisory Board has no remuneration committee.

### VI.Z.4.) – Content

*“In this activity report, the company should report on the remuneration policy including at least the following:*

- 1) general information about the company’s remuneration system;*
- 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;*
- 3) information about non-financial remuneration components payable to each management board member and key manager;*
- 4) significant amendments to the remuneration policy in the last financial year or information about their absence;*
- 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company’s stability.”*

### VI.Z.4.) – Company’s Comment

Given the trade secret and heavy competition, the Company will continue to present the information on its remuneration policy according to applicable laws.

Regardless of the foregoing recommendations and detailed Corporate Governance principles the Issuer decided to deviate from in the past year, the Company informs referring to the recommendation III.R.1: *“The company’s structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company’s activity,”* about the establishment in 2016 of the Internal Control Office. The said establishment followed the Company’s decision to strengthen internal control. The tasks of the Internal Control Office include the preparation, in cooperation with the management board and managers of the Company’s organisational units, of annual control plans and the supervision of their implementation, scheduled and unscheduled internal inspections carried out at the request of the Management Board President or the Supervisory Board, recommendation of systemic solutions aimed at the improvement of processes at the Company and identification of potential risks. The aim of internal control is to enhance the efficiency of business activities by supplying objective information about identified irregularities and inefficiencies, and the ways to remove them. The Issuer believes that the supervision of the compliance of business activities with the law is a major business tool used to avoid a risk of the violation of laws or standards, ensure proper operation and to protect the Company’s competitiveness and reputation. Given the type and scope

of the Company's activities, the internal control system is decentralised. The control is exercised by managers of individual divisions and organisational units.

### **34. Key characteristics of ZUE's risk management internal control systems relating 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.

### **35. Assessment of internal control and risk management systems as well as supervision of compliance with the law and internal audit**

Given the type and scope of the Company's activities, there is no need for separate internal control, risk management or compliance supervision in separate organizational units. These tasks are dispersed and carried out by the Company's individual organizational units. However, the Internal Control Office was established in 2016 following the Company's decision to strengthen internal control. The aim of internal control is to enhance the efficiency of business activities by supplying objective information about identified irregularities and inefficiencies, and the ways to remove them. The efficiency of the Company's dispersed internal control, risk management and compliance supervision systems have been favourably assessed by the Company's Management Board.

Given the type and scope of the Company's activities, there are no grounds to identify any separate unit responsible for internal audit. At this report preparation date, the said tasks are monitored by the Audit Committee. However, relevant changes are anticipated by the Company and an internal audit unit may be separated from its structures.

## **36. Shares and shareholding structure**

### **36.1. Share capital structure**

The Company's share capital amounts to PLN 5,757,520.75 and is divided into 23,030,083 shares with a par value of PLN 0.25 each, including:

- 16,000,000 class A bearer shares;
- 6,000,000 class B bearer shares; and
- 1,030,083 class C bearer shares.

### **36.2. Treasury shares**

At this report preparation date, the Company held 264,652 treasury shares. The shares were acquired by the Company from the employees of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., the company which merged with ZUE S.A., as part of the buy-back effected in 2015. The shares were bought back on the basis of the Resolution no. 4 passed by the Company's Extraordinary General Meeting on 8 December 2014 authorising the Management Board of ZUE S.A. to buy back own shares. No treasury shares were acquired by the Company in

2017. The shares were acquired by the Company outside the organised trading for resale. The Company's Management Board intends to sell the acquired own shares in favourable market conditions on the stock exchange or outside the organised trading.

### 36.3. Shareholding structure

According to the information held, the Parent Company had the following shareholding structure at this report preparation date:

Shareholder	Number of votes/shares at 16 March 2018	% of the share capital/total number of votes	Number of shares/votes on the date of publication of the last quarterly report*	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE**	1,400,000***	6.08	1,400,000	6.08
PKO Bankowy OFE	1,500,000****	6.51	1,500,000	6.51
Other	5,729,763*****	24.88	5,729,763	24.88
<b>Total</b>	<b>23,030,083</b>	<b>100</b>	<b>23,030,083</b>	<b>100</b>

\* Publication of the last quarterly report (Consolidated quarterly report of ZUE S.A. for III quarter of 2017): 7 November 2017.

\*\* Previously Amplico OFE.

\*\*\* 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.

\*\*\*\* 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.

\*\*\*\*\* Including 264,652 ZUE shares repurchased by the Company as part of the buy-back of own shares.

### 36.4. Shares of ZUE and related entities held by members of the Issuer's management and supervisory bodies

Holdings of ZUE shares by members of the Issuer's management and supervisory bodies (according to the information held by the Management Board of ZUE on this report preparation date).

Shareholder	Position at ZUE	Number of shares/votes at 16 March 2018	Par value (PLN)	% of share capital/total number of votes	Changes in shareholding since the publication of the last quarterly report*
Wiesław Nowak	Management Board President	14,400,320	3,600,080	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	575	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	34	< 0.01	None
Maciej Nowak	Management Board Vice-President	7,806	1,951.50	0.03	None
Michał Lis	Supervisory Board Member	661	165.25	< 0.01	None

\* Publication of the last quarterly report (Consolidated quarterly report of ZUE S.A. for III quarter of 2017); i.e. 7 November 2017.

According to the best knowledge of the Company's Management Board, other members of the Issuer's management and supervisory bodies did not hold any ZUE shares at this report publication date.

At 31 December 2017, Mr. Wiesław Nowak held 2,205 shares in RTI (a subsidiary) with a total par value of PLN 110,250 (49% of the share capital/total number of votes).

No shares in the Group companies were held by other members of the Issuer's management or supervisory bodies on the date of publication of the last quarterly report or the date of preparation of this report.

### **36.5. Holders of securities conferring special control powers**

The Company did not issue any securities conferring special control powers.

### **36.6. Restrictions on exercise of voting rights**

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

### **36.7. Restrictions on transferability of securities**

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

### **36.8. Agreements known to the Issuer likely to cause changes to the proportions of shares held by the existing shareholders**

#### **Buy-back of ZUE own shares**

No shares were bought back by the Company in 2017. Section 37.2 of this report contains a detailed description of the transaction.

Apart from the abovementioned circumstance, the Issuer is not aware of any agreements likely to change the proportions of shares held by the existing shareholders in the future. In addition, the Company is not aware of any major agreements between the shareholders.

### **36.9. Issue of securities**

No securities were issued by the Group companies in 2017.

## GOVERNING BODIES

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

#### 37.1. 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 independently or two Management Board members acting jointly or one Management Board member together with a commercial proxy or a commercial proxy independently.

At this report preparation date, the Management Board was composed of:

Wiesław Nowak	Management Board President
Anna Mroczek	Management Board Vice-President
Jerzy Czeremuga	Management Board Vice-President
Maciej Nowak	Management Board Vice-President
Marcin Wiśniewski	Management Board Vice-President

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term.

Section 7.17 Remuneration of key management personnel of the separate financial statements presents the remuneration paid to the members of the Company's Management Board.

### 37.2. Agreements between the Issuer and managing personnel providing for compensation for resignation or dismissal

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 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.

### 37.3. 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.

Composition of the Company's Supervisory Board at the date of preparation of this report:

<b>Mariusz Szubra</b>	Supervisory Board Chairperson
<b>Barbara Nowak</b>	Supervisory Board Vice-Chairperson
<b>Bogusław Lipiński</b>	Supervisory Board Member
<b>Piotr Korzeniowski</b>	Supervisory Board Member
<b>Michał Lis</b>	Supervisory Board Member

On 6 June 2017, the Company's Ordinary General Meeting resolved to dismiss Ms. Magdalena Lis, the Supervisory Board Member, and appoint Ms. Barbara Nowak the Supervisory Board Vice-Chairperson for the current term. The remaining composition of the Supervisory Board did not change (Current report 39/2017).

Section 7.17 Remuneration of key management personnel of the separate financial statements presents the remuneration paid to the members of the Company's Supervisory Board.

### **38. Rules governing appointment and removal from office of managing personnel and the managing personnel's powers, including authority to decide about share issues or buybacks**

Members of the Management Board of ZUE are appointed for a common term of three years and removed from the office by the Supervisory Board. The Management Board of ZUE is not authorised to make decisions about the issue of 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.

### **39. Audit Committee**

As the Supervisory Board of ZUE is composed of five members, tasks of the Audit Committee were performed until 18 October 2017 by all members of the Supervisory Board.

On 18 October 2017, the Supervisory Board of ZUE appointed the Audit Committee referred to in Art. 128.1 in connection with Art. 129.1 of the Act on Auditors, Audit Firms and Public Supervision of 11 May 2017 (the Act).

Mr. Mariusz Szubra meets the independence criteria applicable to an independent member and chairman of the Audit Committee according to Art. 129.3 of the Act as well as the requirements concerning skills and knowledge of accountancy or financial statements audit set out in Art. 129.1 of the Act.

Mr. Piotr Korzeniowski meets the independence criteria applicable to an independent member of the Audit Committee stipulated in Art. 129.3 of the Act.

Ms. Barbara Nowak meets the requirements concerning skills and knowledge of the industry the Issuer operates in set out in Art. 129.5 of the Act.

Tasks (including statutory tasks) of the Audit Committee of ZUE include, in particular:

- Monitoring of financial reporting;
- Monitoring of effectiveness of the Company's internal control systems, risk management systems and internal audit, including financial reporting;
- Monitoring of financial audit including, in particular, audits of the Company's financial statements conducted by audit firms and taking into consideration any comments and findings of the Auditing Oversight Committee from an inspection carried out at the audit firm;
- Control and monitoring of independence of an auditor or audit firm delivering services to the Company;
- Informing the Supervisory Board about the results of the Company's financial statements audit and explaining how the audit contributes to reliable financial reporting at the Company and the role of the Committee during the audit;
- Assessment of an auditor's independence and giving consent to the provision of services to the Company by the said auditor;
- Developing the policy of appointing an audit firm to conduct the audit of the Company's financial statement;
- Developing the policy of delivering services other than the audit of financial statements by an audit firm conducting the audit of the financial statements, entities related to the said audit firm and a member of the audit firm network;
- Defining the procedure of appointment of an audit firm by the Company; and
- Making recommendations to ensure reliable financial reporting at the Company.

There is no Remuneration Committee at the Supervisory Board.

#### 40. Amendments to ZUE's Articles of Association

Pursuant to the Act, the Company's Articles of Association may be amended by a resolution passed 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.

#### 41. 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 Regulations of 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 (Journal of Laws, 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 to 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.

Shareholders of the Company have no rights other than specified by the law.

## **42. Changes to basic rules of management of the Issuer's enterprise and its Capital Group**

In 2017, the organisational structure of the Company did not change considerably when compared with 2016.

Section 1.2 of this report deals with major changes in the Group's organisation. Changes to the composition of the Company's Management Board in 2017 are discussed in section 38.1 hereof.

## **43. Diversity policy applied to the Issuer's governing bodies and key managers**

The Company does not apply any diversity policy to the Company's governing bodies or key managers. The appointment of members of the Company's governing bodies or key managers depends on their competence, skills and effectiveness. The appointment decisions are made on the basis of these criteria. The Company believes that these assessment criteria help it select the candidates able to pursue the Company's strategy and ensure its development.

## OTHER INFORMATION ABOUT THE GROUP

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### 44. Employee share scheme control system

ZUE has no employee share scheme control system.

### 45. Liabilities under pensions and similar benefits

Liabilities under pensions and similar benefits for former management and supervisory personnel as well as liabilities incurred in connection with the said pensions are presented in the note no. 7.12 of the consolidated financial statements for 2017.

### 46. Preparation basis

This Report on Activities of ZUE between 1 January – 31 December 2017 contains the information whose scope has been set out in § 91 and § 92 of the Regulation of 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, as amended (the "Regulation"). On the basis of §83.7 of the Regulation, this report also contains the disclosures required in the case of the Report on Activities of the Parent Company referred to in § 91.1.4 of the Regulation. Accordingly, no separate Report on Activities of the Parent Company is provided by the Issuer.

The financial statements of the Company and the Group for the financial year 2017 have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (the "IFRS"). The IFRS include the standards and interpretations approved of by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC"). The annual report including the abovementioned financial statements and this report on activities has been prepared on the basis of Section 1.3 and Section 2 of § 82 of the Regulation.

This report contains the statement about non-financial information referred to in Art. 55.2b). Pursuant to §83.7 of the Regulation, the statement includes the disclosures about the Parent Company referred to in Art. 49b.2 of the Accountancy Act necessary for the assessment of the Parent Company's development, performance and standing and the impact of its operations on the issues stipulated in Art. 49b.2.3 of the Accountancy Act. The statement about non-financial information has been prepared on the basis of the new Non-Financial Information Standard (the Standard) prepared by the Reporting Standards Foundation. The statement about non-financial information contained in this report substantially complies with the Standard except for the incompatibility of certain sectors of the Standard with the activity conducted by the Group as well as the Group's organisational and corporate solutions as a result of which, a reference to certain items is impossible. However, the statement about non-financial information does contain the data likely to have a material impact on the reliable description of the influence of the Parent Company and the Group on social and employee issues, the natural environment, the respect of human rights and counteracting corruption.

### 47. Major research and development projects

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

#### 48. Appointment of entity authorised to audit financial statements

On the basis of a resolution passed by the Company's Supervisory Board, Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with registered office in Warsaw, Rondo ONZ 1, 00-124 Warsaw, was appointed to audit the separate and consolidated financial statements of ZUE for the financial year 2017.

The agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. for the audit of the separate and consolidated financial statement of ZUE for the 12 months ended 31 December 2017 and the review of the condensed interim consolidated and separate financial statements of ZUE was signed on 14 June 2017.

The net remuneration of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. for the audit and review of the financial statements for 2017 was set at PLN 112 thousand. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. did not provide any additional services to the Group.

The financial statements for 2016 were audited and reviewed by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The fee of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for the abovementioned service was PLN 130 thousand.

#### 49. Court proceedings

At the date of preparation of this report, the Group is a party to the pending court proceedings concerning the Group's claims and liabilities of the total value of PLN 51,732 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 269 thousand and the total value of the proceedings concerning claims is PLN 51,463 thousand.

The pending court proceedings are related to the companies' operating activities.

##### **The biggest pending court proceeding concerning claims:**

Cases concerning the following project: "Modernisation of the railway line no. 8, construction of the Okęcie airport siding."

On 14 August 2014, the Petitioner (BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) filed a lawsuit against the Defendant (PKP Polskie Linie Kolejowe S.A.). The Petitioner sued the Defendant for the contractual penalty of PLN 72,835,010.99 plus interest from 18 August 2012 until payment (with PLN 18,521,943.30 plus interest from 18 August 2012 until payment attributable to the Company) for the Defendant's delay in the handover of the Construction Site. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POLiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding." Under the Contract, the Contracting Authority was obliged to provide the Contractor with an access to the entire construction site and the right to use it on the dates as specified in an appendix to the Contract. In case of delay through the fault of the Contracting Authority, the Contractor was authorised to charge the contractual penalties for each day of delay at the rate as specified in an appendix to the Contract. The Contracting Authority failed to provide an access to all parts of the Construction Site by the dates specified in the Contract. The Defendant questioned the claims made by the Petitioner both in terms of their amount and legitimacy. In addition, the Defendant filed a motion to dismiss the action and award the Defendant costs of the proceedings, including the cost of legal representation, according to the list of costs submitted during the proceedings. The Defendant filed a claim that the contractual fee charged by the Petitioner was too high in case the said motion for the dismissal was rejected.

The case concerns ZUE's claims whose value is PLN 18,521,943.30 plus interest and, consequently, exceeds 10% of the Company's equity.

In addition, on 29 September 2016, the Petitioner (PORR Polska Infrastruktury; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) sued the Defendant (PKP Polskie Linie Kolejowe S.A.) for PLN 11,506,921.00 (out of which PLN 2,926,209.77 plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POLiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

Cases concerning the following project: "Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III."

On 30 December 2016, the consortium of:

- 1) OHL ŽS, a.s. (Leader);
- 2) Swietelsky Baugesellschaft m.b.H;
- 3) ZUE S.A. (hereinafter referred to as the "Consortium" or the "Contractor")

sued PKP Polskie Linie Kolejowe S.A. of Warsaw (the "Contracting Authority"). The lawsuit covered the claims relating to the performance of the following contract: "Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III" (the "Contract").

The litigation value (the "Amount") is PLN 39.3m and includes:

- 1) PLN 1.2m – costs relating to the requirement to extend the performance bond and insurance provided by the Contractor; and
- 2) PLN 38.1m – fixed costs relating to the performance of works over the extended period.

The Company's total share in the Amount is approx. PLN 15.7m.

Case concerning the following project: "Design and construction works 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." Information about the case conclusion.

The first instance District Court of Warsaw ruled that ZUE S.A. should be paid PLN 3,199,663.73 plus statutory interest from 2 December 2014 until the date of payment and dismissed the remaining claims. The ruling is final and binding.

## 50. Other information significant for the assessment of the Issuer's position

The Management Board of ZUE believe there is no information significant for the assessment of the staff, economic and financial position, profit or loss or changes therein, or information significant for the assessment of the Company's or the Group's ability to perform their obligations other than presented in this report.

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## **STATEMENTS BY THE MANAGEMENT BOARD OF ZUE S.A.**

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### **51. Statement of compliance**

The Management Board of ZUE state that according to their best knowledge, the annual separate and consolidated financial statements of ZUE for 2017 and the comparative data have been prepared in accordance with applicable accounting principles and give a true and fair view of the economic and financial position of the Company and the Group and their profit or loss. The report on activities of the Group contains a true view of the development and achievements of both the Company and the Group and their standing, including the description of fundamental risks and threats.

### **52. Statement on appointment of auditor**

The Management Board of ZUE state that the entity responsible for the audit of the annual separate and consolidated financial statements of ZUE for 2017 has been appointed according to the law. The entity authorized to audit the financial statements and statutory auditors involved in the audit have 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.

