



**MANAGEMENT BOARD REPORT ON THE ACTIVITIES OF ZUE
S.A.
AND ZUE CAPITAL GROUP**

between 1 January 2019 and 31 December 2019

Cracow, 16 March 2020

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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 260,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>Railway Technology International Germany GmbH in liquidation with registered office in Görlitz, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Dresden (<i>Amtsgericht Dresden</i>) under entry number HRB 36690. Share capital of EUR 25,000 paid up in full.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Journal of Laws of 2017, item 1577, as amended).

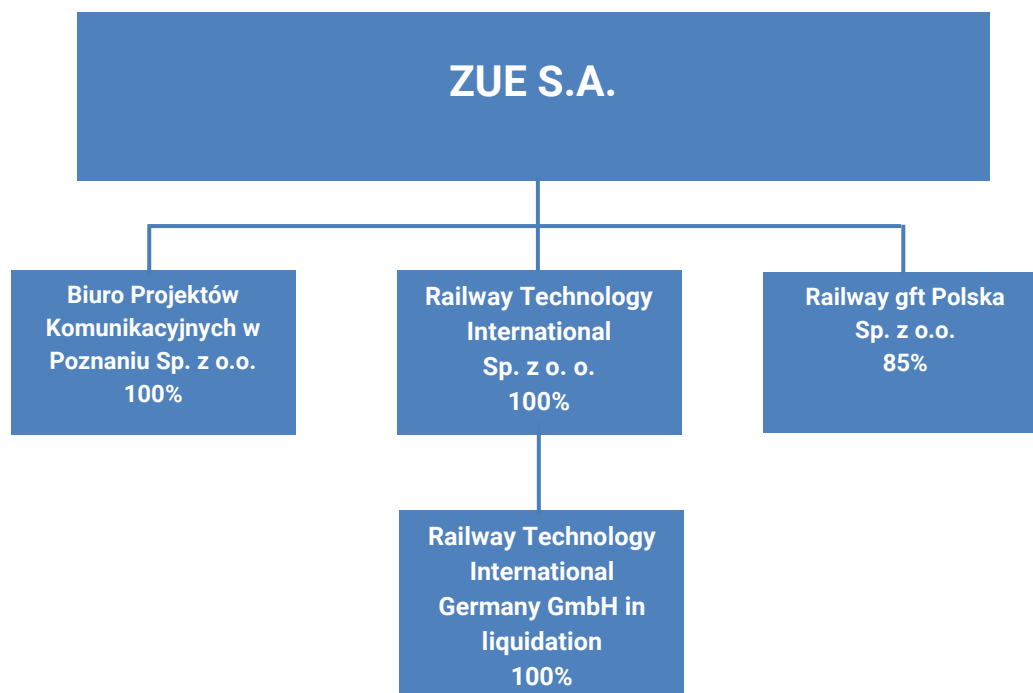
Share capital details as at 31 December 2019.

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 2019 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 in liquidation 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. RTI Germany GmbH is in liquidation. The financial statements of the consolidated 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 2019:

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

ZUE has the power to govern financial and operating policies of BPK Poznań and Railway gft because at 31 December 2019, it held a 100% and 85% interest, respectively, in these companies.

At 31 December 2019, ZUE held 100% of shares in Railway Technology International Sp. z o.o. (RTI). Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, RTI was not consolidated as at 31 December 2019.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH in liquidation (RTI Germany). Given an insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, RTI Germany was not consolidated as at 31 December 2019.

1.2. Changes to the structure of the Parent Company and the Group and in 2019 and their consequences

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

On 12 April 2019, the Extraordinary Shareholders Meeting of RTI resolved to increase the share capital of RTI from PLN 225 thousand to PLN 260 thousand through the creation of 700 new shares with a nominal value of PLN 50 each. All the new shares of the total nominal value of PLN 35 thousand were acquired by the existing shareholder; i.e. ZUE. The increase of the share capital of RTI was entered into the National Court Register on 26 April 2019.

On 13 February 2020, after the end of the reporting period, an entry about the opening of liquidation proceedings relating to RTI Germany was made in the district court of Dresden.

2. Activities of the Capital Group

2.1. Business model

The Group operates in 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.

In 2019, the Group focused on the provision of rail and urban infrastructure construction services.

The Company can build civil structures and 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 2019, the Group carried out urban infrastructure contracts in such cities as Katowice, Bydgoszcz, Poznań, Szczecin or Cracow where, apart from construction works, it performed the tram and lightening infrastructure maintenance contracts.

The Group executes rail infrastructure projects across the country. In 2019, the biggest rail contracts were performed in such regions as Rusiec Łódzki (137.500 km) – Zduńska Wola Karsznice – Chorzów Batory – Maksymilianowo, Skarżysko Kamienna – Sandomierz, Częstochowa – Zawiercie, Sucha Beskidzka – Chabówka – Zakopane, Trzebinia – Czechowice Dziedzice or Łódź Kaliska – Zduńska Wola.

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 expectations of its customers.

The key factors are:

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

Production capital mainly includes specialist equipment necessary to carry out construction works. 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 the activities discussed in section 2.1.

The table below sets out the biggest contracts performed in 2019:

Contract*	Contracting authority	Completed / in progress	Contract value as at 31.12.2019 (PLN '000)
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 and 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."	PKP Polskie Linie Kolejowe S.A.	In progress	582,722
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 Polskie Linie Kolejowe S.A.	In progress	378,806

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 Polskie Linie Kolejowe S.A.	In progress	371,580
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 Polskie Linie Kolejowe S.A.	In progress	345,365
Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section, Infrastructure and Environment Operational Programme (IEOP) 5.1-12.	PKP Polskie Linie Kolejowe S.A.	In progress	303,050
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 Polskie Linie Kolejowe S.A.	In progress	285,189
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 Polskie Linie Kolejowe S.A.	In progress	278,773
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 Polskie Linie Kolejowe S.A.	In progress	208,049
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 Polskie Linie Kolejowe S.A.	Completed in 2019	96,192
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 Polskie Linie Kolejowe S.A.	In progress	91,824
Reconstruction of the tramway from the Lecha estate to the Żegrze roundabout (section II).	Poznańskie Inwestycje Miejskie Sp z o.o.	Completed in 2019	82,674

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 Polskie Linie Kolejowe S.A.	In progress	71,900
Extension of the Igołomska Street, the national road no. 79 – Stage 2 together with the infrastructure in Cracow and additional contract.	Zarząd Dróg Miasta Krakowa	In progress	67,781
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 Polskie Linie Kolejowe S.A.	In progress	64,200
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	Completed in 2019	62,589
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 Polskie Linie Kolejowe S.A.	In progress	58,424
Maintenance and repair of tram tracks in Cracow in 2019-2022.	City of Cracow	In progress	56,046
Reconstruction of rail transport infrastructure along the Wojska Polskiego Street from the Magnuszewska terminus to the Wojska Polskiego, Szpitalna, Szarych Szeregów and Belzy transport hub.	City of Bydgoszcz	Completed in 2019	51,990
Modernisation of E30 railway line Kraków Medyka, the Biadolin – Tarnów section.	OHL ZS, a.s. S.A. Polish Branch	In progress	45,184
Works on the E59 railway line, the Dobiegniew – Słonice section – traction network.	Strabag Sp. z o.o.	In progress	44,850
Design services and construction works in connection with the following project: "Construction of the Czarncza - Włoszczowa Płn. railway line no. 582."	PKP Polskie Linie Kolejowe S.A.	In progress	40,881

Maintenance and repair of tram infrastructure (traction electrical power engineering services) in Cracow in 2019-2022.	City of Cracow	In progress	40,790
Reconstruction of track and overhead contact system in the Wyszyńskiego hub and the Szarych Szeregów Square.	City of Szczecin	In progress	36,500
Construction of a 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	34,556
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 Polskie Linie Kolejowe S.A.	In progress	34,414
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	33,851
Maintenance and repair of tram infrastructure in Cracow between 1.01.2019 and 30.09.2019 (273 days).	City of Cracow	Completed in 2019	18,001
Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	Zarząd Dróg Miasta Krakowa	In progress	16,336
Reconstruction of tramway tracks along the Karmelicka Street, the Rajska Street – the Adama Mickiewicza Avenue section.	City of Cracow	Completed in 2019	12,839

*Contracts whose net value exceeds PLN 10m.

Design services relating to urban and rail transport systems are provided to both 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, COLAS POLSKA SP. z o. o., Thales Polska Sp. z o.o. and ZDW of Olsztyn. Sales activities conducted by Railway gft included the sale of rails, track accessories, sleepers, rail fastening systems and aggregate. The major customers of Railway gft in 2019 included Zakłady Nawierzchniowe "Bieżanów" Sp. z o. o., Przedsiębiorstwo Inżynieryjnych Robót Kolejowych "TOR-KRAK" Sp. z o.o. NDI S.A. and Kolejowe Torhamer Sp. z o.o.

4. Customer profile

The structure of the Group's customer base reflected the nature of the services provided by the Group as a result of tenders and/or trade negotiations. In 2019, 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 significant customer in 2019 which had a more than 60% share in the Company's total sales revenue in 2019.

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 2019.

No ethical audits were carried out at the request of customers in 2019.

5. Supply sources

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

In 2019, neither supplier of goods or services exceeded 10% of the Company's sales revenue.

The sale of materials effected directly by Railway gft., a subsidiary, represented 1.4% of the materials and services purchased by ZUE and 19.7% of Railway gft.'s sales volume.

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 the construction contracts entered into by the Group: rails – about 50%, breakstone – about 90%, railway switches – about 90% 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 2019.

6. Backlog

The construction contracts performed by ZUE are the biggest item of the Group's backlog.

At the date of preparation of this report, the net value of the contracted construction and assembly services is PLN 1,901m. This provides the Group with an ability to carry out the works in the period 2020-2023. As for design services, the net value of the signed contracts scheduled for performance in 2020-2024 is PLN 10.3m. The backlog relating to the supply of materials and equipment in 2020 is worth PLN 6.3m (net).

The value of the signed new construction contracts in 2019 is about PLN 787m out of which PLN 159m relates to urban contracts.

At the date of preparation of this report, ZUE submitted the most economically advantageous tenders in connection with the tender procedures whose net value is approx. PLN 53.5m. The Issuer participates in subsequent 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 results of which tender procedures are repeatedly cancelled according to the law.

7. Regulatory environment

The activities conducted by individual companies within 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 2019 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 2019 in connection with the companies' violation of the abovementioned laws.

8. Strategic objectives of the Group

The main strategic objective in 2020-2022 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 2019, the Issuer's focus was on winning new construction contracts and proper performance of previously signed contracts.

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 primary focus of the Group's operations is railway and urban infrastructure projects in Poland (particularly tramway investments). The largest and at the same time most advanced undertakings concern the modernisation of the national railway network. Investments in tramway infrastructure, on the other hand, fall within the category of decentralised revitalization plans drawn up for individual cities.

Rail infrastructure market

In September 2019, the Council of Ministers adopted the amended National Railway Programme (the "NRP") and increased the amount to be spent on projects by PLN 5.7bn to the total amount of PLN 75.7bn. It was the second increase of the NRP value in 2019. In total, the value of the programme increased in 2019 by approx. PLN 9bn.

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 300 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 28 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 ERTMS/ETCS.

An important objective of the NRP is to increase the capacity of infrastructure serving sea ports in Gdańsk, Gdynia, Szczecin and Świnoujście. The investments in port infrastructure 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.

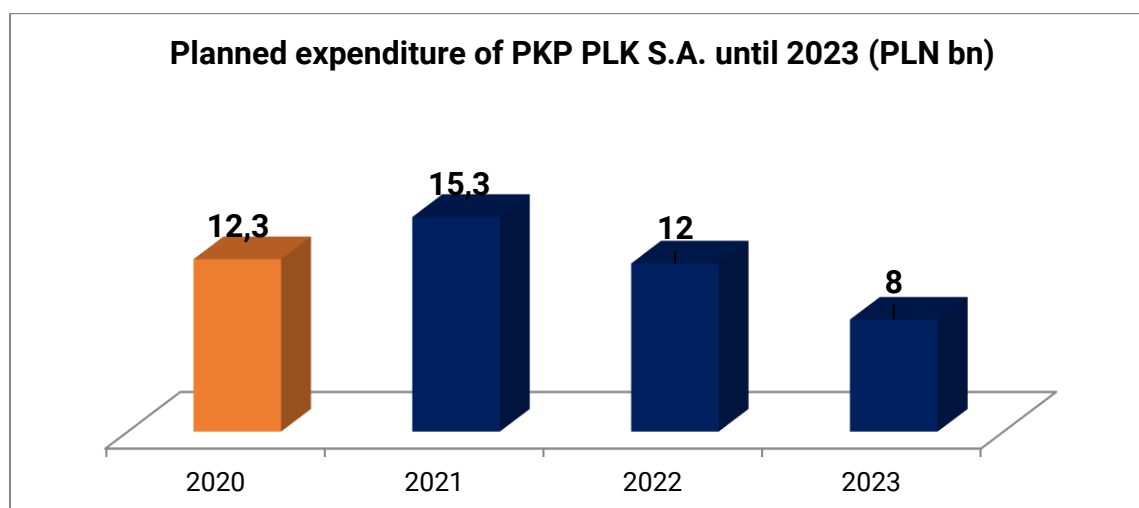
Projects are also executed as part of the NRP to improve the rail transport in large urban areas. The expenditures on railway infrastructure in large urban areas will allow strengthening the alternative to road transport and building integrated transport hubs and new stations. The integration of urban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

Major projects planned and performed in urban areas until 2023:²

¹ National Railway Programme until 2023.

- 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 funds from the EU budget will be allocated to the development of railway transport. The National Railway Programme is 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 is financed from the state budget, PKP PLK's own funds and the Railway Fund.



Source: NRP update until 2023 – resolution no. 110/2019 of the Council of Ministers of 17 September 2019.

As reported by PKP PLK in September 2019, contracts worth approx. PLN 40bn are in progress, accounting for approx. 53% of the National Railway Programme. Projects at the stage of tendering are valued at approx. PLN 6-7bn, while contracts for which project documentation is still being prepared amount to approx. PLN 7-8bn.³

Project documents are also prepared by PKP PLK for contracts funded under the next financial perspective. In 2021, PKP PLK will be ready to announce tenders for “build” contracts worth approx. PLN 40bn.⁴ 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.

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

³ <https://www.money.pl/gielda/pkp-plk-90-inwestycji-w-ramach-kpk-bedzie-ukonczone-lub-w-realizacji-w-2020-r-6420871511308417a.html>

⁴ <https://www.wnp.pl/budownictwo/pkp-plk-w-nowa-perspektywe-wejda-z-projektami-za-ponad-40-mld-zl,338274.html>

One major project scheduled for the coming years is the Central Communication Port (CPK). This concept envisages a transport hub based on integrated elements - air and rail connections. The central port (airport) itself will form the nucleus of an enhanced national railway system. One of the assumptions behind the project is to ensure that CPK can be reached by train from major Polish urban centres within 2-2.5 hours at a target speed of 250 km/h along key sections. Turning this vision into reality will entail constructing approximately 1,600 km of brand new railway lines and revamping roughly 5,000 km of existing routes.⁵ The new sections under construction will serve as essential additions to the existing national network, which will be more capable of satisfying the nation's transport needs.

Urban infrastructure market

In the current EU perspective for the years 2014-2020, tram infrastructure is the preferred direction in the field of the transport system development in the cities with tram lines. 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. Also, from the perspective of the 2021-2027 EU perspective, investments in environmentally friendly urban rail transport offer excellent potential in terms of financing.

Following on from tenders organised in previous years, local governments are now considering further steps in the modernisation and construction of their tram systems. Cracow, Warsaw, Olsztyn, Gdańsk, Bydgoszcz, Szczecin, Poznań or the Upper Silesia cities are planning the construction of the new lines. Warsaw intends to build the most modern tram depot in Poland.

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. Accordingly, a failure of the Group's customers to timely settle their liabilities to the Group directly influences the Group's financial results. In extreme cases, the payment delays may lead to the termination of contracts.

- **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 over 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 temperatures or heavy snow or rain fall. Project execution may also be conditional on other factors such as the date of closing the tracks by the contracting authority or the dates on which trees and bushes can 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 especially in 2018 and 2019 and concerned both rail and urban market.

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

⁵ <https://cpk.pl/pl/aktualnosci/nowe-linie-kolejowe-do-cpk-na-poczatku-lutego-ruszaja-ogolnopolskie-konsultacje>

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, has 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 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 the 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 and general infrastructure construction sector. These 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 of 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 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, loans 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.

- **Risk related to the impact of coronavirus on construction processes**

The occurrence of unpredictable and global factors such as the spread of virus may, in a short- and long-term perspective, upset the balance of global supply chain. This may lead to a number of difficulties including a slowdown in the local and global economy, problems associated with the supply goods and services or disrupted building materials production processes (limited supply). The number and scope of such events are difficult to assess.

The situation may have a negative influence on construction processes because administrative procedures may be slowed down or stopped. There is a risk that works carried out under certain construction contracts will be suspended.

The epidemiological crisis may affect all parties of construction projects, namely contractors, subcontractors and contracting authorities.

Difficulties may also be associated with the absence or temporary exclusion of employees. The Issuer has taken preventive measures to reduce the risk of infection with coronavirus among its employees and associates including remote work where possible, limited number of business meetings, comprehensive information about the activities whose aim is to reduce the risk of infection as well as the activities to be taken in case of infection and limited contacts with the employees who stayed in high risk areas.

At the date of preparation of this report, the Issuer experienced no coronavirus-related disruptions of construction processes or supply chain likely to influence the schedule of the construction works carried out by the Company. However, the Company is aware of the fact that some or all of these risks may occur and continues to monitor the situation.

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 the 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

Following the conclusion of the contract of 6 February 2019 between the Company and PKP Polskie Linie Kolejowe S.A. 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 E20 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 28 March 2019, the Company learnt about the cancellation by PKP PLK of the tender procedure for the project named: Preparation of design documentation and completion of construction works as part of the following contract: "Construction of the integrated transport system including a tunnel under the tracks of the Skarżysko Kamienna railway station." The Company informed about the submission of the most economically advantageous tender in the current report 46/2018 of 29 October 2018. **(Current report 9/2019)**

On 27 June 2019, the Company entered into the construction contract with R.D.M. Śródmieście Sp. z o.o. with registered office in Cracow (the "Subcontractor"). Following the conclusion of the said contract, the total net value

of the contracts between ZUE and the Subcontractor signed in the past year amounted to approx. PLN 15.4m. **(Current report 23/2019)**

On 3 July 2019, the Company received a signed annex (the "Annex") to the contract with PKP PLK for the completion of design and construction services as part of the project named: "Construction of the Czarnca - Włoszczowa Płn. railway line no. 582." The Company informed about the Contract performance in the current report 81/2017 of 28 December 2017. Under the Annex, the project completion deadline was extended by approximately 7 months. **(Current report 26/2019)**

On 14 August 2019, the Management Board of ZUE learnt about the oral judgment (the "Judgment") delivered on the same date by the VII Commercial Division of the District Court in Białystok (the "Court"). The Court ordered that the judgment of 22 May 2019 delivered by the National Appeals Chamber (the "Chamber") (reported by the Company in the current report 14/2019) be changed by dismissing the entire appeal of the Company and ELKOL Sp. z o.o. with registered office in Bytom (the "Consortium") against the selection by Elektrownia Ostrołęka Sp. z o.o. (the "Contracting Authority") of the most economically advantageous tender submitted in the tender procedure concerning the reconstruction of the rail infrastructure system required to operate Elektrownia Ostrołęka C (the "Tender Procedure"). The Consortium cannot appeal against the abovementioned Judgment. **(Current report 32/2019)**

On 20 August 2019, the annex to the contract with Kolejowe Zakłady Automatyki S.A. with registered office in Katowice was signed and the Company informed thereof in the current report 61/2017. The contract net value increased by the net amount of approx. PLN 3.7m and the contract should be performed by the end of March 2020. **(Current report 33/2019)**

On 6 September 2019, the Company and Zarząd Dróg Miasta Krakowa signed the two contracts for:

- 1) Maintenance and repair of tram tracks in Cracow in 2019-2022. (Contract 1).
- 2) Maintenance and repair of tram infrastructure relating to traction electrical power engineering in Cracow in 2019-2022. (Contract 2).

The Contract 1 and the Contract 2 are the two components of the tram infrastructure maintenance in Cracow.

The Company informed about the selection of the most economically advantageous tenders in the current reports 30/2019 and 31/2019, respectively. Net value of the Contract 1: PLN 56.0m (gross value: PLN 68.9m). Net value of the Contract 2: PLN 40.8m (gross value: PLN 50.2m). Completion of the Contract 1 and the Contract 2: 1.10.2019 – 30.09.2022 **(Current report 34/2019)**

On 17 September 2019, the Company and PKP PLK signed the contract for the following project: 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 and 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 Company informed about the selection of the most economically advantageous tender in the current report 22/2019. The contract net value including the provisional sum: PLN 582.7m. The contract gross value: PLN 716.7m. Completion of the tasks under the contract: 41 months of the contract conclusion date. **(Current report 35/2019)**

On 4 November 2019, the Company and the City of Szczecin entered into the contract for the following project: "Reconstruction of the track and overhead contact system in the Wyszyńskiego hub and Szarych Szeregów Square." The Company informed about the submission and the selection of the most economically advantageous tender in the current reports 8/2019 and 28/2019, respectively. **(Current report 38/2019)**

On 22 November 2019, the Company entered into the agreement with Zakłady Automatyki KOMBUD S.A. with registered office in Radom (the "Subcontractor"). The Agreement deals with the provision by the Subcontractor of specific design and construction services ordered by the Company in connection with the LOT D railway contract performed by the Company. The Company informed about the conclusion of the contract in the current report 35/2019. The Agreement net value: PLN 111.6m. The Agreement completion date: February 2023. **(Current report 40/2019)**

13.2. Financial agreements

On 22 January 2019, the Company entered into the agreement with CaixaBank S.A. Polish Branch with registered office in Warsaw. The agreement was concluded for 12 months and could be extended. 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). The limit was not initiated at this report preparation date. **(Current report 1/2019)**

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

On 28 June 2019, the Company received signed annexes to the agreements with mBank S.A. whereby the Company was provided with banking products, including available bond lines and credits to finance the Company's day-to-day operations. On the basis of these documents, the amount of the bond line granted under master agreement was set as PLN 120m and the term thereof was extended until 26 June 2020. The agreement was secured by the blanket mortgage up to PLN 35.4m on the real estate owned by the Company. The said mortgage had been used to secure the Company's liabilities to the Bank under a separate agreement. The term of PLN 10m overdraft agreement was extended until 10 July 2020. **(Current report 24/2019)**

On 19 July 2019, the Company published preliminary financial results for the first half of 2019. **(Current report 27/2019)**

On 25 September 2019, the Company and Bank Millennium S.A. signed the factoring agreement with the transfer of risk concerning the Company's claims under the performed construction contracts. The limit stipulated in the agreement was PLN 15m. The agreement was concluded for an indefinite period and the limit expiry date was set as 21 September 2020. **(Current report 36/2019)**

On 1 October 2019, the Company and ZK "LEV INS" AD with registered office in Sofia (the "Counterparty") entered into the agreement whereby the performance and defects liability bond (the "Bond") was issued by the Counterparty to secure the Company's performance of the LOT D railway construction contract. The Company informed about the conclusion of the contract in the current report 35/2019. Apart from the said Bond, the Company was provided with bond limits by other entities. The amount of the Bond was PLN 31.6m in terms of claims relating to the failure to perform or duly perform the contract and approx. PLN 18.5m in terms of claims under warranty. **(Current report 37/2019)**

On 19 November 2019, the loan agreement was concluded between the Company and Agencja Rozwoju Przemysłu S.A. with registered office in Warsaw. The loan of up to PLN 20m would be used to finance day-to-day operations. The Company can initiate the loan by 15 March 2020. The loan would be repaid in equal monthly instalments between 30 April 2020 and June 2022. **(Current report 39/2019)**

On 4 December 2019, the Company and Bank Polska Kasa Opieki S.A. with registered office in Warsaw (the "Bank") signed an annex to the multi-purpose revolving credit limit agreement (the "Annex"). The Company informed about the said agreement in the current reports 20/2017, 74/2017 and 5/2019. Under the Annex, the line limit granted to the Company was set as PLN 50m. At the Company's request, the Bank will provide the bank guarantees of any type (including, in particular, bid bonds, performance bonds and defects liability bonds). In addition, the term of the limit was extended until 30 November 2020. **(Current report 42/2019)**

13.3. Corporate events

On 8 May 2019, the Management Board of ZUE passed the resolution on recommendations to the Company's Ordinary General Meeting for covering the net loss for the financial year 2018 of PLN 64m from capital reserve and reserve funds. The Company's Supervisory Board approved of the said recommendations. **(Current reports 11/2019 and 15/2019)**

On 6 June 2019, the Company's Ordinary General Meeting resolved to cover the net loss for the financial year 2018 of PLN 64m from capital reserve and reserve funds and to appoint the Company's Supervisory Board for the new 3-year term. **(Current reports 17/2019 and 18/2019)**

On 6 June 2019, the Company's Supervisory Board appointed members to the Company's Management Board for the new 3-year term. **(Current report 19/2019)**

On 31 July 2019, the Company and Elektrobudowa S.A. with registered office in Katowice (Elektrobudowa) entered into the trilateral settlement agreement with MPK (the "Settlement Agreement"). The Settlement Agreement was signed in connection with the suit filed with the District Court of Poznań against the Company and Elektrobudowa by Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu sp. z o.o. (MPK, the "Contracting Authority"). 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 interest and the costs of the proceedings. The Company informed about the suit in the current report 4/2019. Under the Settlement Agreement, the Company and Elektrobudowa were obliged to pay on a joint and several basis PLN 2.2m to MPK in four instalments between October 2019 and January 2021. The Company and Elektrobudowa agreed that PLN 1m was attributable to ZUE and would be paid, as previously reported, from the provision established by the Company in connection with the proceedings. On the basis of the Settlement Agreement, all claims between the Contractor (the Company and Elektrobudowa) and the Contracting Authority relating to the project were waived excluding MPK's claims against the Contractor relating to guaranty and warranty. **(Current report 29/2019)**

14. Major events after the end of the reporting period

On 28 January 2020, the Company and BNP Paribas Bank Polska S.A. (the "Bank") signed a number of annexes to the financing agreement. The Company informed about the said financing agreement in the current report 72/2017 and subsequent current reports. Under the annexes, the limit granted to the Company was set as PLN 100m. At the Company's request, the Bank would provide the bank guarantees of any type (including, in particular, bid bonds, performance bonds and advance payment bonds). In addition, the term of the limit was extended by 12 months of the annexes conclusion date. **(Current report 1/2020)**

On 31 January 2020, the Company and Strabag sp. z o.o. (Strabag) signed the contract whereby the Company would perform construction works and subcontracting services consisting in the comprehensive completion of the works relating to the reconstruction of OCL network in connection with the following project carried out by Strabag for PKP PLK S.A.: "Modernisation of track systems and the associated infrastructure on the railway line E59 of the Dobiegniew – Słonice section, between 105.820 km and 128.680 km" as part of the project named: "Works on the railway line E59 of the Wronki – Słonice section." The contract net value: PLN 44.9m. Completion of the tasks under the contract: April 2022. **(Current report 3/2020)**

On 5 February 2020, the Company published preliminary financial results for 2019. **(Current report 4/2020)**

On 12 February 2020, an annex was signed to the contract with Kolejowe Zakłady Automatyki S.A. The Company informed about the conclusion of the contract in the current report 61/2017 and the current report 33/2019. The contract net value increased by the net amount of approx. PLN 6.2m and the contract would be completed until the end of July 2020. **(Current report 5/2020)**

Following the receipt by the Company on 13 February 2020 of the signed contract between the Company and PKP Polskie Linie Kolejowe S.A. (PKP PLK) for the following task: "Provision of design services and completion of additional railway traffic control works in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" carried out as part of the following project: "Works on the railway lines no. 97, 98 and 99 of the Skawina – Sucha Beskidzka – Chabówka – Zakopane section" (the "Contract"), the total net value of the contracts between PKP PLK and the companies within the ZUE Group concluded since 18 September 2019 amounted to approx. PLN 17.8m. The cooperation between the Company and PKP PLK included, in particular, the abovementioned Contract of the net value of approx. PLN 12m (gross value of PLN 14.8m). The Contract completion date was set as the end of August 2021. **(Current report 6/2020)**

On 14 February 2020, the Company learnt about the selection of the tender submitted by the consortium of: 1. ZUE (Leader), 2. FDO sp. z o.o. (Partner) as the most economically advantageous offer in the tender procedure for the project named: "Reconstruction of the road and the track in the Chrobrego Street and the Mieszka I Street as part of the project named: "The system of sustainable urban transport in Gorzów Wlkp." The Company informed about the submission of the most economically advantageous tender in the current report 41/2019. Net value of the tender submitted by the Consortium: PLN 56.1m out of which 95% is attributable to the Company. Gross value of the tender: PLN 69.0m. Project completion date: 18 months of the contract conclusion date. **(Current report 7/2020)**

15. Transactions with related parties

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

Sections 7.16 and 7.15, respectively, "Transactions with related parties" of the separate and the consolidated financial statements contain 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. The banks and insurance companies have recourse against the Company.

The unused bond limit as at 31 December 2019 for the Group was PLN 270,090 thousand (including credit limits of PLN 60,000 thousand).

The unused bond limit as at 31 December 2019 for the Company was PLN 268,290 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 amount of the said guarantees at 31 December 2019 was PLN 24,530 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 2019.

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

Formal solutions including, for instance, 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 2019 about any violation of ethical standards within the meaning of the Ethical Management Policy. 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 Dróg Miasta Krakowa, Poznańskie Inwestycje Miejskie or the City of Bydgoszcz. The Group carries out the construction contracts in various regions of 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.

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

Major court proceedings are discussed in section 49 of this report.

In spite of precautionary measures and efforts to respect the environment in which construction works were carried out, in 2019 there were a total of thirteen cases involving damage to the assets or property of third parties worth the combined sum of PLN 154 thousand. In ten cases where damage was sustained in 2019 compensation was paid and three 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 2019. 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 cases of discrimination, sexual harassment or mobbing were confirmed in 2019.

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 any 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.

In 2019 ZUE adopted (as the unit coordinating the Group's activities) a new Ethical Management Policy whose aim is to continue and expand the ethical management policy implemented in 2017. The new regulation covers such issues as ethical standards, managing the risks of corruption, counteracting corruption, the protection of whistleblowers and the procedures relating to reported irregularities or the rules of counteracting the conflict of interests. The Policy provides, *inter alia*, for the trainings on how to counteract corruption (including the training of the Company's employees on the rules of criminal liability for corruption crimes), inserting corruption clauses in contracts with subcontractors and the extension of the Advisor's anti-corruption obligations. The additional e-mail address has been provided in an corruption clause to enable a contact with the Advisor.

No corruption incidents involving people employed with the Group companies were identified in 2019.

No other complaints concerning the violation of ethical standards pursuant to the Ethical Management Policy were made in 2019.

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.

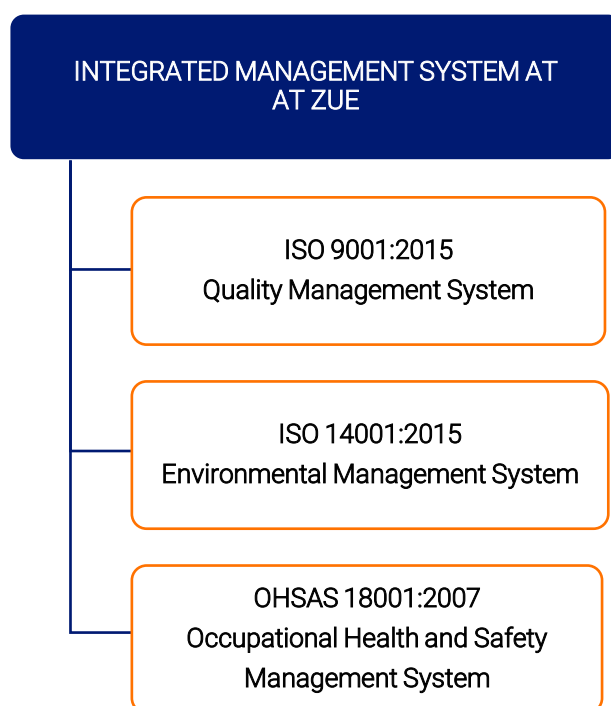
The second interim audit was carried out between 02.03.2020 and 04.03.2020 by the auditors of DNV GL - Business Assurance Polska. During the audit, the auditors assessed the functioning of the selected areas of the Integrated Management System according to the audit schedule. As in the case of the first interim audit, their special focus was on the improvement of change management.

Except for the two 2. degree inconsistencies specified in the "list of observations" in respect of which corrective measures had been promptly implemented by the Company, 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.

After the publication on 12.03.2018 of the new international standard for occupational health and safety ISO 45001:2018 and a three-year transition period, the Company is obliged in 2020 to take measures to prepare the Company for transfer audit and to carry out the audit at the end of 2020 and the beginning of 2021.



19. Impact on natural environment

The statement on non-financial information includes the 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

The table below contains information about the consumption of electric energy at ZUE.

Type of energy	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2019	2018	2019	2018
Purchased electric energy (MWh)	709	880	0.8	1.2
Purchased thermal energy (GJ)	5,923	5,455	6.3	7.1

The Group companies did not generate electric or thermal energy in 2019.

The Group companies did not use any energy from renewable sources in 2019.

19.2. Consumption of materials

Type of material	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2019	2018	2019	2018
Rails (tonnes)	8,640	40,645	9.2	53.2
Breakstone and aggregate (tonnes)	728,843	525,204	779.6	687.7
Contact wire (km)	248	320	0.3	0.4
CU line (km)	205	300	0.2	0.4
Pre-stressed concrete sleepers (psc.)	479,123	246,120	627.3	685.5

No recycled materials were used in 2019.

19.3. Consumption of water

	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2019	2018	2019	2018
Water	24,826*	6,479	26.6	8.5
Sewage	24,826*	6,479	26.6	8.5

*A significant increase in water consumption in 2019 results from a burst water pipe in the neighbouring real estate. The leakage was too small to enable quick reaction. The failure was removed by an entity related to the neighbouring real estate.

No information about the consumption of water or carried sewage in connection with contracts 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	
	2019 (tonnes)	2018 (tonnes)	2019	2018
Hazardous waste	1,464	2,492	1.6	3.3
Other than hazardous waste	50,367	75,253	53.9	98.5

Waste was recovered in 2019 and the recovery included 20.1 thousands of tonnes of land and soil, 2.1 thousands of tonnes of concrete, 3.5 thousand of breakstone and 1.6 tonnes of brick debris.

19.5. Emission of gases

Type of gas (kg)	Amount		Amount per PLN 1,000,000 of ZUE's revenue	
	2019	2018	2019	2018
CO ₂	25,202	4,016	26.96	5.26
CO	4.0	0.6	0.004	0.001
Dust	1.2	0.8	0.001	0.001

NO	19.3	3.2	0.021	0.004
SO	1.0	0.2	0.0011	0.0003

No information about the emission of gases in connection with contracts is provided because projects are executed in various parts of the country.

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 the works in 2019.

19.7. Climate issues

Climate issues are considered significant by the Company as one of the factors influencing the environment in which the Group operates. The environment should be understood, for example, as natural environment, legal system, technologies or the conditions in the industry.

In 2019, climate issues were not taken into consideration in the management processes at the Company or the value chain including ZUE. No decisions concerning the activities performed by ZUE were made exclusively on the basis of climate issues. There were no climate policies or procedures at ZUE. However, the issue is potentially significant and the Management Board of ZUE will consider (after relevant analyses have been carried out) the inclusion of climate issues in the Group's operation strategy and management processes.

ZUE has identified the influence on the climate in the following areas:

- Direct influence on the climate through emissions of greenhouse gases as a result of the consumption of fuels;
- Indirect influence on the climate related to the emission of CO₂ as a result of the consumption of energy purchased by the Group companies;
- Indirect influence on the climate related to the supply chain (e.g. emissions by subcontractors or suppliers);
- Indirect influence on the climate related to the nature of the construction industry ZUE operates in – construction and modernisation of railways and tramways.

Construction is the Group's main operating segment within which the Company upgrades and builds rail and tram routes. As a result of the works carried out by ZUE, train and tram transport becomes more attractive than other forms of inland transport. It should be emphasised that the scope of the infrastructure built as part of individual projects remains outside ZUE's control because the Company performs the works specified in contracts with investors. Similarly, the scope of building technologies and infrastructure elements (including environment friendly or zero-emission technologies and elements) is defined by contracting authorities.

From the point of view of the Group's business model, the following climatic changes may influence the Issuer and its business model:

- More public funds spent on the modernisation and extension of railway and tram lines in order to develop a low-emission public transport network – this is one of the most important factors which could be significant for a dynamic development of the Polish public transport network;
- Change of weather conditions influencing the completion of building projects (e.g. warmer winters extending the completion dates of construction works and hot summers);

- Intensified violent weather events entailing greater risks of physical damage to construction sites (flooding, washed-out railway embankments or damage suffered as a result of storms or strong wind) as well as greater activity of animals adapting to current climate conditions;
- Potential growth in prices of the building materials whose manufacture consumes energy and a significant amount of water; and
- Potentially higher insurance premiums relating to the physical damage of assets.

In 2019, the Company began to replace the traditional lighting with LED lights inside and around the premises in the K. Czapińskiego Street no. 3 in Cracow. Steel and concrete materials used in construction processes may become less available in the future as a result of which they may become more expensive. The current use of the materials depends on applied building technologies.

Greenhouse gas emissions (in total and per revenue)	Measurement unit	ZUE	
		2019	2018
Scope 1			
Emissions resulting from the consumption of fuels in buildings and systems.	Mg CO2	25	4
Emissions resulting from the consumption of fuels in transport.	Mg CO2	4,255	3,992
Total Scope 1 Emissions.	Mg CO2	4,280	3,996
Scope 1 Emissions per PLN 1,000 thousand of revenue.	Mg CO2/ PLN 1,000 thousand of ZUE's revenue	4.6	5.2
Scope 2			
Emissions resulting from the purchase of electric energy.	Mg CO2	528	655
Emissions resulting from the purchase of thermal energy.	Mg CO2	1,225	1,138
Total Scope 2 Emissions.	Mg CO2	1,753	1,793
Scope 2 Emissions per PLN 1,000 thousand of revenue.	Mg CO2/ PLN 1,000 thousand of ZUE's revenue	1.9	2.3
Scope 1+2			
Total Scope 1+2 Emissions.	Mg CO2	6,033	5,789
Scope 1+2 Emissions per PLN 1,000 thousand of revenue.	Mg CO2/ PLN 1,000 thousand of ZUE's revenue	6.5	7.8

19.8. Public funds

In 2019, ZUE generated approx. 94% 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 2019.

20. Human capital management

At 31 December 2019, the companies within the Group employed 932 people, including 185 women.

The total number of employees included 475 white-collar workers and 457 blue-collar workers.

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

Item	31.12.2019				31.12.2018			
	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	
		2018	2019	2018	2019
Employment contract for an indefinite period	F	78	94	106.8	125.9
	M	484	522	508.7	547.0
Total		467	562	616	615.45
Employment contract for a fixed period	F	47	44	62.0	55.0
	M	173	187	181.6	196.2
Total		185	220	231	243.63

Number of new full-time employees:

Type of contract	Sex	ZUE		Group	
		2018	2019	2018	2019
Number of new employees	F	47	27	60.0	35.6
	M	189	130	193.5	139.6
Total		141	236	157	253.5
Number of leaving employees	F	12	15	22.5	24.0
	M	86	79	96.7	87.0
Total		100	98	94	119.2

In 2019, the Group companies were the parties to civil law agreements concluded with 53 people. The total gross amount of benefits paid under these agreements was PLN 335 thousand.

The Group companies did not hire any temporary workers.

At the end of 2019, the Group employed 9 disabled persons who accounted for 1% of the Group's total employment.

The average monthly remuneration of the employees of ZUE S.A. employed under employment contract in 2019 was PLN 7.5 thousand for women and PLN 8.5 thousand for men. The average wages of blue-collar workers in 2019 amounted to PLN 6.5 thousand. The ratio of the average wages of blue-collar workers to a minimum wage was 289% in 2019 and 293% in 2018. The ratio of the average wages of blue-collar workers to the average pay in business sector amounted to 116% in December 2019.

At the end of 2019, the companies within the Group employed 39 foreigners whose average monthly remuneration was PLN 5.9 thousand. The ratio of the average gross salary of women to the average gross salary of men in the Group in 2019 was 88%. The total amount of contributions to the State Fund for Rehabilitation of Disabled Persons (*PFRON*) was PLN 738 thousand (including PLN 651 thousand for ZUE).

In 2019, there were two situations where a woman returned to work after childbirth and resigned within 12 months after the return.

Employment structure at the Group in 2019 according to the types of activity:

Activity	ZUE		Group	
	2018	2019	2018	2019
Management and administration	87	108	107	129
Sales and marketing	18	19	30	30
Production	418	457	418	457
Engineers and technicians	259	263	311	316
Total	782	847	866	932

Employment structure at the Group in 2019 according to education:

Education	ZUE		Group	
	2018	2019	2018	2019
Elementary	71	77	72	78
Vocational	191	204	191	204
Secondary	219	228	228	237
Higher	301	338	375	413
Total	782	847	866	932

Employment structure at the Group in 2019 according to age:

Age	ZUE		Group	
	2018	2019	2018	2019
20-30	160	143	184	164
31-40	235	267	264	298
41-50	157	182	173	200
51-60	159	166	165	171
61+	71	89	80	99
Total	782	847	866	932

Average seniority at ZUE S.A. was 9.3 years in 2019 and 6.5 years in 2018.

In 2019, the Group companies paid salaries and wages under employment contracts in the gross amount of PLN 88,616 thousand (including PLN 82,377 thousand paid by ZUE).

No fines were imposed in 2019 on the Group companies in connection with the employment.

Trainings	ZUE		Group	
	2018	2019	2018	2019
Number of external trainings	120	117	120	126
Number of internal trainings	48	0	48	0
Total number of trainings	168	117	168	117
Number of trained people – internal trainings	115	0	115	0
Number of trained people – internal trainings (trainings for	0	156	0	156

new employees)				
Total number of employees receiving trainings	376	760	376	784
Total number of participants	791	916	791	916
Language courses, external trainings - number of trained people (number of people / month)	30	30	30	33

In 2019, a total of 760 employees received training in courses designed to familiarise them with changes in the regulatory frameworks (covering such issues as personnel and payroll, tax, railway safety etc.). Mandatory periodic training with a train ride simulator was provided for the staff directly involved in railway operations - controllers, train managers, and engine drivers. Other railway employees also had an opportunity to upgrade their own skills and extend the validity of their licenses. Via the trainings, some employees were able to acquire a variety of new qualifications, such as engine driving licences or the extension of the licenses to also cover ballast regulators and maintenance trains. Other courses enabled participants to obtain welding operator and unlimited slinger signaller licences, C+E driving licences together with authorisation to carry goods, 5-year trackside signaller certificates, licences to operate mobile and portable cranes, operate cranes on railway vehicles, mobile platforms, winches and hoists, positioning units and correctors for overhead lines, as well as licences to direct traffic at level crossings. Language courses for employees were organised by ZUE throughout 2019. There were trainings for 156 new employees.

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 2019, about 220 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 or serious accident at work was reported at the Group in 2019. The inspections carried out in 2019 by the National Work Standards and Safety Inspectorate did not reveal any significant deviations from applicable laws.

Item	2019	2018
Total accidents, including:	12	10
<i>Fatal</i>	0	0
<i>Serious</i>	0	1
<i>Slight</i>	12	9

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

The most common reasons for accidents at work in 2019 included human error, inattention, carelessness, haste, insufficient focus on a task and small experience of employees.

No accidents at work were reported in 2019 by the subcontractors of ZUE.

Accident frequency rate (accidents at work per 1000 of employees) was 14.2 for the Company and 12.8 for the Group.

The total number of days of employees' incapacity for work due to accidents was 809 days.

Accident seriousness rate (number of days of incapacity for work / 1 accident) in 2019 was 67.

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 at the Group in 2019 and 2018.

Item	2019	2018
Occupational health and safety trainings for employees, including:*	598	679
<i>ZUE</i>	560	635
<i>Railway gft</i>	1	4
<i>BPK Poznań</i>	37	40

*Periodic trainings + trainings for new employees.

No fines relating to occupational health and safety were imposed on the companies within the Group in 2019 or 2018. However, the fine of PLN 1.2 thousand was imposed in 2019 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 2019.

In 2019, 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 2019, ZUE supported 11 charity, sponsoring and social projects. The total gross amount of the support was approx. PLN 137 thousand, including about PLN 40 thousand for charity. In 2018, the Group supported 17 projects for the total amount of approx. PLN 95 thousand, including PLN 23 thousand for charity.

The Group operates according to the rules of sustainable development and social responsibility taking care not only of its economic performance but also of the environment, education as well as social and cultural development of the region. This is achieved, *inter alia*, by pursuing a charity and sponsorship policy.

ZUE intends to expand the educational offer for youth and children of the region, especially to raise their ecological, legal and economic awareness. In 2019, twenty five children from the *Paweł Socha* Primary School in Bolesławiec were invited by the Company to take part in the *Dukaty Decjusza* [*Decius' Ducats*] programme – the initiative by the Villa Decius Association to broaden the knowledge of economy, history and numismatics.

ZUE is committed to its corporate social responsibility. One of the Company's goals is to give equal opportunities and break social barriers for the people experiencing economic, political and cultural discrimination. To this end, ZUE offered its support to *Stowarzyszenie Razem dla Waganowic* [*Together for Waganowice Association*] responsible for the organisation of *II Niebieski Bieg Świadomości Autyzmu* [*II Blue Autism Awareness Run*] whose aim was to advance knowledge of autism and counteract the social exclusion of the disabled.

In 2019, there were three corporate volunteering events involving 13 employees of ZUE who spent the total of 79 hours on the project [some employees were involved in more than one project].

Accordingly, the Company cooperated in 2019 with the *Iskierka* Private Kindergarten, the *Joachim Leleweł* Primary School no. 97 and the *Zygmunt Wróblewski* Secondary School no. IX in Cracow. Meetings devoted to the topic of safe and environment-friendly forms of public transport were organised for the pre-school children and the primary school pupils took part in the presentation and lecture entitled *Construction Machines in Railway Transport* delivered in the transport and specialist equipment base.

The secondary school students attended the Fundamentals of Entrepreneurship classes to raise their legal awareness. The students who were preparing for their school-leaving examination in Social Studies discussed the fundamentals of the Polish civil and criminal law.

22.1. Corporate policy and social involvement

The charity and sponsorship policy is consistent with the Company's strategy and long-term goals based on the rules of social responsibility and sustainable development. Through the charity and sponsorship activity, the Company creates a positive image of the enterprise taking care not only of its economic performance but also of the environment, education as well as social and cultural development of the region.

The Company offers financial help in the form of sponsorship, donations or volunteering to support, first of all, local initiatives; i.e. the foundations, associations, organisations and institutions of the Małopolska province whose social, cultural, educational and health activities often go beyond the region.

The charity and sponsorship policy pursued by the Company helps to:

- Give equal opportunities and break social barriers for the people and social groups experiencing economic, political and cultural discrimination;
- Expand the educational offer for youth and children, especially to raise their awareness of law, ecology and economy;
- Develop professional skills and secure the staff, especially by financing scholarships and traineeships;
- Transfer the knowledge, exchange thoughts and ideas and integrate with the Company's environment through the support of scientific projects, conferences or congresses;

- Improve health conditions and promote healthy living, especially by promoting the development of amateur physical culture and supporting rehabilitation processes;
- Enhance the appeal of the region through the patronage of the arts and the support of the initiatives aimed at the protection of the national heritage and monuments.

22.2. Number and subject matter of complaints made by the local community and the Company's response

In 2019, local communities complained about nuisances caused by the construction works performed by the Company under several contracts. The Company promptly reacted to the complaints and tried to settle the reported issues on an ongoing basis.

FINANCIAL INFORMATION

Construction and assembly services delivered by the Parent Company generate the largest portion of the Group's income. Accordingly, the major factors influencing the Group's performance and economic condition in 2019 are similar to the factors influencing the condition of ZUE discussed in sections 23-25.

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

The Company's sales revenue generated in 2019 was PLN 934,899 thousand. The Company's revenue increased by 22% compared to the figure reported in 2018 and by 160% compared to the figure reported in 2017. In the fourth quarter of 2019, ZUE generated 24% of annual revenue.

Seasonal character of sales at ZUE in 2019:

Item	I quarter	II quarter	III quarter	IV quarter
Sales revenue (PLN '000)	187,981	267,759	251,682	227,477
% - quarter	20%	29%	27%	24%
% - half year	49%		51%	

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

Item (PLN '000)	Group		ZUE	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Sales revenue	996,215	832,725	934,899	763,757
Cost of sales	968,268	888,763	911,825	825,792
Gross profit (loss) on sales	27,947	-56,038	23,074	-62,035
General and administrative expenses	21,173	21,891	17,083	18,076
Other operating income	1,938	1,276	1,089	889
Other operating expenses	842	1,237	779	751
Operating profit (loss) (EBIT)	7,870	-77,890	6,301	-79,973
EBITDA*	21,040	-66,983	19,312	-69,213
Financial income	1,227	2,051	1,465	2,212
Financial expenses	2,344	1,465	1,846	953
Pre-tax profit (loss)	6,753	-77,304	5,920	-78,714
Corporate income tax	2,976	-14,719	2,785	-14,665
Net profit (loss) from continuing operations	3,777	-62,585	3,135	-64,049
Net profit (loss)	3,777	-62,585	3,135	-64,049

* Operating profit + depreciation / amortisation.

In 2019, the Issuer generated a gross margin on sales of 2.5% and recorded positive results at all other profit levels. Positive revenues have been reported by the Company since 2017 mainly as a result of its involvement in the National Railway Programme worth in total more than PLN 75bn. A portion of the Company's backlog is the railway contracts won in 2016-2017 in connection with the abovementioned programme. They are the low-margin contracts and the reasons for this include unpredictable factors beyond the Company's control such as growing

costs of project execution and no real price indexation. The Company repeatedly informed about this fact in current and financial reports. The share of the abovementioned railway contracts in the scope of services provided by the Company is being successively reduced to become replaced by the new railway and urban contracts.

In 2019, the Company won the new contracts with the total net amount of approx. PLN 787m. ZUE's backlog of approx. PLN 1.9bn was diversified by the Company by winning new contracts on the urban market. In case of these contracts, the period of time between the contract award date and the date of entry on the construction site was brief and the time in which the contracts were performed was short. Accordingly, the risks of unpredictable changes of costs were much smaller than the risks relating to big railway projects.

The Company was also expanding its backlog of railway contracts and expected a quick award of the remaining contracts related to the National Railway Programme as well as the completion of subsequent projects, such as the construction of new railway lines in connection with the Central Communication Port project.

Compared to 2018, ZUE's gross profit on sales grew by PLN 85,109 thousand from PLN -62,035 thousand at the end of 2018 to PLN 23,074 thousand at the end of 2019.

General and administrative expenses in 2019 decreased year-on-year by 5%.

The Company reported other operating income of PLN 1,089 thousand – up by 22% compared to the analogous period of 2018. Other operating expenses amounted to PLN 779 thousand and increased over the year by 4%.

The Issuer's operating profit in 2019 was PLN 6,301 thousand (compared to the negative amount of PLN (-) 79,973 thousand in 2018).

ZUE's financial income in the period under analysis decreased year-on-year by 34% and stood at PLN 1,465 thousand. Financial expenses in 2019 amounted to PLN 1,846 thousand – up by 94% when compared with 2018.

In 2019, the Company reported the net profit of PLN 3,135 thousand. In 2018, the Company disclosed the loss of PLN (-) 64 049 thousand.

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 2019 and the comparative information at 31 December 2018.

Item (PLN '000)	Group		ZUE	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	56,525	104,700	53,695	101,815
Investment property	5,877	5,265	9,487	8,642
Intangible assets	1521	8,616	1,484	8,115
Right-of-use assets	57,092	0	56,059	0
Goodwill	31,172	31,172	31,172	31,172
Investments in subordinates			221	221
Retentions on construction contracts	9758	9,720	9,455	9,463
Deferred tax assets	20,202	22,876	19,954	22,485
Advanced loans			107	0
Other assets	189	149		
Total non-current assets	182,336	182,498	181,634	181,913
CURRENT ASSETS				
Inventories	30,353	48,720	25,114	37,311
Trade and other receivables	185,772	179,562	175,133	171,503
Measurement of long-term construction contracts	111,893	114,910	99,287	103,400
Retentions on construction contracts	3,057	3,021	2,984	2,938
Advance payments	9,722	15,275	10,291	16,581
Current tax assets	0	0	0	0
Advanced loans	0	2,813	95	2,804
Other assets	1,126	1,040	814	764
Cash and cash equivalents	30,378	81,723	27,979	79,404
Total current assets	372,301	447,064	341,697	414,705
Total assets	554,637	629,562	523,331	596,618

Item (PLN '000)	Group		ZUE	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
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	53,386	49,717	52,386	49,337
Total equity attributable to shareholders of the parent	150,291	146,622	-	-
Equity attributable to non-controlling interests	150	126	-	-
Total equity	150,441	146,748	149,291	146,242
Non-current liabilities				
Long-term loans and bank credits	13,333	0	13,333	0
Non-current lease liabilities	12,450	14,815	12,385	14,781
Retentions on construction contracts	12,946	11,371	12,505	10,721
Other financial liabilities	0	70	0	0
Liabilities under employee benefits	2,092	1,994	1,200	1,036
Provision for deferred tax	48	0		
Long-term provisions	12,449	8,152	12,076	7,872
Other liabilities	0	0	0	70
Total non-current liabilities	53,318	36,402	51,499	34,480
Current liabilities				
Trade and other payables	165,931	219,194	156,784	205,856
Accruals	61,422	62,428	54,041	55,020
Measurement of long-term construction contracts	4,584	7,047	4,247	6,980
Retentions on construction contracts	19,807	8,312	19,167	8,099
Advance payments	27,890	75,009	27,788	75,007
Short-term loans and bank credits	15,983	7,907	6,667	0
Current lease liabilities	10,016	13,001	9,931	12,963
Other financial liabilities	106	316	36	36
Liabilities under employee benefits	29,497	23,455	27,671	22,103
Current tax liabilities	0	4	0	0
Short-term provisions	15,942	29,739	16,209	29,832
Total current liabilities	350,878	446,412	322,541	415,896
Total liabilities	404,196	482,814	374,040	450,376
Total equity and liabilities	554,637	629,562	523,331	596,618

At 31 December 2019, ZUE's total assets and liabilities amounted to PLN 523,332 thousand and decreased by 12% compared to total assets and liabilities reported at the end of 2018.

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

Item	PLN '000		
	Change (compared to 31.12.2018)	Balance at 31.12.2019	Description
<u>Assets</u>			
Property, plant and equipment	-48,120	53,695	The change mainly results from the implementation of IFRS 16 discussed in the note 8.1.5 of the separate financial statements.
Intangible assets	-6,631	1,484	The change mainly results from the implementation of IFRS 16 discussed in the note 8.1.5 of the separate financial statements.
Right-of-use assets	+56,059	56,059	The change mainly results from the implementation of IFRS 16 discussed in the note 8.1.5 of the separate financial statements.
Inventories	-12,197	25,114	Decrease resulting from the settlement of certain contract works.
Advance payments	-6,290	10,291	Decrease resulting from the settlement of certain contract works.
Cash and cash equivalents	-51,425	27,979	Use of own resources to conduct operating activities.
<u>Equity and liabilities</u>			
Long-term loans and bank credits	+13,333	13,333	Use of long-term external financing
Trade and other payables	-49,072	156,784	Settlement of certain liabilities relating to the performance of construction works.
Advance payments	-47,219	27,788	Settlement of certain advance payments made by contracting authority in connection with the progress in construction works.
Short-term provisions	-13,623	16,209	Decrease in connection with the progress in construction works.

25. Discussion of items of the statement of cash flows

The Company's cash flows from operating activities of [PLN (-) 52,548 thousand] were mainly influenced by changes in payables, advance payments and inventories.

The Company's cash flows from investing activities of [PLN (-) 2,508 thousand] were mainly influenced by the purchase of non-current assets financed by own resources and the repayment of granted loans.

The Company's cash flows from financing activities of [PLN 3,634 thousand] were mainly influenced by loans and credits and a decrease in lease liabilities.

Item (PLN '000)	Group		ZUE	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Cash flows from operating activities	-53,530	-22,180	-52,549	-21,487
Cash flows from investing activities	-2,245	-17,467	-2,508	-17,668
Cash flows from financing activities	4,432	3,591	3,634	2,384
Total net cash flows	-51,343	-36,056	-51,423	-36,771
Foreign exchange gains / (losses)	-2	31	-2	31
Cash and cash equivalents at the beginning of the period	81,723	117,748	79,404	116,144
Cash and cash equivalents at the end of the period	30,378	81,723	27,979	79,404

26. Discussion of results reported by segments

The total amount of revenue generated by the Group is PLN 996.215 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	934,899	64,686	11,949	-15,319	996,215
Gross profit on sales	23,074	2,711	1,757	404	27,947
Net profit	3,135	80	140	420	3,775

Sales activities conducted at the Group by Railway gft generated in 2019 6% of consolidated revenue (before exclusions).

Design activities conducted BPK Poznań generated in 2019 1% of consolidated revenue (before exclusions). Design activities complement construction activities.

27. Analysis of ratios

The information on the following ratios is monitored on a cyclical basis and presented in subsequent financial reports. The definitions of alternative measurements and calculation methodologies have been presented below and they are consistent with selected alternative measurements contained on the Issuer's website.

27.1. Debt ratio

Item	Group		ZUE		Calculation rules
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	
Net debt	21,510	-45,614	14,373	-51,624	(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
Debt ratio	0.7	0.8	0.8	0.8	(non-current and current liabilities + provisions for liabilities) / total assets
Debt to equity ratio	2.7	3.3	2.5	3.1	(non-current and current liabilities) / equity
Equity to assets ratio	0.3	0.2	0.3	0.2	equity / total assets
Fixed capital to non-current assets ratio	1.1	1.0	1.1	1.0	(equity + non-current liabilities) / non-current assets
Short-term debt ratio	0.6	0.7	0.6	0.7	current liabilities / total assets
Long-term debt ratio	0.4	0.2	0.3	0.2	non-current liabilities / equity
Interest coverage ratio	5.9	72.2	6.4	98.4	EBIT / interest paid

27.2. Liquidity ratios

Item	Group	ZUE	Calculation
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	31.12.2019	31.12.2018	31.12.2019	31.12.2018	rules
Working capital	21,423	652	19,156	-1,191	current assets – current liabilities
Current ratio	1.1	1.0	1.1	1.0	current assets / current liabilities
Quick ratio	1.0	0.9	1.0	0.9	(current assets – inventory) / current liabilities
Cash ratio	0.09	0.2	0.09	0.2	cash and cash equivalents / current liabilities

27.3.Financing structure ratios

Item	Group		ZUE		Calculation rules
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	
Equity to assets	0.3	0.2	0.3	0.2	equity /total assets
Equity to non-current assets	0.8	0.8	0.8	0.8	equity /non-current assets
Debt ratio	0.7	0.8	0.7	0.8	(total assets - equity) / total assets
Debt to equity ratio	2.7	3.3	2.5	3.1	(total assets - equity) /equity

27.4.Profitability ratios

Item	Group		ZUE		Calculation rules
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	
Gross profit margin	2.8%	-6.7%	2.5%	-8.1	gross profit / revenue
EBITDA	21,040	-66,983	19,312	-69,213	operating profit + depreciation / amortisation
EBITDA margin	2.1%	-8.0%	2.1%	-9.1%	EBITDA / revenue
EBIT margin	0.8%	-9.4%	0.7%	-10.5%	EBIT / revenue
Gross margin	2.8%	-6.7%	2.5%	-8.1%	gross profit / (revenue + other operating income + other financial income + extraordinary gains)
Net margin	0.8%	-7.50%	0.7%	-8.4%	net profit / (revenue + other operating income + other financial income + extraordinary gains)

ROA	0.7%	-9.90%	0.6%	-10.7%	<i>net profit / total assets</i>
ROE	2.58%	-29.9%	2.14%	-30.5%	<i>net profit / equity</i>

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

No separate or consolidated financial projections for the financial year 2019 have been published by the Company.

30. Investments

30.1. Investments made in 2019

The total capital expenditure in the statement of cash flows disclosed in the reporting period amounted to PLN 5,357 thousand.

At 31 December 2019, net liabilities incurred to purchase property, plant and equipment amounted to PLN 1,043 thousand.

Major investments in property, plant and equipment made by ZUE in 2019:

- Complete overhauls of vehicles (mainly wagons) – PLN 2617 thousand.
- Purchase of hand car – PLN 389 thousand.
- Purchase of positioning units – PLN 271 thousand.
- Purchase of cars – PLN 154 thousand.

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 carry out intended projects.

The table below sets out the use of bank credits, multipurpose lines and loans as at 31.12.2019.

ZUE				
Bank	Description	Principal according to the agreement [PLN '000]	Amount used as at 31.12.2019 [PLN '000]	Repayment date
mBank S.A.(i)	Overdraft	10,000	0	2020-07-10
mBank S.A. (ii)	Cooperation agreement	50,000	0	2020-07-17
	including:			
	sublimit for bonds	50,000	0	
	sublimit for working credit facilities	40,000	0	

mBank S.A.	Master agreement	120,000	64,620	2020-06-26
	including:			
	sublimit for bonds	120,000	64,620	
BNP PARIBAS (v)	Multipurpose credit line agreement	170,000	52,621	2021-01-28
	including:			
	sublimit for bonds	100,000	52,621	
PEKAO SA (iii)	Multipurpose credit line agreement	50,000	43,093	2019-11-30
	including:			
	sublimit for bonds	50,000	43,093	
Agencja Rozwoju Przemysłu SA (iv)	Loan agreement	20,000	20,000	2022-06-30
Magdalena Lis	Loan agreement	263	263	Indefinite
BPK Poznań				
BNP PARIBAS (vi)	Multipurpose line of credit	600	583	2020-01-31
mBank S.A.	Overdraft	500	74	2020-05-20
mBank S.A.	Working credit facility for contract prefinancing	1800	896	2020-03-20
Railway gft				
mBank S.A.	Working credit facility	5,000	5,000	2020-08-21
BNP PARIBAS (vii)	Revolving credit agreement	2,500	2,500	2020-05-15
mBank S.A.	Master agreement	7,000	5,259	2019-08-23
	including:			
	sublimit for bonds	7,000	5,259	
Total use of credits at the Group			29,316	
Total use of bonds at the Group			165,593	

- (i) 27.06.2019 – Annex no. 19 was signed whereby the repayment date was extended until 10.07.2020.
- (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) 04.12.2019 – Annex no. 3 was signed whereby the date of the line use was extended until 30.11.2020 and the limit for bonds was changed.
- (iv) 19.11.2019 – conclusion of the new Loan Agreement with Agencja Rozwoju Przemysłu S.A. of up to PLN 20,000 thousand. The loan will be used to finance day-to-day operations.
- (v) The Bank provided the limit to be used until 31.01.2020. On 28.01.2020, the Company signed an annex to the Agreement and the Agreement was extended for another year. The limit was changed from PLN 170m to PLN 100m and would be used exclusively for bonds.
- (vi) On 5.02.2020, the debt under the Multipurpose Line of Credit with BNP Paribas was repaid in full and the limit expired.
- (vii) BNP Paribas decided that the limit would expire. The Annex of 16.12.2019 contains the limit reduction and debt repayment schedule. The debt would be repaid in full on 15.05.2020.

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 2019, the amount of unused lines of credit was PLN 70,443 thousand at the Group and PLN 70,000 thousand at the Company.

In 2019, the Company continued to finance its capital expenditures with finance lease or leaseback and adjusted the repayment dates its backlog. The Company periodically used working credit facility and factoring. The main task of financial officers was to maintain the existing and obtain the new bond lines to secure tender procedures, proper performance of contracts and the term of warranty and guarantee.

The debt relating to received loans and credits was PLN 29,316 thousand and the debt relating to leases was PLN 22,466 thousand.

The Group's cash at the end of 2019 was PLN 30,378 thousand.

Loans were granted by ZUE to subsidiaries in the reporting period:

On 7 January 2019, ZUE and RTI Germany signed the loan agreement whereby RTI Germany was granted a special-purpose loan of EUR 4000 to be repaid by 20 December 2020. The loan was disbursed on 11 January 2019.

On 12 April 2019, the Extraordinary Shareholders Meeting resolved to increase the share capital of RTI as a result of which ZUE acquired the newly created shares of RTI for 35 thousand.

On 29 April 2019, RTI repaid the loans advanced by ZUE together with interest. The repayment concerned the loan agreements of 26 May 2017, 7 December 2017 and 13 April 2018.

On 19 June 2019, ZUE and RTI Germany signed the annex no. 4 to the loan agreement of 31 May 2016 whereby the repayment date was extended until 20 December 2019.

32. Financial risk management

The main financial instruments used by the Company include:

- Finance leases and agreements for the financing of property, plant and equipment whose aim is to obtain funds to finance capital expenditures;
- Overdraft, non-revolving special purpose credit to finance day-to-day operations and a selected contract;
- Factoring of receivables;
- Loan to finance day-to-day operations;
- Trade and other receivables and payables and cash earned during the course of the Company's day-to-day operations.

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

Foreign exchange risk

As part of their operations, the companies within the Group make 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 later dates 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 and aims to reduce the concentration of credit risk. The Group's financial assets exposed to increased credit risk include trade receivables (excluding receivables from contracting authorities (investors) in connection with the projects carried out pursuant to the Public Procurement Act). A contract-related credit risk 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 using external financing such as multi-purpose lines of credit and other financing products as an additional safeguard against the loss of liquidity. The Group uses own funds, credits or long-term finance leases to finance capital expenditures and ensures proper stability of financing structure for this type of assets.

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

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

33. Scope of application of corporate governance principles

The information about the Company's compliance with the principles and recommendations contained in 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 2019, 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 2019, 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 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 the Chief Accountant. Following the amendments to the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies made in October 2019, the general meeting of the company with at least one share admitted to trading on the regulated market should adopt, by way of resolution, a policy of remunerating members of the company's management and supervisory boards. The said resolution should be passed by the company's general meeting by 30 June 2020. Accordingly, relevant measures should soon be taken by the Company.

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 2019, the registered share capital disclosed in the financial statements was PLN 5,757,520.75.

Share capital as at 16 March 2020

(PLN)

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 2019, the share capital structure was the same as at 16 March 2020.

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 in 2015 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 2019.

36.3. Shareholding structure

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

Shareholder	Number of votes/shares at 16 March 2020	% 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	1,671,345 ⁽⁴⁾	7.26	1,671,345 ⁽⁴⁾	7.26
Other	4,058,418 ⁽⁵⁾	17.62	4,058,418 ⁽⁵⁾	17.62
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 2019): 19 November 2019.

(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 list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 6 June 2019 provided in the current report 20/2019 of 12 June 2019.

(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 16 March 2020	Par value (PLN)	% of share capital / total number of votes	Changes in shareholding since the publication of the last interim 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 2019): 19 November 2019.

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 Issuer's securities at the Company.

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 2019.

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 2019.

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 7.19 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 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 due to the circumstances attributable to both the employer and the 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 the common term of three years.

Members of the Supervisory Board cannot include any members of the Management Board, proxies, liquidators, branch or facility managers, the chief accountant, legal counsel or advocate employed by the Company, other employees directly reporting to a member of the Management Board or a liquidator, or members of the management board or liquidators of the Company's 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 passed 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 perform their duties: 1/ at the Supervisory Board meetings, 2/ through the on-going and *ad hoc* supervisory activities as part of which they are entitled to:

- Review the scope of responsibilities of each of the Company departments;
- Request the Company's Management Board and employees to provide relevant reports and explanation;
- Review the Company's assets;
- Monitor the Company's financial standing;
- Inspect accounts and documents;
- Oblige the Management Board to engage experts to prepare assessments or opinions 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

Michał Lis Supervisory Board Member

Section 7.19 Remuneration of key management personnel of the separate financial statements presents the remuneration paid to the members of the Company's Supervisory Board.

Members of the Management Board of ZUE are appointed for the 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.

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”).

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

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.

- 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 Polinvest-Audit Sp. z o.o., an audit firm with registered office in Cracow (Polinvest) to audit the financial statements of ZUE for 2019 and 2020 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 2019, no permitted non-audit services were provided to the Company in the reporting period by the audit firm. The Audit Committee have assessed the independence of Polinvest and approved of the provision of audit services by the audit firm.

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 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 2019, the organisational structure of the Company did not change considerably when compared with 2018. Section 1.2 of this report deals with major changes concerning 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 or supervisory 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 pension 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. 7.13 of the consolidated financial statements for 2019.

46. Preparation basis

This Management Board Report on the Activities of ZUE between 1 January – 31 December 2019 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 2019 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, Polinvest-Audit Sp. z o.o. with registered office in Cracow, the Łukasiewicza Street no. 1, 31-429 Cracow, was appointed to audit the separate and consolidated financial statements of ZUE for the financial year 2019.

The agreement with Polinvest-Audit Sp. z o.o. included:

- a) audit of the separate and consolidated financial statements of the Company for 2019 and 2020;
- b) review of the half-yearly separate and consolidated financial statements of the Company for the first half of 2019 and 2020.

The agreement was concluded on 16 July 2019 for the term of the audit.

The net remuneration of Polinvest-Audit Sp. z o.o. for the audit and review of the financial statements for 2019 was set as PLN 120 thousand.

The financial statements for 2018 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 134.5 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" – conclusion of the case.

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 Court requested the Parties to mediate and all the Parties approved of the mediation.

As a result of the mediation, the Company and Elektrobudowa entered into the settlement agreement with MPK whereby they were obliged to pay, on a joint and several basis, PLN 2.2m out of which PLN 1m was attributable to ZUE.

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.

The said settlement agreement was submitted to the Court for approval. The settlement agreement was approved

of on the basis of the judgment delivered on 27 August 2019 by the District Court in Poznań. The proceedings were discontinued by the Court and the judgment became final.

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. POLiŚ 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. On 6 June 2019, the Warsaw Court of Appeals considered the Defendant's appeal and dismissed all the claims. ZUE S.A. decided not to revoke the sentence.

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

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

On 30 December 2016, the consortium of:

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

sued PKP Polskie Linie Kolejowe S.A. of Warsaw (the "Contracting Authority"). The lawsuit covered the claims relating to the performance of the following contract: "Design services and completion of construction works on the Cracow – Medyka – state border railway line, the Biadoliny – Tarnów section between 61,300 km and 80,200

km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III" (the "Contract").

The litigation value (the "Amount") 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.

The Parties appealed against this judgment. The Petitioner appealed against the dismissal of the claim of PLN 283,213.65 plus statutory interest and the Defendant appealed against the order to pay PLN 347,126.79 plus statutory interest. The appeal hearing referring to the partial judgment was held on 13 February 2020. On 27 February 2020, the appeals were dismissed by the Court of Appeals.

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 2019 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 13 March 2020 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 Polinvest-Audit Sp. z o.o. with registered office in Cracow, the Łukasiewicza Street no. 1, 31-429 Cracow (Polinvest), to:

- a) audit the separate and consolidated financial statement of the Company for 2019 and 2020;
- b) review the half-yearly separate and consolidated financial statements of the Company for the first half of 2019 and 2020;
 - Polinvest and members of the team involved in the audit of the separate and consolidated financial statements of the Company and the Group for 2019 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 audit firms and key auditors 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.

53. Signatures of the management personnel

Wiesław Nowak	Management Board President
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Anna Mroczek	Management Board Vice-President
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Jerzy Czeremuga	Management Board Vice-President
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Maciej Nowak	Management Board Vice-President
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Marcin Wiśniewski	Management Board Vice-President
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Cracow, 16 March 2020