



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

between 1 January 2018 and 31 December 2018

Cracow, 27 March 2019

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Abbreviations and definitions:

ZUE, Company, Issuer, Parent Company	<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 in Poznań, 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	<p>ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.</p>
PLN	<p>Polish złoty.</p>
EUR	<p>Euro.</p>
Act	<p>Polish Companies Act (Journal of Laws of 2017, item 1577, as amended).</p>

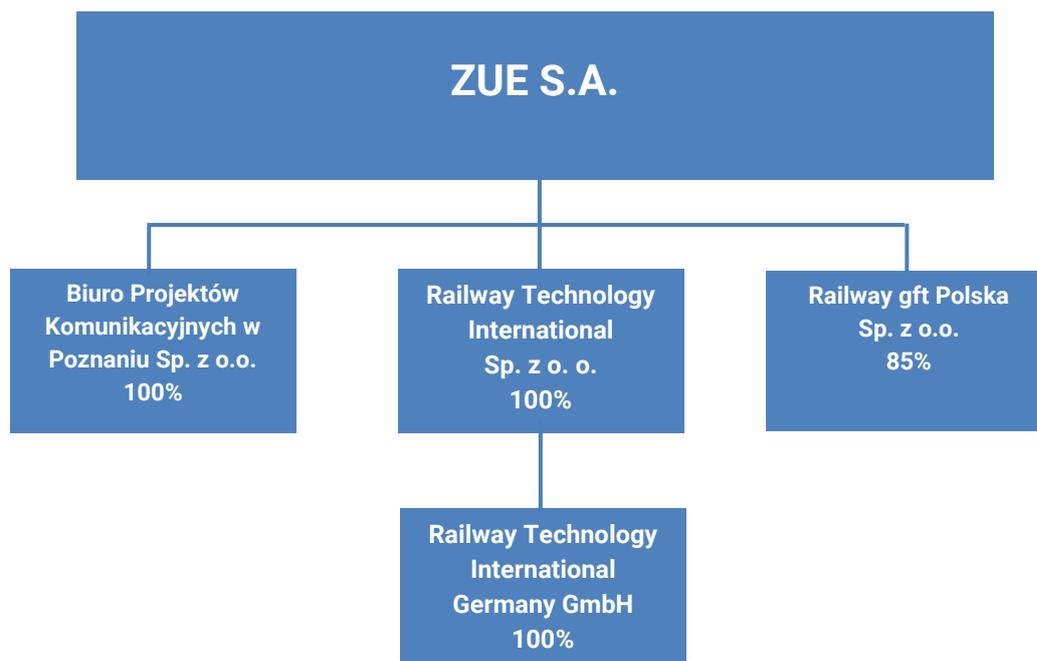
Share capital details as at 31 December 2018.

OPERATIONAL INFORMATION – STATEMENT ON NON-FINANCIAL INFORMATION

1. Organisation of the Capital Group

1.1. Structure of the Capital Group

Structure of the Capital Group at 31 December 2018 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, the Lubicz Street no. 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.

The companies within 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 a full method in 2018:

- Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.; and
- Railway gft Polska Sp. z o.o.

ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because at 31 December 2018, it held a 100% and 85% interest, respectively, in those companies.

At 31 December 2018, ZUE held 100% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated at 31 December 2018.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 31 December 2018.

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

On 10 April 2018, ZUE acquired 2,205 shares in RTI from Mr. Wiesław Nowak, the Management Board President, for the total amount of PLN 58 thousand. After the transaction, ZUE holds a 100% interest in the share capital of RTI and the total number of votes.

On 23 July 2018, ZUE acquired 450 shares in Railway gft from an individual. After the transaction, ZUE holds an 85% interest in Railway gft.

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.

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.

In 2018, the Group focused on the provision of rail and urban infrastructure construction services. The power infrastructure market is being observed and analysed.

In 2018, the Group diversified construction activities to include civil structures so that the Company could deliver reinforced concrete projects, such as viaducts, bridges, passages, resistance walls or noise barriers, based on its skills and resources.

Design activities concerning urban and rail transport systems 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, "Ypsylon" 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 2018, the Group carried out urban infrastructure contracts in such cities as Katowice, Bydgoszcz, Poznań or Cracow where, apart from construction works, it performed tram and lightening infrastructure maintenance contracts. The Group executes rail infrastructure projects throughout Poland. In 2018, the biggest rail contracts were performed in such regions as Warszawa - Łowicz, Łódź Kaliska – Zduńska Wola, Wyczerpy – Chorzew Siemkowice, Żychlin – Barłogi, Częstochowa – Zawiercie, Trzebinia – Oświęcim or 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.

All construction contracts require the Issuer (the contractor) and the Issuer's subcontractors to carry out their projects with respect for the natural environment according to the applicable laws (especially environmental decisions and environment protection plans relating to the projects). In addition, the contracts deal with the issues concerning safety at work.

Other contracts with counterparties do not contain any clauses dedicated to the foregoing issues whose scope would be different from applicable laws.

In addition, the contracts with counterparties contain no human rights clauses (including clauses on working children or forced labour) or ethical issues whose scope would be different from applicable laws.

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 2018:

Contract*	Contracting authority	Completed in 2018 / in progress	Contract net value (PLNm) attributable to ZUE
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 Operational Programme.	PKP PLK S.A	In progress	379
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	In progress	372
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."	PKP PLK S.A	In progress	330
Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section, Infrastructure and Environment Operational Programme (IEOP) 5.1-12.	PKP PLK S.A	In progress	303
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	In progress	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).	PKP PLK S.A	In progress	270

Design and construction services in connection with the Infrastructure and Environment Operational Programme (IEOP) 5.2 – 4 “Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section.”	PKP PLK S.A	In progress	210
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	In progress	96
Reconstruction of the tramway from the Lecha estate to the Żegrze roundabout (section II).	Poznańskie Inwestycje Miejskie Sp. z o.o.	In progress	83
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 (IEOP) 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	In progress	92
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 (IEOP) 7.1-19.1.a: “Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section” – Phase II.	PKP PLK S.A	In progress	72
Reconstruction of the line of the Królewska, Podchorążych and Bronowicka Streets in Cracow, the reconstruction of tramway tracks, OCL network and dehydrating and lightening system and the reconstruction of colliding technical infrastructure. The task executed as part of the following project: “Upgrade of tramway tracks and the associated infrastructure.”	City of Cracow	In progress	63
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	In progress	64
Extension of the Igołomska Street, the national road no. 79 – Stage 2 together with the infrastructure in Cracow and additional contract.	City of Cracow	In progress	61
Reconstruction of rail transport infrastructure along the Wojska Polskiego Street from the Magnuszewska terminus to the Wojska Polskiego, Szpitalna, Szarych Szeregów and Bełzy transport hub.	City of Bydgoszcz	In progress	53
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	In progress	53
Maintenance and repair of tram infrastructure in Cracow in the period 2015-2018.	City of Cracow	Completed in 2018	48
Modernisation of E30 railway line Kraków Medyka, the Biadoliny – Tarnów section.	OHL ZS, a.s. S. A. Polish Branch	In progress	45
Design services and construction works in connection with the following project: “Construction of the Czarncza - Włoszczowa Płn. railway line no. 582.”	PKP PLK S.A	In progress	40
Modernisation of OCL network, B1.G Krzewie - Kłodawa section (140,000-155,000) – construction works in the area of the Kutno Local Traffic Control Centre (LCS).	Budimex S.A.	In progress	33
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.	In progress	33
Construction works on the line no. 95 of the Kościelniki – Podłęże section.	PKP PLK S.A	Completed in 2018	27
Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	City of Cracow	In progress	16
Maintenance and repair of tram infrastructure in Cracow in the period 1.01.2019 - 30.09.2019 (273 days).	City of Cracow	In progress	17

Protection of civil structures on the Dęblin – Lublin section as part of the project named: "Works on the Warszawa Wschodnia Osobowa – Dorohusk railway line no. 7 of the Warszawa – Otwock – Dęblin – Lublin section, stage I."	PKP PLK S.A	In progress	30
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* Contracts whose net value exceeds PLN 10m.

Design services relating to urban and rail transport systems are provided both to investors and companies which execute "design-build" projects. The biggest customers of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., BALZOLA Sp. z o.o., Centrum Logistyczno Inwestycyjne Poznań II sp. z o.o., Poznańskie Inwestycje Miejskie, PGE Dystrybucja S.A. Rzeszów Branch, PGE Dystrybucja S.A. Zamość Branch, MZK Bydgoszcz and ZUE.

As regards sales activities, Railway gft sold rails, track accessories, sleepers, rail fastening systems and aggregate. In 2018, the main customers included Zakład Robót Komunikacyjnych - DOM w Poznaniu Sp. z o.o., TORPOL S.A., Aldesa Construcciones Polska Sp. z o.o., Skanska S.A., NDI S.A. and Alusta S.A.

4. Customer profile

The structure of the Group's customer base in the period under analysis reflected the nature of the services sold by the Group under contracts and/or as a result of trade negotiations. In 2018, the companies within the Group 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 2018 and had a 70% share in the Company's sales revenue in 2018.

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 2018.

No ethical audits requested by customers were conducted in 2018.

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.

In 2018, a supplier of track materials exceeded 15% of the total value of goods and services purchased by ZUE. However, the Management Board believe that the Company is not dependent on the supplier because there is no formal link between ZUE and the said supplier.

The materials purchased directly by Railway gft., a subsidiary, represented 2% of the materials and services purchased by ZUE and 16% 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 entered into by the Group: rails – about 80%, breakstone – about 90%, railway switches – about 95% and sleepers – about 100%.

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 2018.

6. Backlog

The orders made by ZUE in connection with construction activities are the biggest item of the Group's backlog.

At this report preparation date, the net value of the contracted construction and assembly services is PLN 1,904m and provides the Group with an ability to carry out the works in the period 2019-2021. As for design services, the net value of the signed contracts scheduled for performance in 2019-2020 is PLN 8m. The backlog relating to the supply of materials and equipment in 2019 is worth PLN 24m (net).

The value of the signed new construction contracts in 2018 is about PLN 607m out of which PLN 236m relates to urban contracts.

At this report preparation date, ZUE has submitted the most economically advantageous tenders in connection with the tender procedures whose net value is approx. PLN 619m. The Issuer participates in the new tender procedures.

Due to the growing costs of labour, materials and services, a considerable number of submitted tenders exceed the amount investors intend to spend on the project as a result of which tender procedures are repeatedly cancelled according to the law.

The companies within the Group participate in tenders both in Poland and abroad. The Group's focus is predominantly on the European market.

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 2018 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 2018 in connection with the companies' violation of the abovementioned laws.

8. Strategic objectives of the Group

The main strategic objective in 2019-2021 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.

In 2018, the Issuer's focus was on winning new construction contracts and proper performance of previously signed contracts.

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.

The strategic objectives are pursued taking into consideration non-financial issues such as human rights, employees' rights, the impact on local environment or environmental protection.

9. Development prospects

The Polish infrastructure construction market is witnessing the execution of construction projects relating mainly to long-term (several years) modernisation programmes, for instance the performance of the National Railway Programme (rail industry). In addition, certain cities are developing and upgrading their tram infrastructure.

The most advanced process of performing and awarding contracts for infrastructure projects under the current EU perspective concerns the rail infrastructure segment.

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 (in February 2019, the amount was PLN 69.6bn). 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. An average speed of freight trains in Poland is approximately 27 km/h. In contrast, the average figure for the EU countries is approximately 50 km/h, with about 60 km/h for Germany and France. Compared with developed countries of the European Union, the Polish rail infrastructure calls for significant expenditures.

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

NRP's specific objectives:¹

- 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 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

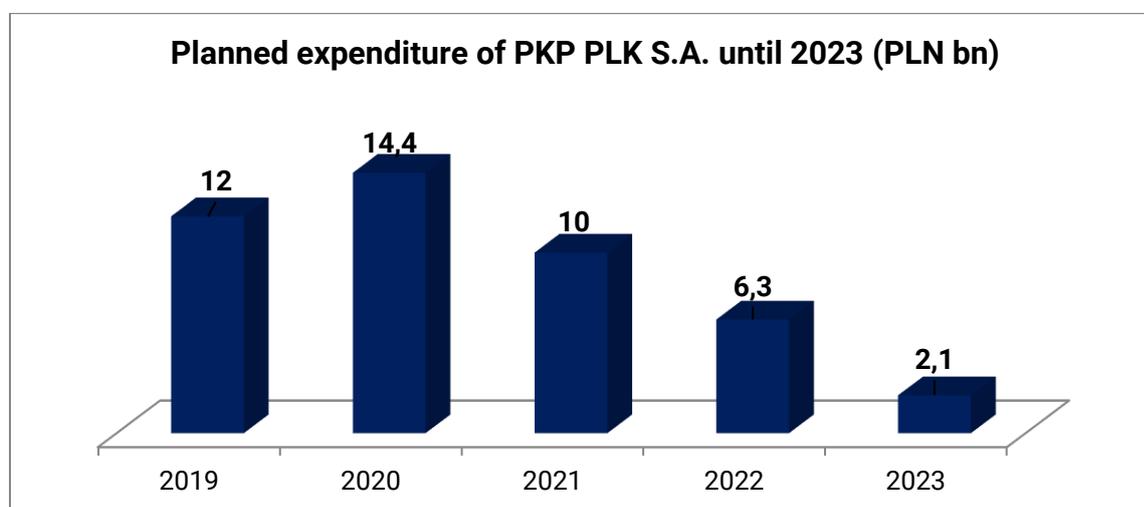
¹ National Railway Programme until 2023.

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 and performed in urban areas until 2023:²

- 1) Warsaw – reconstruction of the cross-city line and upgrade of the ring rail line (pending). The plans include the conversion of three railway stations and the construction of two new stations;
- 2) Cracow – reconstruction of 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 – construction of new stations within the urban area and upgrade the railway line from Wrocław to Głogów;
- 4) Łódź – construction of 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 – improvement of 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.



Source: 2017 NRP execution report and the NRP update until 2023 – resolution no. 86/2018 of the Council of Ministers of 28 June 2018.

As reported by PKP PLK in February 2019, contracts worth approx. PLN 32bn are in progress, accounting for approx. 48% of the National Railway Programme. Projects at the stage of tendering are valued at approx. PLN 10bn, while contracts for which project documentation is still being prepared amount to approx. PLN 9bn.³

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

³ <https://www.rynek-kolejowy.pl/wiadomosci/ireneusz-merchel-o-realizacji-krajowego-programu-kolejowego-film-90527.html>

Project documents are also prepared for contracts funded under the next financial perspective. PKP PLK has revealed that in 2021 it will be ready to announce tenders for contracts worth PLN 30-40bn. This is to ensure the continuity of operations and prevent the occurrence of so-called peaks and decays between subsequent perspectives, which exerted a negative impact on the industry in the past. Apart from modernization projects, the next perspective will also cover the construction of new railway lines, including under the Central Communication Port project.⁴ Under this initiative, the construction of new railway lines with a total length of about 1,300 km is planned. The entire project is to be funded under the present and future EU perspectives (2020-2025). The total estimated cost of the railway component of the Central Communication Port is approximately PLN 8-9bn. The extension of the railway network within the framework of the Central Communication Port project is to ensure railway connections between major cities and the Central Communication Port within 120-150 minutes and at the target speed of 250 km/h on key railway routes.⁵

Urban infrastructure market

In the EU perspective for the years 2014-2020, which provides for the EU funding of up to 85%, the tram infrastructure will be the preferred direction in the field of the transport system development in the cities with tram 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.

After several years of stagnation, in 2018, urban authorities announced and awarded a significant number of contracts for modernization or extension of tram infrastructure. Further investments are planned for the years to come. For instance, Olsztyn is planning to announce a tender for the construction of a new tram line with an estimated value of approx. PLN 450m in 2019. Cracow is planning to carry out the construction works whose estimate value is about PLN 100m and a tender for the maintenance of tram infrastructure worth approx. PLN 93m⁶. Other cities are also planning big investments.

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

The factors believed to have an impact on the Group's financial results include:

- **Untimely settlement of liabilities to the Group by Contracting Authorities**

The nature of construction activities requires the Group to use a considerable part of its working capital to perform the 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.

Lengthy procurement procedures result in additional costs, a risk of increase in prices of goods and services and uncertainty concerning the outcome or cancellation of the procedure. 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

⁴ <https://www.rynek-kolejowy.pl/wiadomosci/merchel-liczymy-na-aktualizacje-kpk-do-poziomu-powyzej-70-mln-zl-90381.html>

⁵ Resolution no. 173/2018 of the Council of Ministers of 7 November 2017 on the approval of preparation and execution of the Solidarność Port – the Central Communication Port project.

⁶ Published tender plans for 2019.

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.

The growing costs of contract performance more and more often contribute to the cancellation of tender procedures because the submitted tenders go over the investors' budgets. This was seen in 2018 and concerned both rail and urban market.

- **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, asphalt, 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). Different fees levied on materials, for instance duty, may also contribute to the increase in prices. 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. The increase in remuneration relating, *inter alia*, to the increase in minimum pay entails 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 executed projects may have a negative influence on the Group's ability to engage certain subcontractors and may contribute to the increase in fees charged by them.

- **Unstable EUR/PLN exchange rate**

The Group purchases certain imported products in foreign currencies, 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. Risks believed by the Group to have an influence on the Group's future results

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

A large number of performed contracts and common problems relating to the growth of costs have contributed to the increase in credit risk for construction companies. Banks and credit security institutions have tightened the terms of insurance and financing. Long acceptance procedures accompanied by the obligation to pay subcontractors within 30 days make companies use considerable resources to finance ongoing operations. The situation is made worse in 10% by unpaid materials waiting to be developed.

- **Risk related to logistics**

A risk of both rail and road contracts being performed at the same time and in the same area may limit transport capacity and result in higher fees for transport services.

- **Risk related to the failure to deliver construction sites by the dates specified in contracts**

The construction contracts entered into by the Group provide for the exact completion dates. If a contracting authority fails to deliver the site 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 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 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 perform 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 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 improper contract performance by key counterparties**

In order to carry out orders and construction contracts, the Group enters into the contracts with suppliers, subcontractors, consortium members and investors. The contracts may be improperly performed by counterparties. For instance, tasks performed by a subcontractor may be faulty or in breach of a contract, or a justified claim may be dismissed by an investor. The occurrence of these risks may have a negative influence 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 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 a company within the Group to execute a construction project may at any time demand the payment guarantee from the company (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. If the Group company participates in a tender together with a consortium member, it faces additional risk of the consortium member's withdrawal.

- **Risk related to growing competition**

The Group operates on the competitive market among companies from the rail and urban infrastructure construction, power industry and general infrastructure construction sector. Those entities may strengthen their market position in the future when they acquire other construction and repair companies and gain new sources of finance. The Group's activity may also be influenced by the emergence of new competitors attracted by positive growth prospects for the Polish infrastructure construction industry. Growing competition on the markets where the Group operates may have a negative impact on the Group's revenue and margins and, consequently, adversely influence its financial results.

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

Pursuant to the Public Procurement Act, tender participants are able to appeal against illegal appointment of a contractor by a contracting authority or to appeal to the court against the decision issued by the authority hearing the appeal made in public procurement proceedings. Consequently, the date of signing a contract with an investor may be substantially postponed. Moreover, the 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 the EU funding of railway projects**

The long-term National Railway Programme (the "NRP") adopted in 2015 sets out the financial terms and the state's objectives concerning the execution of railway projects until 2023. The Programme is the extension of the Long-Term Railway Investment Programme until 2015 with the perspective until 2020. PKP PLK SA is expected to finance NRP with considerable use of the European Union funds. However, political changes in the European Union may influence the initial level of the funding of railway investments in Poland.

- **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.

- **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.

- **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 interest rates**

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

- **Risk related to unstable margins**

Growing prices of materials, higher fees charged by subcontractors or higher salaries and wages for employees may be felt by entities delivering railway projects and influence original margins. The current system does not provide for the indexation of signed contracts as a result of which margins may become unstable.

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, qualified staff may be difficult to find and the costs of employment may grow, which may 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 outflow of qualified staff**

The combination of experienced technical and financial experts is the heart of the Company. The Issuer also employs the qualified staff who have both considerable experience and licenses required to design, build and assemble tram and railway infrastructure. Growing competition on the rail infrastructure market entails a risk that the key members of the Group's staff may change their employer. A restricted ability to find qualified staff may influence the completion of projects, the Group's development and strengthening of ZUE's market position.

- **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 special attention and transparency. The Issuer has employed a number of solutions to reduce the risk of corruption including ethical management policy or the protection for whistleblowers.

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.

13. Major events in the reporting period

13.1. Construction works

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: PLN 29.5m. The Agreement completion date was the same as the Contract completion date. **(Current report 2/2018)**

On 19 March 2018, the Company and PKP Polskie Linie Kolejowe S.A. (PKP PLK) signed the contract concerning the following project: 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 informed about the selection of the Company's tender as the most economically advantageous offer in the current report 78/2017. The contract net value: PLN 330m. The contract gross value: PLN 406m. Project completion date: 42 months of the contract conclusion date. **(Current report 5/2018)**

On 21 March 2018, the agreement was entered into between the Company and INTOP Tarnobrzeg sp. z o.o. (the Subcontractor). The agreement dealt with the provision of design and construction services by the Subcontractor to the Company in connection with the Company's performance of the contract in the Skarżysko Kamienna – Sandomierz section. The agreement net value: PLN 28.1m. The agreement completion date was the same as the contract completion date. **(Current report 6/2018)**

On 23 March 2018, the Company received the signed agreement between the Company and PKP Energetyka S.A. (the Subcontractor). The agreement dealt with the provision of construction services by the Subcontractor to the Company in connection with the Company's performance of the contract in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section. The agreement net value: PLN 22.9m. The agreement completion date: September 2020. **(Current report 7/2018)**

On 18 April 2018, the agreement was entered into between the Company and Kolejowe Zakłady Automatyki S.A. (the Subcontractor). The agreement dealt with the provision of construction services by the Subcontractor to the Company in connection with the Company's performance of the contract in the Skarżysko Kamienna – Sandomierz area. The agreement net value: PLN 88.3m. The agreement completion date: January 2021. **(Current report 8/2018)**

On 22 May 2018, the Company received a signed copy of the agreement with PKP PLK for design and construction services relating to comprehensive replacement of OCL network on the railway line no. 146 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 services specified in the agreement are provided in addition to the contract performed by the Company in the Wyczerpy – Chorzew Siemkowice area. The Company informed about the contract conclusion in the current report 38/2017. The agreement net value: PLN 35.5m. The agreement gross value: PLN 43.7m. Completion date: March 2020. **(Current report 17/2018)**

On 28 May 2018, the Company entered into the master agreement with the manufacturer of precast concrete products. The agreement dealt with the sale of building materials to the Company of the estimated total net value of approx. PLN 74m. The agreement will be performed on the basis of individual orders made by the Company. The agreement completion date: 2019. **(Current report 18/2018)**

On 5 June 2018, the Company learnt about the judgment delivered on the same date by the National Appeals Chamber (the Chamber). The Chamber ordered that the selection by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (the Contracting Authority) of the most economically advantageous tender submitted in the tender procedure concerning the reconstruction of the line of the Królewska, Podchorążych and Bronowicka Streets in Cracow, the reconstruction of tramway tracks, OCL network and dehydrating and lightening system and the reconstruction of colliding technical infrastructure be cancelled and the contractor that ranked first be excluded. The tender submitted by the Company ranked second. **(Current report 23/2018)**

On 14 June 2018, learnt about the cancellation by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie of the tender procedure for the Cracow project named: "Reconstruction of tram tracks along the Królewska Street from the Rollego Street to the Dietla Street, the reconstruction of the road system, pavements, paths, the associated technical infrastructure and the Krakowska-Dietla-Stradomska rail hub, the reconstruction of the Dietla Street from the Bożego Ciała Street to the Augustiańska Street and the reconstruction of the Piłsudski bridge over the Vistula river." The Company informed about the submission of the most economically advantageous tender in the current report 24/2018. **(Current report 26/2018)**

On 18 June 2018, the Company and Electren S.A. with registered office in Madrid (the Subcontractor) defined the terms of additional works that would be performed by the Subcontractor under the subcontractor agreement (the Agreement). The Agreement provides for the performance by the Subcontractor of the construction works on the Wyczerpy – Chorzew Siemkowice section (the Contract). The Company informed about the Contract performance in the current report 38/2017. After the scope of the works was extended, the Subcontractor would be paid the additional remuneration of approx. PLN 28m. Together with the remuneration for the initial scope of the works, the total value of the Agreement is approx. PLN 34m. **(Current report 27/2018)**

On 25 June 2018, the Company learnt about the cancellation by PKP Polskie Linie Kolejowe S.A. (the Contracting Authority) of the tender procedure for the project named: Development of design documentation and completion of construction works as part of "design-build" project named: LOT B – works on the railway line 131 of the Nakło

Śląskie (29,000 km) – Kalina (66,800 km) section in connection with the Infrastructure and Environment Operational Programme (*POIiŚ*) 5.1-14: “Works on the railway line C-E-65 of the Chorzów Batory - Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Maksymilianowo section” on the basis of Art. 93.1.4 of the Public Procurement Act. The Company informed about the submission of the lowest price tender in the current report 28/2018. **(Current report 29/2018)**

On 26 June 2018, the Company and the City of Bydgoszcz signed the contract in connection with the following project: “Reconstruction of rail transport infrastructure along the Wojska Polskiego Street from Magnuszewska terminus to Wojska Polskiego, Szpitalna, Szarych Szeregów and Bełzy transport hub.” The Company informed about the submission and selection of the most economically advantageous tender in the current report 11/2018 and the current report 25/2018, respectively. The contract net value: PLN 52.8m. The contract gross value: PLN 65.0m. The project completion date: October 2019. **(Current report 31/2018)**

On 26 June 2018, the Company and Astaldi S.p.A. with registered office in Rome (the Counterparty) which provided for the rental of building machinery by the Company. Accordingly, the total net value of contracts entered into between the companies within the Group and the Counterparty since 9 May 2018 amounted to approx. PLN 21.9m. **(Current report 32/2018)**

On 29 June 2018, the Company learnt about the cancellation by Miasto Bydgoszcz - Zarząd Dróg Miejskich i Komunikacji Publicznej w Bydgoszczy [The City of Bydgoszcz – The Board of City Roads and Public Transport in Bydgoszcz] (the Contracting Authority) of the tender procedure for the project named: “Reconstruction of tram tracks and construction of bicycle lanes along the Toruńska Street in Bydgoszcz.” The Company informed about the submission of the most economically advantageous tender in the current report 15/2018. The procedure was cancelled by the Contracting Authority according to Art. 93.1.4 of the Public Procurement Act. **(Current report 33/2018)**

On 5 July 2018, the agreement was signed between the Company and Electren S.A. with registered office in Madrid (the Subcontractor). The agreement dealt with the performance by the Subcontractor of specific construction works in connection with the Issuer’s performance of the contract on the Częstochowa – Zawiercie section. The agreement net value: PLN 43.4m. The agreement completion date: July 2020. **(Current report 34/2018)**

On 17 July 2018, the Company and the City of Poznań entered into the contract in connection with the project named: “Reconstruction of the tramway from the Lecha estate to the Żegrze roundabout (section II).” The Company informed about the submission and selection of the most economically advantageous tender in the current reports 10/2018 and the current report 20/2018. The contract net value: PLN 82.6m. The contract gross value: PLN 101.5m. Project completion date: 16 months of the contract conclusion date. **(Current report 36/2018)**

On 19 July 2018, the consortium of ZUE (Leader), Przedsiębiorstwo Inżynieryjne “IMB-Podbeskidzie” sp. z o.o. (Partner) and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. (Partner) signed an annex to the contract with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (ZIKiT) for the project named: “Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow.” The Company informed about the abovementioned contract in the current report 24/2017. The annex provided for the additional works relating to the said project as a result of which the Consortium’s remuneration for the contract performance had been increased to the net amount of PLN 201.7m (gross amount of PLN 248.0m) and the contract completion date has been postponed until 15 May 2020. The additional works specified in the annex would be performed by the Consortium Partners. **(Current report 37/2018)**

On 9 August 2018, the agreement was signed between the Company and Wadoma Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Nowy Sącz (the Subcontractor). The agreement dealt with the provision by the Subcontractor of design and construction services on the Chabówka – Zakopane and the Sucha Beskidzka – Chabówka sections. The Company informed thereof in the current report 5/2018 of 19 March

2018. The agreement net value: PLN 81m. The agreement completion date: 18 September 2021. **(Current report 39/2018)**

On 4 September 2018, the contract was entered into between the Company and Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (ZIKIT) in connection with the following project: "Reconstruction of the line of the Królewska, Podchorążych and Bronowicka Streets in Cracow, the reconstruction of tramway tracks, OCL network and dehydrating and lightening system and the reconstruction of colliding technical infrastructure" carried out as part of the project named: "Upgrade of tramway tracks and associated infrastructure." The Company informed about the selection of the most economically advantageous tender for the said project in the current report 35/2018. The contract net value: PLN 62.6m. The contract gross value: PLN 77.0m. The project completion date: 12 months of the contract date. **(Current report 42/2018)**

On 6 September 2018, the Company learnt about the cancellation by Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (the Contracting Authority) of the tender procedure for the project named: "Maintenance and repair of tram infrastructure in Cracow in the period 2018-2021." The Company informed about the submission of the most economically advantageous tender in the current report 41/2018. The procedure was cancelled by the Contracting Authority according to Art. 93.1.4 of the Public Procurement Act. **(Current report 44/2018)**

On 11 October 2018, the Company signed an annex (the Annex) to the contract with PKP PLK. The contract dealt with the project named Design and construction services and purchase of land in the area of the Medyka station in connection with the following project: "Investment works at the Medyka - Mościska II border crossing." The Company informed about the Contract performance in the current report 49/2016. The Annex specified the scope of additional works and the schedule thereof. It also provided for the net remuneration of PLN 13.6m payable to the Company for its performance of the additional works. The completion date for the additional works was set for the end of July 2019. **(Current report 45/2018)**

On 29 October 2018, the Company learnt about the submission of the most economically advantageous tender in the tender procedure for the preparation of design documentation and the completion of construction works as part of the following project: "Construction of the integrated transport system including a tunnel under the tracks of the Skarżysko Kamienna railway station." The Contracting Authority: PKP PLK. Net value of the tender submitted by the Company: PLN 69.1m. Gross value of the tender submitted by the Company: PLN 85.0m. Completion date: 30 months. **(Current report 46/2018)**

On 29 October 2018, the Company (the Consortium Leader) entered into the agreement (the Agreement) with STRABAG Infrastruktura Południe sp. z o.o. (the Subcontractor). The Agreement dealt with the provision by the Subcontractor of specific services defined by the parties in connection with the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow" (the "Contract"). The Company informed about the Contract performance in the current report 24/2017 of 6 April 2017. The Agreement was signed by the Company for and on behalf of the Company and the remaining Consortium members (Przedsiębiorstwo Inżynieryjne "IMB-Podbeskidzie" sp. z o.o. – the Partner, and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. – the Partner). The Consortium assumed joint and several liability for the obligations under the Agreement. The net value of the Agreement signed on behalf of the Consortium was approx. PLN 35.3m and the Company's share in the Consortium was 34%. The Agreement completion date was set for May 2020. **(Current report 47/2018)**

After the supplier of building materials (the Counterparty) had accepted the order for the supply of building materials to Railway gft, a subsidiary, the total net value of orders/agreements concluded by the subsidiary and the Counterparty since 6 October 2017 was about PLN 21.2m. **(Current report 49/2018)**

On 5 December 2018, the Company and PKP PLK entered into the contract for the protection of civil engineering facilities on the Dęblin – Lublin section as part of the project named: "Works on the Warszawa Wschodnia Osobowa – Dorohusk railway line no. 7 of the Warszawa – Otwock – Dęblin – Lublin section, stage I" on the railway line no. 7. The Company was awarded a sole source contract by PKP PLK according to the rules specified

by the law. The Company informed about the said procedure in the current report 48/2018 of 31. Contract net value: PLN 30m. Contract gross value: PLN 36.9m. Contract completion date: July 2019. **(Current report 50/2018)**

On 14 December 2018, the Company learnt about the submission of the most economically advantageous tender in the tender procedure for the task named: Preparation of design documentation and completion of construction works in connection with the project named: LOT D – Works on the railway lines no. 131, 542, 739 of the Rusiec Łódzki (km 137,500) – Zduńska Wola Karsznice (km 170,212) section as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-14 “Works on the railway line C-E 65 of the Chorzów Batory – Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Maksymilianowo section.” The Contracting Authority: PKP PLK. Tender net value: PLN 582.7m. Tender gross value: PLN 716.7m. Project completion date: 43 months. Auction would be another stage of the said proceedings. Accordingly, the submission of the MEAT does not mean that the contract has been awarded. **(Current report 51/2018)**

Following the conclusion of the contract of 28 December 2018 for the maintenance and repair of tram infrastructure in Cracow between 1 January 2019 and 30 September 2019 between the Company and Zarząd Infrastruktury Komunalnej i Transportu w Krakowie (presently Zarząd Dróg Miasta Krakowa, ZDMK) of the net value of PLN 16.9m, the total net value of the contracts entered into with ZDMK since 5 September 2018 was about PLN 29.3m. **(Current report 52/2018)**

13.2. Financial events

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

On 9 May 2018, the Company published preliminary financial results for the first quarter of 2018. **(Current report 14/2018)**

On 20 July 2018, the Company and Bank Gospodarstwa Krajowego with registered office in Warsaw entered into the agreement for the bond line up to PLN 100m (the Limit) to secure the performed contracts, orders and agreements. The sublimit of PLN 40m was created for the provision of performance bonds. The maximum amount of a single bond other than a performance bond was PLN 50m. The revolving Limit is available until 19 July 2019. **(Current report 38/2018)**

On 21 August 2018, the Company published preliminary financial results for the first half of 2018. **(Current report 40/2018)**

13.3. Corporate events

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

On 24 April 2018, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit of the Company for the financial year 2017 of PLN 0.8m to reserve funds. On 16 May 2018, the Company's Supervisory Board gave a favourable opinion on the abovementioned recommendations. **(Current report 9/2018 and Current report 16/2018)**

On 5 June 2018, the Company's Ordinary General Meeting resolved to allocate the entire net profit earned by the Company in the financial year 2017 to reserve funds. **(Current report 21/2018)**

On 26 June 2018, the Company received the notice from NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. according to which all investment funds managed by NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. exceeded 5% of votes at the Company's general meeting. **(Current report 30/2018)**

On 5 September 2018, the Company learnt about the registration on 29 August 2018 by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, of amendments to the

Company's Articles of Association accepted under the Resolution no. 20 passed by the Company's Ordinary General Meeting on 5 June 2018. **(Current report 43/2018)**

14. Major events after the end of the reporting period

On 22 January 2019, the Company entered into the agreement with CaixaBank S.A. Polish Branch with registered office in Warsaw. The Agreement provided for the bank guarantee limit of up to PLN 30m (the Limit) within which the Company could apply for bid bonds (up to the Limit), advance payment bonds (up to PLN 10m), performance bonds and defects liability bonds (up to PLN 10m). **(Current report 1/2019)**

Following the conclusion of the contract of 6 February 2019 between the Company and PKP PLK for the provision of design services and completion of works on the Warszawa Włochy – Ożarów Mazowiecki section, the railway line no. 3, in connection with 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" of the net value of PLN 12m, the total net value of the contracts between the companies within the PKP PLK Group and the companies within the ZUE Group signed since 12 October 2018 amounted to approx. PLN 25.7m. **(Current report 3/2019)**

On 7 February 2019, the Company's Management Board learnt from Elektrobudowa S.A. with registered office in Katowice (Elektrobudowa) about the suit for payment dated 7 January 2019. The suit was filed with the District Court of Poznań by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu sp. z o.o. (MPK). In their suit MPK demanded that ZUE and Elektrobudowa pay on a joint and several basis the total amount of approx. PLN 20.2m as contractual penalties plus default interest and the costs of proceedings. The suit was based by MPK on the contract of 13 July 2011 between MPK and the Consortium of ZUE and Elektrobudowa for the construction of the FRANOWO tram depot in Poznań. The Company informed about the conclusion of the contract in the current report 39/2011. The works under the contract were performed and completed by the Consortium in June 2015. **(Current report 4/2019)**

On 1 March 2019, the Company received a signed annex to the multi-purpose revolving credit limit with Bank Polska Kasa Opieki S.A. with registered office in Warsaw (PEKAO) (the Annex). The Company informed about the said agreement in the current reports 20/2017 and 74/2017. Under the Annex, the term of the limit (PLN 100m) was extended until 30 November 2019 and the use thereof was limited to 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 Company. **(Current report 5/2019)**

On 8 March 2018, the Company published preliminary financial results for 2018. **(Current report 6/2019)**

On 15 March 2019, the Company learnt about the submission of the most economically advantageous tender in the tender procedure for the project named: "Completion of construction works relating to the reconstruction of track and overhead contact system in the Wyszyńskiego hub and Szarych Szeregów Square." The Contracting Authority: The City of Szczecin. Net value of the tender submitted by the Company: PLN 36.5m. Gross value of the tender submitted by the Company: PLN 44.9m. Project completion date: 450 calendar days of the contract conclusion date. **(Current report 8/2019)**

15. Transactions with related parties

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

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

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, defects liability bonds and advance payment bonds provided by banks and insurance companies to the Group's counterparties to secure their claims against the Group. As at 31 December 2018, ZUE issued a bond for the subsidiary's liabilities to a third party. Banks and insurance companies have recourse against the Company.

The value of unused bond lines at 31 December 2018 for the Group was PLN 361,143 thousand (including credit limits of PLN 60,000 thousand).

The value of unused bond lines at 31 December 2018 for the Company was PLN 358,529 thousand (including credit limits of PLN 60,000 thousand).

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 2018 amounted to PLN 20,951 thousand.

As ZUE may use the limits provided by banks for both bank guarantees and revolving credit facility, the limits are allocated at the end of the reporting period to the guarantees.

Section 7.20 of the consolidated financial statements of the Group contains detailed information about off-balance sheet items in 2018.

17. Description of policies relating to social and employee issues, natural environment, 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. 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 2018 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 (currently Zarząd Dróg Miasta Krakowa). 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.

In 2018, the Group was not involved in any litigation with contracting authorities as a result of the Group's investments breaching safety standards for travellers.

In 2018, a litigation with the contracting authority was instigated due to work being of insufficient quality. Section 49. Court proceedings contains the details.

Simultaneously, in spite of precautionary measures and efforts to respect the environment in which construction work was carried out, in 2018 there were a total of four cases involving damage to the assets or property of third parties worth the combined sum of PLN 477.3 thousand. In two cases where damage was sustained in 2018 compensation was paid and two cases and pending.

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.

17.2.Social issues and issues relating to 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 2018. 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 2018.

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 14001:2015 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 implementation of the above policy was 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. 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 2018, 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 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.

ZUE's Integrated Management System is based on the following standards: *PN-EN ISO 9001:2015-10 Quality Management Systems – Requirements* and *PN-EN ISO 14001:2015 Environmental Management Systems. Requirements with guidance for use* and *OHSAS 18001:2007 Occupational health and safety management systems. Requirements*.

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.

As regards the requirements of the quality [ISO 9001:2015] and environmental [ISO 14001:2015] 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.

To enable a better understanding of the organisation external context, ZUE considered certain legal, technological, competition, market, social, cultural and economic issues as well as national, international, local or regional issues 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.

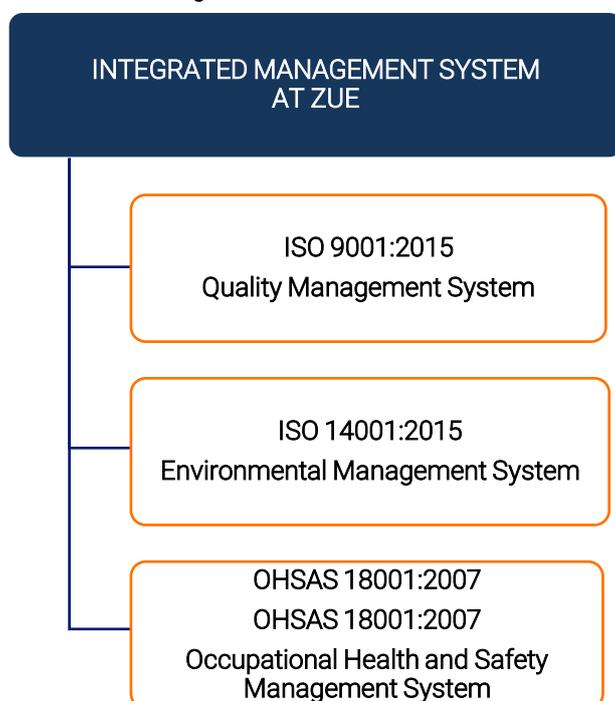
The Company uses this approach to define, to the fullest possible extent, the context of the organisation's activity. SWOT analysis highlights both strong and weak points of the organisation as well as risks and opportunities relating to the Company's development.

An interim audit was carried out between 20.02.2019 and 22.02.2019 by the auditors of DNV GL - Business Assurance Polska. During the audit, the auditors assessed the functioning of the selected areas of the Integrated Management System according to the audit schedule. Their special focus was on the improvement of change management.

Except for the inconsistencies specified in the "list of observations," the management system was assessed as effective and compliant with the standards. Accordingly, the auditors recommended that certificates should be issued.

As a result of implementation and maintenance of the Integrated Management System, ZUE 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 deliver its services in Poland and on international markets. The maintenance of certificates has demonstrated that there are notable effects of the changes which contribute to increase in the organisation's value.



19. Impact on natural environment

The statement on non-financial information includes details of impact on the natural environment. The said influence is reported with reference to the Group's principal activity, namely construction services. The Group identifies the environmental impacts by considering the consumption of energy, water and materials, air pollution and waste removal. For sales and design activities, the consumption of energy and materials is largely connected with office or warehouse activity. Accordingly, a combined presentation of the data for all the segments of operation would be misleading.

Given the above, the information about the consumption of energy, water and materials, air pollution and waste removal accompanied by relevant performance indicators has been presented exclusively for the Parent Company.

19.1. Consumption of energy

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

Type of energy	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2018	2017	2018	2017
Purchased electric energy (MWh)	880	487	1.2	1.4
Purchased thermal energy (GJ)	5,455	5,351	7.1	14.9

The Group companies did not generate electric or thermal energy in 2018.

The Group companies did not use any energy from renewable sources in 2018.

19.2. Consumption of materials

Type of material	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2018	2017	2018	2017
Rails (tonnes)	40,645	17,448	53.2	48.6
Breakstone and aggregate (tonnes)	525,204	574,879	687.7	1601.2
Contact wire (km)	358,760	268	469.7	0.7
CU line (km)	300	690	0.4	0.9
Pre-stressed concrete sleepers (psc.)	479,123	246,120	627.3	685.5

No recycled materials were used in 2018.

19.3. Consumption of water

	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2018	2017	2018	2017
Water	6,479	5,925	8.5	16.5
Sewage	6,479	5,925	8.5	16.5

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

19.4. Waste

Type of waste	Amount		Amount per PLN 1,000,000 of ZUE's revenue	
	2018 (tonnes)	2017 (tonnes)	2018	2017
Hazardous waste	2,492	909	3.3	2.5
Other than hazardous waste	75,253	148,180	98.5	412.7

Waste was recovered in 2018 and the recovery included 44.6 thousands of tonnes of land and soil, 1.4 thousands of tonnes of concrete, 4.7 thousand of breakstone and 20 tonnes of brick debris.

19.5. Emission of gases

Type of gas (kg)	Amount		Amount per PLN 1,000,000 of ZUE's revenue	
	2018	2017	2018	2017
CO ₂	4016	17684.0	5.258	49.25
CO	0.6	3.2	0.001	0.01
Dust	0.8	2.3	0.001	0.01
NO	3.2	13.6	0.004	0.04
SO	0.2	0.7	0.0003	0.002

19.6. Impact on biodiversity

In the reporting period, construction works were carried out by ZUE in environmentally valuable areas or in the neighbourhood thereof, especially in the areas included in the Natura 2000 network. The projects concerned the works on the railway lines of the Chybie – Żory – Rybnik – Nędza, Chabówka – Zakopane, Łódź Kaliska – Zduńska Wola and Skarżysko Kamienna – Sandomierz sections. No environmental damage was caused by the performance of works in 2018.

19.7. Public funds

In 2018, ZUE generated approx. 92% of the Group's revenue. The vast majority of ZUE's revenue comes from the performance of contracts awarded under competitive tendering processes for infrastructure projects.

The Company did not take advantage of any public aid in 2018.

20. Human capital management

At 31 December 2018, the Group companies employed 866 people, including 172 women.

The total number of employees included 448 white-collar workers and 418 blue-collar workers.

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

Item	31.12.2018				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%
Total	5	100%	5	100%	5	100%	5	100%

Number of full-time employees at the end of the reporting period according to the type of employment contract:

Type of contract	Sex	ZUE		Group	
		2017	2018	2017	2018
Employment contract for an indefinite period	F	61	78	86.6	106.3
	M	406	484	431	508.7
Total		467	562	517.6	615.0
Employment contract for a fixed period	F	34	47	48.6	62
	M	151	173	165	181.6
Total		185	220	213.6	243.6

Number of new full-time employees:

Type of contract	Sex	ZUE		Group	
		2017	2018	2017	2018
Number of new employees	F	30	47	44.6	60
	M	111	189	118	192.1
Total		141	236	162.6	252.1
Number of leaving employees	F	9	12	19	22.1
	M	91	86	102	96.7
Total		100	98	121	118.8

In 2018, the Group companies were the parties to civil law agreements concluded with 38 people. The total gross amount of benefits paid under these agreements was PLN 448 thousand.

The Group companies did not hire any temporary workers.

At the end of 2018, the Group employed 8 disabled persons (including 8 persons at ZUE) who accounted for 1% of the Group's total employment.

The average monthly remuneration of employees employed under employment contract in 2018 amounted to PLN 6.4 thousand for women (PLN 5.8 thousand in 2017) and PLN 7.9 thousand for men (PLN 6.9 thousand in 2017). The average wages of blue-collar workers in 2018 amounted to PLN 6.2 thousand (PLN 4.9 thousand in 2017). The ratio of the average wages of blue-collar workers to a minimum wage was 293% in 2018 and 147% in 2017. The ratio of the average wages of blue-collar workers to the average pay in business sector amounted to 116.6% in December 2018.

At the end of 2018, the Group employed 21 foreigners whose average monthly remuneration amounted to PLN 6.8 thousand.

The ratio of the average gross salary of women to the average gross salary of men in the Group in 2018 was 81%.

The total amount of contributions to the State Fund for Rehabilitation of Disabled Persons (*PFRON*) was PLN 636 thousand (including PLN 556 thousand for ZUE).

In 2018, there was one situation where a woman returned to work after childbirth and resigned within 12 months after the return.

Employment structure at the Group according to the types of activity in 2018:

Activity	ZUE		Group	
	2017	2018	2017	2018
Management and administration	79	87	99	107
Sales and marketing	17	18	28	30
Production	372	418	372	418
Engineers and technicians	184	259	241	311
Total	652	782	740	866

Employment structure at the Group according to education in 2018:

Education	ZUE		Group	
	2017	2018	2017	2018
Elementary	54	71	55	72
Vocational	181	191	181	191
Secondary	196	219	207	228
Higher	221	301	297	375
Total	652	782	740	866

Employment structure at the Group according to age in 2018:

Age	ZUE		Group	
	2017	2018	2017	2018
20-30	99	160	121	184
31-40	191	235	223	264
41-50	139	157	156	173
51-60	152	159	158	165
61+	71	71	82	80
Total	652	782	740	866

Average seniority at the Group was 6.5 years in 2018 and 10.6 years in 2017.

In 2018, the Group companies paid salaries and wages under employment contracts in the gross amount of PLN 73,427 thousand (including PLN 67,574 thousand paid by ZUE).

No fines were imposed in 2018 on the Group companies in connection with the employment.

Trainings	2017	2018
Number of external trainings	173	120
Number of internal trainings	30	48
Total number of trainings	203	168
Number of trained people – internal trainings	148	115
Number of trained people – external trainings	345	376
Number of trained people – external trainings, language courses*	300	300
Total number of trainees	793	791

*Language courses organised for 10 months a year: 10 groups, 30 participants.

In 2018, the Company organised trainings in project management, finance, office software, HR, legal aspects, public procurement law, fire protection, first aid or getting new or renewing existing professional qualifications such as engine driver's licenses, complementary driver's certificate, licenses entitling their holder to manage road traffic, driving licences, carriage of goods, electric and termite welding, operation and supervision of electrical

works, slinger/signaller operations and rail track works. In 2018, periodic and verification exams were held. The Company also organized exams to award licenses to operators of road construction machinery and specialist rail equipment. Language courses for employees were organised by ZUE throughout 2018. There were also 48 internal trainings for new workers.

ZUE 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 2019, the occupational health and safety management system OHSAS 18001:2007 was audited and the audit result was positive.

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 2018 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 Social Work Standards and Safety Inspector at ZUE whose role is focussed on the three areas, namely occupational safety, occupational health and legal protection of employees. Detailed tasks of the Inspector are defined by the applicable laws.

There is a five-member Occupational Health and Safety Committee at ZUE comprising an employee of the Occupational Health and Safety Section, a company social 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 Occupational Health and Safety Committee and relevant inspection protocols are prepared. In 2018, about 160 work safety inspections were carried out at the sites where construction works are performed by the Company. The inspections covered both the employees of ZUE and subcontractors delivering their services in connection with certain projects. The inspection results are entered into 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 accident at work was reported at the Group in 2018. One serious accident was reported. The inspections carried out in 2018 by the National Work Standards and Safety Inspectorate did not reveal any significant deviations from applicable laws.

Item	2018	2017
Total accidents, including:	10	6
<i>Fatal</i>	0	0
<i>Serious</i>	1	0
<i>Slight</i>	9	6

At the Capital Group, accidents took place exclusively at the Parent Company.

The most common reasons for accidents at work in 2018 included human error, inattention, carelessness, haste, insufficient focus on a task and small experience of employees.

No accidents at work were reported in 2018 by the subcontractors of ZUE.

Accident frequency rate (accidents at work per 1000 of employees) was 13.5 for the Company and 11.6 for the Group.

The total number of days of employees' incapacity for work due to accidents was 791 days.

Accident seriousness rate (number of days of incapacity for work / 1 accident) in 2018 was 79.

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 2018 and 2017.

Item	2018	2017
Occupational health and safety trainings for employees, including:*	679	619
<i>ZUE</i>	635	545
<i>Railway gft</i>	4	3
<i>BPK Poznań</i>	40	71

* Periodic trainings + trainings for new employees.

No fines relating to occupational health and safety were imposed on the companies within the Group in 2018 or 2017. However, the fine of PLN 1.6 thousand was imposed in 2018 by the National Work Standards and Safety Inspectorate on the Company's employee (an individual) due to their negligence relating to work organisation.

No on-the-job illnesses were reported in 2018.

In 2018, the number of employees working in the conditions where maximum admissible concentration (MAC) or maximum admissible intensity (MAI) values are exceeded was 25.

22. Engagement with local communities

In 2018, the Group supported 17 charity or social projects. The total gross amount of the support was approx. PLN 95 thousand, including approx. PLN 23 thousand for charity. In 2017, the Group supported 9 projects for the total amount of approx. PLN 57 thousand, including PLN 17 thousand for charity.

In 2018, there were two corporate volunteering events addressed to high school students and pre-school pupils involving seven employees of ZUE (including the Management Board Vice-President) who spent the total of 32 hours on the project.

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 2018 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 sales revenue generated in 2018 was PLN 763,757 thousand. The Company's revenue increased by 113% compared to the figure reported in 2017. In the fourth quarter of 2018, the Company generated 34% of annual revenue. In the second half of 2018, it generated 62% of annual revenue.

The table below reflects the seasonal character of sales at ZUE in 2018:

Item	I quarter	II quarter	III quarter	IV quarter
Sales revenue (PLN '000)	112,613	177,184	217,444	256,516
% - quarter	15%	23%	28%	34%
% - half year	38%		62%	

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

Item (PLN '000)	ZUE Group		ZUE	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Sales revenue	832,725	415,870	763,757	359,041
Cost of sales	888,763	396,778	825,792	343,350
Gross profit (loss) on sales	-56,038	19,092	-62,035	15,691
General and administrative expenses	21,891	19,753	18,076	16,001
Other operating income	1,276	4,084	889	3,392
Other operating expenses	1,237	1,782	751	1,561
Operating profit (loss) (EBIT)	-77,890	1,641	-79,973	1,521
EBITDA*	-66,983	11,474	-69,213	11,274
Financial income	2,051	1,933	2,212	2,173
Financial expenses	1,465	2,679	953	2,190
Pre-tax profit (loss)	-77,304	895	-78,714	1,504
Corporate income tax	-14,719	662	-14,665	665
Net profit (loss) from continuing operations	-62,585	233	-64,049	839
Net profit (loss)	-62,585	233	-64,049	839

* Operating profit + depreciation / amortisation.

Following the review of the construction contract budgets (the basis for the preparation of the financial statements) carried out twice a year, the Management Board of the Company decided to reduce the projected margins for certain railway construction contracts performed for PKP PLK S.A. For a number of contracts, the projected margins would drop to less than zero. This had a decisive influence on the presented financial result for 2018. The reduction of margins referred to the contracts won mainly in 2016 and 2017. The reasons for the situation included, first and foremost, the obstacles unrelated to the Company (such as undefined legal status of plots, delayed administrative procedures, unavailable work sites, technical conditions – including surveying documentation and the condition of facilities - different from the terms of reference, results of expert opinions,

changes to applicable laws or expectations of local communities), which prevented the performance of the said contracts according to the original assumptions made at the tendering phase on the basis of the documentation provided to the contractors. Based on the said assumptions, material and financial schedules were prepared by the Company whereby the Company entered into master agreements for the supply of key building materials, provided staff and equipment, gathered the offers submitted by subcontractors and service providers and prepared the funds required to finance the project. The foregoing circumstances were accompanied by a radical increase in the costs of construction contract performance, including the costs of labour, building materials, services provided by subcontractors and logistic services. The increase could not be predicted at the tendering phase and influenced the entire industry.

Compared to 2017, ZUE's gross profit in 2018 decreased by PLN 77,726 thousand; i.e. from PLN 15,691 thousand at the end of 2017 to PLN (-) 62,035 thousand at the end of 2018. The drop occurred mainly in connection with the update of budgets for railway contracts.

General and administrative expenses of ZUE in 2018 stood at PLN 18,076 thousand and increased by 13% when compared with the analogous figure of 2017.

Other operating income reported by the Company in 2018 was PLN 889 thousand – down by 74% compared to the analogous period of 2017. Other operating expenses amounted to PLN 751 thousand and decreased by 52% when compared with 2017.

The Company reported operating loss of PLN (-) 79,973 thousand in 2018 (PLN 1,521 thousand in 2017).

ZUE's financial income between 1 January and 31 December 2018 stood at PLN 2,212 thousand and increased by 2% when compared with 2017. ZUE's financial expenses in 2018 amounted to PLN 953 thousand and decreased by 56% compared to 2017.

The Company ended 2018 with a net loss of PLN (-) 64,049 thousand (PLN 839 thousand in 2017).

24. Discussion of major balance sheet items

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 2018 and the comparative information at 31 December 2017.

Item (PLN '000)	ZUE Group		ZUE	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
ASSETS				
NON-CURRENT ASSETS				
<i>Property, plant and equipment</i>	104,700	95,023	101,815	92,004
<i>Investment property</i>	5,265	5,591	8,642	9,095
<i>Intangible assets</i>	8,616	9,087	8,115	8,594
<i>Goodwill</i>	31,172	31,172	31,172	31,172
<i>Investments in non-consolidated subsidiaries</i>	0	0	221	210
<i>Retentions on construction contracts</i>	9,720	9,696	9,463	9,439
<i>Deferred tax assets</i>	22,876	8,024	22,485	7,803
<i>Other assets</i>	149	0	0	0
Total non-current assets	182,498	158,593	181,913	158,317
CURRENT ASSETS				
<i>Inventories</i>	48,720	27,938	37,311	24,239
<i>Trade and other receivables</i>	194,837	117,940	188,084	105,746
<i>Valuation of long-term construction contracts</i>	114,910	74,208	103,400	65,524
<i>Retentions on construction contracts</i>	3,021	4,718	2,938	4,393
<i>Current tax assets</i>	0	0	0	0
<i>Other financial assets</i>	0	0	0	0
<i>Loans advanced</i>	2,813	10	2,804	10
<i>Other assets</i>	1,040	1,097	764	909
<i>Cash and cash equivalents</i>	81,723	117,748	79,404	116,144
Total current assets	447,064	343,659	414,705	316,965
TOTAL ASSETS	629,562	502,252	596,618	475,282

Item (PLN '000)	ZUE Group		ZUE	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
EQUITY AND LIABILITIES				
EQUITY				
Share capital	5,758	5,758	5,758	5,758
Share premium account	93,837	93,837	93,837	93,837
Treasury shares	-2,690	-2,690	-2,690	-2,690
Retained earnings	49,717	112,605	49,337	113,461
Total equity attributable to shareholders of ZUE	146,622	209,510	-	-
Equity attributable to non-controlling interests	126	-91	-	-
Total equity	146,748	209,419	146,242	210,366
NON-CURRENT LIABILITIES				
Long-term loans and bank credits and other financing sources	14,815	11,224	14,781	11,205
Retentions on construction contracts	11,371	6,254	10,721	5,755
Other financial liabilities	70	350	0	0
Liabilities under employee benefits	1,994	1,888	1,036	856
Long-term provisions	8,152	5,756	7,872	5,671
Other liabilities	0	0	70	350
Total non-current liabilities	36,402	25,472	34,480	23,837
CURRENT LIABILITIES				
Trade and other payables	356,631	223,562	335,883	205,950
Valuation of long-term construction contracts	7,047	724	6,980	475
Retentions on construction contracts	8,312	6,795	8,099	6,663
Short-term loans and bank credits and other financing sources	20,908	14,908	12,963	8,773
Other financial liabilities	316	316	36	36
Liabilities under employee benefits	23,455	17,522	22,103	16,184
Current tax liabilities	4	0	0	0
Short-term provisions	29,739	3,534	29,832	2,998
Total current liabilities	446,412	267,361	415,896	241,079
Total liabilities	482,814	292,833	450,376	264,916
TOTAL EQUITY AND LIABILITIES	629,562	502,252	596,618	475,282

At 31 December 2018, ZUE's total assets and liabilities stood at PLN 596,618 thousand and increased year-on-year by 26%.

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

Item	PLN '000		
	Change (compared to 31.12.2017)	Balance at 31.12.2018	Description
Assets			
Property, plant and equipment	+9,811	101,815	Purchase of machines and vehicles.
Deferred tax assets	+14,682	22,485	Change resulting from the aggregation of loss in 2018.
Inventories	+13,072	37,311	Increase resulting from greater demand for building materials required to perform contracts.
Trade and other receivables	+82,338	188,084	Greater progress of construction works relating to the performance of contracts.
Valuation of long-term construction contracts	+37,876	103,400	Greater progress of construction works relating to the performance of contracts.
Cash and cash equivalents	-36,740	79,404	Use of own funds to conduct operating activities.
Liabilities			
Retained earnings	-64,124	49,337	Coverage of loss for 2018.
Trade and other payables	+129,933	335,883	Greater progress of construction works relating to the performance of contracts.
Short-term provisions	+26,834	29,832	Provisions for warranty claims and losses on contracts.

25. Discussion of items of the statement of cash flows

ZUE's cash flows from operating activities of PLN (-) 21,487 thousand were mainly influenced by changes in receivables, payables, valuation of contracts, retentions and inventories in connection with the performance of construction contracts.

Cash flows from investing activities of PLN (-) 17,668 thousand were mainly influenced by the purchase of non-current assets (specialist machinery). The transaction was financed by own resources and a loan advanced to a subsidiary.

Cash flows from financing activities of PLN 2,384 thousand were influenced by the leaseback used to finance the purchase of specialist equipment and the decrease in liabilities under leases.

Item (PLN '000)	ZUE Group		ZUE	
	31.12.2018	31-12-2017	31.12.2018	31-12-2017
<i>Cash flows from operating activities</i>	-22,180	18,863	-21,487	16,069
<i>Cash flows from investing activities</i>	-17,467	34,717	-17,668	34,495
<i>Cash flows from financing activities</i>	3,591	1,848	2,384	4,765
Total net cash flows	-36,056	55,428	-36,771	55,329
<i>Foreign exchange gains / (losses)</i>	31	-397	31	-392
<i>Cash and cash equivalents at the beginning of the period</i>	117,748	62,717	116,144	61,207
<i>Cash and cash equivalents at the end of the period</i>	81,723	117,748	79,404	116 144

26. Discussion of results reported by segments

The total amount of revenue generated by the Group is PLN 832,725 thousand. The largest portion of the Group's revenue is derived from construction activity conducted by ZUE.

Item (PLN '000)	Construction	Sales	Design	Exclusions	Total
Sales revenue	763,757	71,800	14,499	-17,331	832,725
Gross profit (loss) on sales	-62,035	3,758	1,999	240	-56,038
Net profit (loss)	-64,049	1,177	18	269	-62,585

Sales activities conducted at the Group by Railway gft produced the gross profit of PLN 3,758 thousand and the net profit of PLN 1,177 thousand.

Design activities conducted in 2018 by BPK Poznań produced the gross profit of PLN 1,999 thousand and the net profit of PLN 18 thousand. Design activities complement construction activities.

27. Analysis of ratios

27.1. Debt ratio

Item	ZUE Group		ZUE		Calculation rules
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	
Net debt	-45,614	-90,950	-51,624	-96,130	<i>(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</i>
Debt ratio	0.8	0.6	0.8	0.6	<i>(non-current and current liabilities + provisions for liabilities) / total assets</i>
Debt to equity ratio	3.3	1.4	3.1	1.3	<i>(non-current and current liabilities) / equity</i>
Equity to assets ratio	0.2	0.4	0.2	0.4	<i>equity / total assets</i>
Fixed capital to non-current assets ratio	1.0	1.5	1.0	1.5	<i>(equity + non-current liabilities) / non-current assets</i>
Short-term debt ratio	0.7	0.5	0.7	0.5	<i>current liabilities / total assets</i>
Long-term debt ratio	0.2	0.1	0.2	0.1	<i>non-current liabilities / equity</i>
Interest coverage ratio	72.2	-1.9	98.4	-2.7	<i>EBIT / interest</i>

27.2. Liquidity ratios

Item	ZUE Group		ZUE		Calculation rules
	31.12.2018	31-12-2017	31.12.2018	31-12-2017	
Working capital	652	76,298	-1,191	75,886	<i>current assets – current liabilities</i>
Current ratio	1.0	1.3	1.0	1.3	<i>current assets / current liabilities</i>
Quick ratio	0.9	1.2	0.9	1.2	<i>(current assets – inventory) / current liabilities</i>
Cash ratio	0.2	0.4	0.2	0.5	<i>cash and cash equivalents / current liabilities</i>

27.3. Financing structure ratios

Item	ZUE Group	ZUE	Calculation rules
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	31.12.2018	31-12-2017	31.12.2018	31-12-2017	
Equity to assets ratio	0.2	0.4	0.2	0.4	equity /total assets
Equity to non-current assets ratio	0.8	1.3	0.8	1.3	equity /non-current assets
Debt ratio	0.8	0.6	0.8	0.6	(total assets - equity) / total assets
Debt to equity ratio	3.3	1.4	3.1	1.3	(total assets - equity) /equity

27.4. Profitability ratios

Item	ZUE Group		ZUE		Calculation rules
	31.12.2018	31-12-2017	31.12.2018	31-12-2017	
Gross margin	-6.7%	4.6%	-8.1%	4.4%	gross profit / revenue
EBITDA	-66,983	11,474	-69,213	11,274	operating profit + depreciation / amortisation
EBITDA margin	-8.0%	2.8%	-9.1%	3.1%	EBITDA / revenue
EBIT margin	-9.4%	0.4%	-10.5%	0.4%	EBIT / revenue
Gross margin	-6.7%	4.5%	-8.1%	4.3%	gross profit / (revenue + other operating income + other financial income + extraordinary gains)
Net margin	-7.5%	0.06%	-8.4%	0.2%	net profit / (revenue + other operating income + other financial income + extraordinary gains)
ROA	-9.9%	0.05%	-10.7%	0.2%	net profit / total assets
ROE	-29.9%	0.1%	-30.5%	0.4%	net profit / equity

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

Factors and events with significant influence on the Group's results have been discussed in the "Financial results" section. No unusual factors or events with significant bearing on the Group's results other than specified in this report occurred in the reporting period.

29. Statement by the Management Board of ZUE on financial projections

The Company did not publish any separate or consolidated financial projections for the financial year 2018.

30. Investments

30.1. Investments made in 2018

The total capital expenditure incurred at the Group in 2018 amounted to PLN 20,556 thousand. The investments made by ZUE accounted for 99% of the abovementioned amount.

The capital expenditure is detailed in the table below.

PLN '000

Item:	Own funds	Finance lease	Leaseback	Total
Intangible assets:	60	0	0	60
- leasehold	0	0	0	0
Property, plant and equipment, including:	-1,469	4,635	17,319	20,485
- buildings and structures	47	0	0	47
- plant and equipment	5,621	1,768	3,326	10,715
- vehicles	16,672	2,867	13,993	33,532
- other	115	0	0	115

- non-current assets under construction	10,747	0	0	10,747
- settlement of non-current assets under construction for current investments	-13,647	0	0	-13,647
- leaseback	-17,319	0	0	-17,319
- advance payments in the current period	945	0	0	945
- settlement of advance payment from previous period on current investments	-4,650	0	0	-4,650
Investment property	11	0	0	11
Equity investments	0	0	0	0
Total investments	-1,398	4,635	17,319	20,556

Major investments in property, plant and equipment made by the Group in 2018:

- Purchase of EAOS wagons worth PLN 4,575 thousand (leaseback).
- Purchase of Smmps wagons worth PLN 3,935 thousand (leaseback).
- Complete overhauls of machines and vehicles – PLN 3,387 thousand.
- Purchase of cars – PLN 2867 thousand (lease).
- Purchase of pile driver – PLN 3,326 thousand (leaseback).
- Purchase of two-way rail welding machine – PLN 5,483 thousand (leaseback).
- Purchase of Liebherr A 922 1190 Rail excavators – PLN 1,767 thousand (lease).

The Group's investments in intangible assets in 2018 concerned the purchase of licence and software.

The amount recognized in the statement of cash flows is the purchase of PLN 15,829 thousand. The difference is a result of actual payments, leases and the settlements of advance payments and non-current assets under construction.

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

30.2. Assessment of intended investments

New investments in property, plant and equipment as well as intangible assets will be made as needed.

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.

The table below sets out the use of bank credits and multipurpose lines as at 31.12.2018.

ZUE				
Bank	Description	Principal according to the agreement [PLN '000]	Amount used as at 31.12.2017 [PLN '000]	Repayment date
mBank S.A.(I)	Overdraft	10,000	0	2019-05-10
mBank S.A. (II)	Cooperation agreement	50,000	0	2020-07-17
	including:			
	sublimit for bonds	50,000	0	
	sublimit for working credit facilities	30,000	0	
mBank S.A.	Master agreement	150,000	73,896	2019-06-27
	including:			
	sublimit for bonds	150,000	73,926	
BGŻ BNP PARIBAS	Multipurpose credit line agreement	170,000	104,508	2019-10-24
	including:			
	sublimit for bonds	170,000	104,508	
	sublimit for working credit facilities	20,000	0	
PEKAO SA (iii)	Multipurpose credit line agreement	100,000	86,265	2019-11-30
	including:			
	sublimit for bonds	100,000	86,265	

Credit Agricole	Bond line agreement	30,000	11,285	2019-08-22
	including:			
	sublimit for bonds	30,000	11,285	
Bank Gospodarstwa Krajowego	Bond line agreement	100,000	18,700	2019-07-19
	including:			
	sublimit for bonds	100,000	18,700	
BPK Poznań				
BGŻ BNP PARIBAS	Multipurpose credit line	600	313	2019-11-05
mBank S.A.	Overdraft	500	496	2019-06-07
mBank S.A.	Working credit facility for contract prefinancing	2,000	842	2019-11-25
Railway gft				
mBank S.A.	Working credit facility	5,000	5,000	2019-08-23
BGŻ BNP PARIBAS	Revolving credit agreement	4,000	1,000	2019-11-07
mBank S.A.	Master agreement	7,000	4,887	2019-08-23
	including:			
	Sublimit for bonds	7,000	4,887	
Total use of credits at the Group			7,651	
Total use of bonds at the Group			299,571	

- (i) 09.05.2018 – Annex no. 16 was signed whereby the limit was raised to PLN 10,000 thousand.
- (ii) 21.02.2019 – Annex no. 8 was signed whereby the sublimit for revolving credit facility was raised to PLN 40,000 thousand and the agreement name was changed to “master agreement.”
- (iii) 28.02.2019 – Annex no. 2 was signed whereby the term of the line was extended until 30.11.2019 and the way the line should be used was changed.
- (iv) Information about interest on certain credits is contained in the note 6.1 of the consolidated financial statements.

The Group reviews the capital structure each time for the purpose of major contract/order financing. As part of this review, the Group analyses own resources required for day-to-day operations, the schedule of contract/order financing, the cost of capital and the risks associated with each class of capital. In the reporting period, the Group (especially ZUE) used mainly own resources and credit limits to finance day-to-day operations.

At 31 December 2018, the value of unused credit lines available to the Group was PLN 64,449 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.

In 2018, the Company continued to finance its investments with finance lease or leaseback and adjusted the term of liabilities thereunder to its backlog. 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.

The Group's debt in connection with credits, loans and other sources of finance amounted to PLN 35,723 thousand. The Group's debt under credits and loans was PLN 7,907 thousand (subsidiaries) and the Group's debt under leases was PLN 27,816 thousand.

As a result of updating the construction contract budgets and negative financial results for the reporting period, the declared financial indicators contained in certain agreements with banks fell below the values excepted by financial institutions. The Issuer explains, however, that relevant measures have been taken and talks are being held with financial entities as a result of which the situation has no influence on the performance of financial agreements and the Issuer's liquidity. Major terms of bank agreements did not change by the date of preparation of this report.

At the end of 2018, the Group held cash of PLN 81,723 thousand.

In the reporting period, ZUE advanced loans to subsidiaries:

- On 24 January 2018, ZUE and Railway gft signed a loan agreement whereby Railway gft was granted a special-purpose loan of PLN 3,200 thousand to be repaid by 31 March 2019. The loan was disbursed on 25

January 2018. The loan bore interest of 3M WIBOR + margin. Under the agreement, the loan could be repaid in instalments. The subsidiary took advantage of this provision and partially repaid the principal plus interest in the reporting period.

- On 13 April 2018, ZUE and RTI signed a loan agreement whereby RTI was granted a special-purpose loan of PLN 10 thousand to be repaid by 20 December 2018. The loan was disbursed on 20 April 2018. The interest on the loan was 3M WIBOR + margin.

On 19 June 2018, ZUE and RTI Germany signed an annex no. 3 to the loan agreement of 31 May 2016 whereby the loan and interest repayment date was extended until 20 June 2019.

On 20 December 2018, ZUE and RTI signed an annex covering the loan agreement of 26 May 2017, the loan agreement of 7 December 2017 and the loan agreement of 13 April 2018. Under the annex, the repayment date for each loan was extended until 20 December 2019. The total amount of the loans is PLN 20 thousand and the interest is 3M WIBOR + margin.

In the reporting period, the Group advanced the loan of PLN 3,200 thousand to a counterparty to be repaid by 30 March 2019. The interest was 3M WIBOR + margin. The counterparty partially repaid principal plus interest in the reporting period.

On 7 January 2019, ZUE and RTI Germany signed a loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 4 thousand to be repaid by 20 December 2019. The loan was disbursed on 11 January 2019. The interest was 3M EURIBOR + margin.

No credit or loan agreements were terminated by the Group companies in 2018.

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.

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

The information about the Company's compliance with the principles and recommendations contained in 2016 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; tab: Investor Relations > Corporate Governance.

In 2018, 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 2018, 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. Internal control includes all areas the potential material risks refer to, including the areas relating to non-financial issues (especially environmental protection and employee issues).

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

At 31 December 2018, the registered share capital disclosed in the financial statements was PLN 5,757,520.75.

Share capital as at 27 March 2019

(PLN '000)

Class / issue	Type of shares	Number of shares	Value of class/issue at par value	Contribution	Registration date (Right to dividend from registration date)
Class A	Ordinary bearer shares	16,000,000	4,000,000.00	Contribution in kind	12 July 2002
Class B	Ordinary bearer shares	6,000,000	1,500,000.00	Fully paid up in cash by way of issue	19 October 2010
Class C	Bearer – "Merger shares"	1,030,083	257,520.75	Fully paid up in cash by way of issue	20 December 2013
Total		23,030,083	5,757,520.75		

Class A, B and C shares are not preferred and rights to shares are not limited.

At 31 December 2018, the share capital structure was the same as at 27 March 2019.

36.2. Treasury shares

At the date of preparation of this report, the Company holds 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. 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. The shares were acquired by the Company outside organised trading for resale. The Company's Management Board intend to sell the shares in favourable market conditions on the stock exchange or outside organised trading. No treasury shares were acquired by the Company in 2018.

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 27 March 2019	% of the share capital/total number of votes	Number of shares/votes on the date of publication of the last interim report ⁽¹⁾	% 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 ⁽²⁾	6.08	1,400,000 ⁽²⁾	6.08
PKO Bankowy OFE	1,500,000 ⁽³⁾	6.51	1,500,000 ⁽³⁾	6.51
NN Investment Partners TFI	1,190,437 ⁽⁴⁾	5.17	1,190,437 ⁽⁴⁾	5.17
Other	4,539,326 ⁽⁵⁾	19.71	4,539,326 ⁽⁵⁾	19.71
Total	23,030,083	100	23,030,083	100

(1)) Publication of the last interim report (Consolidated report of the Group for the three quarters of 2018): 27 November 2018.

(2) 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.

(3) 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.

(4) Shareholding on the basis of the notice of exceeding 5% of total number of votes of 26 June 2018 provided in the current report 30/2018 of 26 June 2018.

(5) 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 parties 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 27 March 2019	Par value (PLN)	% of share capital/total number of votes	Changes in shareholding since the publication of the last quarterly report ⁽¹⁾
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

(1) Publication of the last interim report (Consolidated report of the Group for the three quarters of 2018): 27 November 2018.

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.

No shares in the Group companies were held by members of the Issuer's management or supervisory bodies on the date of publication of the last interim 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 own shares

No treasury shares were bought back by the Company in 2018.

Apart from the abovementioned transaction, 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 2018.

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

Section 7.18 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:

Mariusz Szubra	Supervisory Board Chairperson
Barbara Nowak	Supervisory Board Vice-Chairperson
Bogusław Lipiński	Supervisory Board Member

Piotr Korzeniowski Supervisory Board Member

Michał Lis Supervisory Board Member

Section 7.18 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

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 on Auditors").

In 2018, the Audit Committee operated uninterruptedly and was composed of:

- Mariusz Szubra – Chairman of the Audit Committee (independent member within the meaning of the Act on Auditors);
- Barbara Nowak – Member of the Audit Committee (independent member within the meaning of the Act on Auditors); and
- Piotr Korzeniowski - Member of the Audit Committee.

In the reporting period, the Audit Committee held four meetings.

Mr. Mariusz Szubra meets the requirements relating to skills and knowledge of accountancy or financial statements auditing referred to in Art. 129.1 of the Act on Auditors gained through his economic education and professional career including research and teaching at the Department of Econometrics, Operational Research Unit at the Cracow University of Economics, employment with a company delivering accountancy services, including the maintenance of accounting records, and the positions held in commercial companies.

Ms. Barbara Nowak meets the requirements relating to skills and knowledge of the industry the Issuer operates in specified in Art. 129. 5 of the Act on Auditors. Ms. Nowak has worked for ZUE for more than twenty years. At the beginning she dealt with electronics and radio communications and then with power electronics, power industry and traction works, also by holding various positions such as managing director of ZUE S.A.

The 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 following 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 non-audit services 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.

Pursuant to the Audit Committee's policy on the appointment of an audit firm, the Supervisory Board take into consideration such criteria as the experience of the appointed audit firm as well as the skills and experience of the firm's employees appointed to audit the financial statements, the knowledge of the industry ZUE operates in, the fee of the audit firm and the firm's reputation. In addition, the Supervisory Board must obtain the recommendations of the Audit Committee including, in particular, the assessment of the audit firm's independence and the audit firm must be appointed without any influence, pressure or suggestions of third parties. The Supervisory Board must also consider the restrictions concerning the appointment of audit firms following from the law, especially the grace period and rotation of audit firms and auditors.

The Audit Committee's policy concerning the sale by an audit firm or entities related to the firm or the firm's network member of permitted non-audit services provides, first and foremost, for the independence of audit firms and auditors and the restricted likelihood of the conflict of interests when non-audit services are provided by the firm. This likelihood is restricted by defining permitted and prohibited services. The examples of permitted services include the due diligence of financial and economic condition, attestation of pro forma financial information, projected or estimate results, disclosures in a prospectus, audit of historical financial information for the prospectus or verification of consolidation packages. The list of prohibited services includes, in particular, tax services relating to preparation of tax forms, payroll tax, customs duties, book-keeping and preparing accounting records and financial statements, designing and implementing internal control or risk management procedures related to the preparation or control of financial information or designing and implementing financial information technology systems or services related to internal audit function. Permitted services may only be delivered to the extent unrelated to the Company's tax policy after the Audit Committee have assessed the risks and threats relating to the independence of an audit firm, key auditor and other members of audit team.

The Audit Committee's recommendation concerning the appointment of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., an audit firm with registered office in Warsaw (EY) to audit the financial statements of ZUE for 2017 and 2018 and to review the half-yearly financial statements of the Company prepared in the abovementioned period meets the applicable requirements and has been prepared on the basis of the appointment procedure prepared by the Issuer.

Except for the review of the half-yearly financial statements for 2018, no permitted non-audit services were provided to the Company in the reporting period by the audit firm auditing the financial statements of ZUE. The Audit Committee have assessed the independence of EY and approved of the provision of audit services by 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 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 (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 2018, the organisational structure of the Company did not change considerably when compared with 2017. Section 1.2 of this report deals with major changes in the Group's organisation.

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

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 2018.

46. Preparation basis

This Directors' Report on Activities of ZUE between 1 January – 31 December 2018 contains the information whose scope has been set out in § 70 and § 71 of the Regulation of the Minister of Finance of 29 March 2018 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 (the "Regulation"). On the basis of §71.8 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 § 70.1.4 of the Regulation. Accordingly, no separate Report on Activities of the Parent Company is published by the Issuer.

The financial statements of the Company and the Group for the financial year 2018 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 § 60 of the Regulation.

This report contains the statement about non-financial information referred to in Art. 55.2b) of the Accountancy Act. Pursuant to § 71.8 of the Regulation, the statement also 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 as well as 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 2018.

The agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. included:

- a) audit of the separate and consolidated financial statements of the Company for 2017 and 2018;
- b) review of the half-yearly separate and consolidated financial statements of the Company for the first half of 2017 and 2018.

On 16 March 2018, ZUE signed an annex to the agreement for the audit of the financial statements for 2017 whereby the cooperation with the audit company was extended to include the audit of the financial statements for 2018.

The agreement was concluded for the term of the audit.

The net remuneration of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. for the audit and review of the financial statements for 2018 was set at PLN 134.5 thousand.

The financial statements for 2017 were audited and reviewed by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. The fee of the audit company for the abovementioned service was PLN 112 thousand.

No other services were provided by the appointed audit company to the Issuer.

49. Court proceedings

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

Below please find the information about major proceedings before the court or another authority concerning the Group's claims and liabilities.

Major pending court proceedings concerning liabilities:

Court case concerning the following project: "Construction of the tram depot in Poznań:"

On 7 February 2019, the Company received the suit for payment of 7 January 2019 filed with the District Court of Poznań by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu sp. z o.o. (MPK, the "Contracting Authority," the "Plaintiff") against ZUE S.A. and Elektrobudowa S.A. of Katowice. In their suit MPK demanded that ZUE and Elektrobudowa pay on a joint and several basis the total amount of approx. PLN 20.2m as contractual penalties plus statutory default interest and the costs of proceedings.

The suit was based by the Plaintiff on the contract of 13 July 2011 between MPK and the Consortium of ZUE and Elektrobudowa for the construction of the FRANOWO tram depot in Poznań (the "Contract"). The Company informed about the conclusion of the Contract in the current report 39/2011. The works under the Contract were performed and completed by the Consortium in June 2015.

The Company believed that the claims enforced under the suit were groundless because there was no fault on part of the Company or the failure to cooperate properly with the Plaintiff during the performance of the Contract. Accordingly, the Company replied to the suit and questioned both the legitimacy and amount of the Plaintiff's claims. The case was referred by the Court for mediation with the consent of all parties.

As a precaution, the Company created a financial provision relating to the said litigation. The Company informed thereof in the current report 7/2017 of 6 February 2017.

Major pending court proceedings 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. POIiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

The Defendant questioned the claims made by the Petitioner both in terms of their amount and legitimacy and filed a motion to dismiss the action. The Defendant filed a claim that the contractual fee charged by the Petitioners was too high in case the said motion for the dismissal was rejected. On 11 December 2017, the District Court of Warsaw delivered the judgment whereby it ordered that PKP PLK S.A. pay ZUE S.A. PLN 1,852,194.33 plus statutory interest from 18 August 2012 to the date of payment and dismissed the remaining claims. ZUE S.A. appealed against the judgment and demanded that all claims be considered. The Defendant also appealed against the judgment and demanded that all claims of the Petitioner be dismissed.

In addition, on 29 September 2016, the Petitioner (PORR Polska Infrastruktura; 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. POIiŚ 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") was PLN 39.3m and included:

- 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 was approx. PLN 15.7m.

On 11 March 2019, the Court delivered the partial judgment whereby it ordered that PKP Polskie Linie Kolejowe S.A. pay ZUE S.A. PLN 347,126.79 plus statutory default interest from 21 December 2016 to the date of payment and dismissed ZUE's claim concerning the payment of PLN 283,213.65 plus statutory interest from 21 December 2016.

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.

STATEMENTS BY THE MANAGEMENT BOARD OF ZUE S.A.

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 2018 and the comparative information 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

(prepared according to § 70.1.7 and § 71.1.7 of the Regulation of the Minister of Finance of 29 March 2018 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)

On the basis of the statement by the Company's Supervisory Board of 25 March 2019 on the appointment of an audit firm to audit the annual separate and consolidated financial statements of ZUE and the Group, respectively, the Management Board of ZUE S.A. (the Company, ZUE) inform that:

— acting pursuant to applicable laws and ZUE's internal regulations; i.e. relevant policies and procedures governing the appointment of an audit firm, the Supervisory Board of ZUE resolved, based on the recommendation of the Audit Committee, to appoint Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with registered office in Warsaw (EY), Przy Rondzie ONZ 1, to:

a) audit the separate and consolidated financial statement of the Company for 2017 and 2018; and

b) review the half-yearly separate and consolidated financial statements of the Company for the first half of 2017 and 2018.

— EY and members of the team involved in the audit of the separate and consolidated financial statements of the Company and the Group for 2018 have met the requirements necessary to make an unbiased and independent audit report in accordance with applicable laws, professional standards and professional ethics;

— ZUE observes the laws relating to the rotation of an audit firm and key auditor and mandatory grace periods; and

— ZUE has the policy concerning the appointment of an audit firm and the policy concerning the provision by an audit firm or entities related to the firm or the firm's network member of additional non-audit services, including services conditionally exempt from the ban.

