



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

between 1 January 2020 and 31 December 2020

Cracow, 24 March 2021

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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 2020, item 1526).

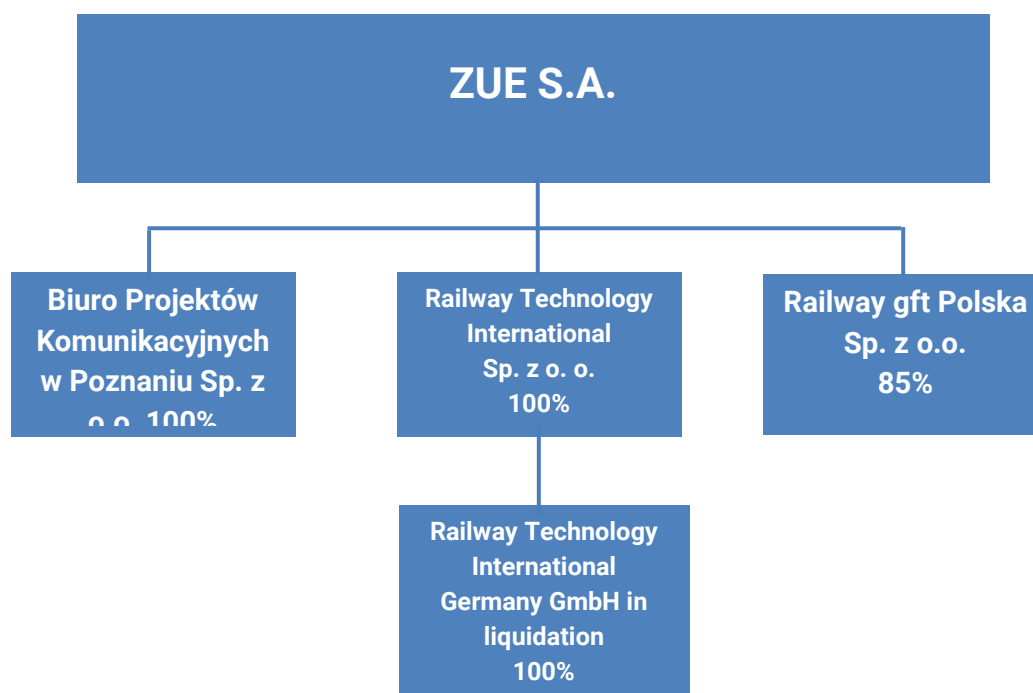
Share capital details as at 31 December 2020.

OPERATIONAL INFORMATION – NON-FINANCIAL INFORMATION STATEMENT

1. Organisation of the Capital Group

1.1. Structure of the Capital Group

Structure of the Capital Group as at 31 December 2020 and at the date of approval of this report.



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. 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 on 15 June 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 on 21 October 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 on 20 July 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 on 8 May 2012 in Radebeul, Rathenaustrasse 6, Germany. 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 2020:

- 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 2020, it held a 100% and 85% interest, respectively, in these companies.

At 31 December 2020, 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 2020.

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 2020.

1.2. Changes to the structure of the Parent Company and the Group in 2020 and their consequences

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

On 13 February 2020, 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, power lines, stations and civil structures.

In 2020, 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 and continues its activities aimed at winning construction contracts abroad. In 2020, the Group carried out urban infrastructure contracts in such cities as Katowice, Gorzów Wielkopolski, 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 2020, the biggest rail contracts were performed in such regions as Rusiec Łódzki – 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.

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.

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.

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 the 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, contracts deal with the issues concerning safety at work.

Other contracts with counterparties do not contain any clauses dedicated to the abovementioned issues other than following from the applicable laws.

In addition, the contracts with counterparties do not contain any human rights clauses (including clauses on working children or forced labour) or ethical issues other than following from the 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 2020:

Contract	Contracting authority	Completed / in progress	Contract value as at 31.12.2020 (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	384,805
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	383,631
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	360,829
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	339,679
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

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	290,897
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	204,657
Reconstruction of the track together with OCL network from the Żołnierza Square to the Niebuszewo terminus and along the Żołnierza Polskiego Square – the Matejki Street – the Piłsudskiego Street (to the Rodła Square).	The City of Szczecin	In progress	141,813
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, 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of the Infrastructure and Environment Operational Programme (IEOP) 2014.	PKP Polskie Linie Kolejowe S.A.	Completed	96,168
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
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	76,735
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	73,865
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	59,209
Maintenance and repair of tram tracks in Cracow in 2019-2022.	City of Cracow	In progress	56,046
"Reconstruction of the road and the track in the Chrobrego Street and the Mieszka I Street as part of the task named: "The system of sustainable urban transport in Gorzów Wlkp."	City of Gorzów Wielkopolski – Municipal Council	In progress	53,112

Reconstruction of the tramway track from the Wiejska Street to the OM Rząd tram terminus as part of the following project: "Reconstruction of tram infrastructure to improve public transport in Grudziądz."	City of Grudziądz	In progress	47,662
Works on the E59 railway line, the Dobiegniew – Słonice section – traction network.	Strabag Sp. z o.o.	In progress	45,157
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.	Completed	40,943
Provision of design services and completion of construction works in connection with the following project: "Construction of the Czarnca - 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	37,022
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	35,460
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	34,219
Provision of design services and completion of works at the Munina and Żurawica stations as part of the project named: "Modernization of the railway line no. 91 Kraków Główny Osobowy – Medyka and the railway line no. 92 Przemyśl – Medyka, the Rzeszów – State Border section."	PKP Polskie Linie Kolejowe S.A.	In progress	23,845
Maintenance of tram tracks and switches in Wrocław.	Miejskie Przedsiębiorstwo Komunikacyjne Sp. z o.o. in Wrocław	In progress	18,572
Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	Zarząd Dróg Miasta Krakowa	In progress	16,422

* 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, Thales Polska Sp. z o.o., PKP Polskie Linie Kolejowe S.A. and MGGP S.A. 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 2020 included Przedsiębiorstwo Inżynieryjnych Robót Kolejowych "TOR-KRAK" Sp. z o.o., SPAW-TOR Sp. z o.o. and TORMEL 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 2020, the companies within the Group operated as standalone contractors, consortium members or leaders, and, for some projects, as subcontractors.

PKP Polskie Linie Kolejowe S.A. was ZUE's major customer in 2020. The company's share in ZUE's total sales revenue in 2020 was more than 75%.

There is no formal link between ZUE and the abovementioned customer.

No company to which sales or design services are provided exceeded 10% of the consolidated sales revenue in 2020.

No ethical audits were carried out at the request of customers in 2020.

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 actual needs according to the rules of market competition.

No supplier of goods or services exceeded 10% of the Company's sales revenue in 2020.

The purchase of materials effected directly by Railway gft., a subsidiary, accounted for 0.7% of the materials and services purchased by ZUE and 10.9% 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.

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 2020.

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 total value of the Group's backlog is PLN 1,498m including the contracted construction and assembly activities performed by ZUE with the total net value of PLN 1,477m. It 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 2020-2023 is PLN 6.4m. The backlog relating to the supply of materials and equipment in 2020 is worth PLN 14.7m (net).

The value of the signed new construction contracts in 2020 is about PLN 269m, including the urban contacts of PLN 200m.

The Issuer participates in subsequent tenders on both urban and railway markets.

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

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 2020 on the Group companies in connection with any 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 2020 in connection with the companies' violation of the abovementioned laws.

8. Strategic objectives of the Group

The Group's principal objective in 2021-2023 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 systems design market;
- Development of sales services on the track materials manufacture and distribution market.

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.

In 2020, the Issuer's focus was on winning new construction contracts and proper performance of previously signed contracts.

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 railway and urban infrastructure projects (especially tramway projects) are the main source of the Group's income. Construction works are carried out in the territory of Poland. Investments in tram infrastructure are made as part of decentralised revitalization plans drawn up for individual cities and urban areas. Railway undertakings, on the other hand, fall within the category of the long-term development and modernisation of the national railway network.

Rail infrastructure market

The EU released its Sustainable and Smart Mobility Strategy in December 2020. Its principal aim is to reduce transport-related emissions in the EU by 90% by 2050. The document should serve as a basis for ecological and digital transition in the EU. It should also make the EU transport system more resistant to future crises. The Strategy focusses on the ambitious development of the EU railway infrastructure. For instance, the high-speed train network is to double by 2030 and collective travel for journeys under 500 km should be carbon neutral. By 2050, rail freight traffic in the EU should double and the multimodal Trans-European Transport Network (TEN-T) equipped with sustainable and smart transport with high-speed connectivity should be fully operational.¹

Further considerable financial expenditure on rail infrastructure is required to pursue the goals of the European Green Deal.

In the 2021-2027 EU perspective, particular emphasis will be placed on the development of rail transport. It is a great opportunity for the Polish railway system which currently undergoes modernization and expansion. Apart from the main EU budget, rail projects will be financed, *inter alia*, under the new EU post-pandemic Recovery Fund. With approx. EUR 64 billion, it is compared to the cohesion policy. Another funding instrument is the Connecting

¹ https://ec.europa.eu/commission/presscorner/detail/pl/ip_20_2329

Europe Facility offering EUR 27.5 billion for the entire EU (PKP PLK has so far been the biggest EU beneficiary of the programme).²

Poland is now witnessing the execution of the biggest ever railway modernisation programme; i.e. the National Railway Programme until 2023 (the "NRP") with the total value of approx. PLN 76 billion. This long-term programme is designed to implement the strategies adopted by the Council of Ministers, including the "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 majority of tasks under the NRP are already carried out and the modernisation of railway network will continue in the same or different form.

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 table below sets out the key objectives of the NRP and the work already completed under the programme.

Objective	Indicator	Measurement unit	Completion as at 31.12.2019	Target (2023)
Strengthening of the role of rail transport in the national integrated transport system	Length of reconstructed railways (track km)	Km	4,227	9,000
Enhancing of the rail transport efficiency	Length of railway lines with passenger train speeds above 160 km/h	Km	135	350
Improvement of the rail transport safety	Length of railway lines fitted with ETMS/ETCS	Km	881	2,000
Improvement of the passenger and freight transport quality	Average speed of freight trains on the PLK network	km/h	29.6	40
	Number of provincial capitals connected by the upgraded lines with the average speed of passenger trains at least up to 100 km/h	Number	11/18	18/18

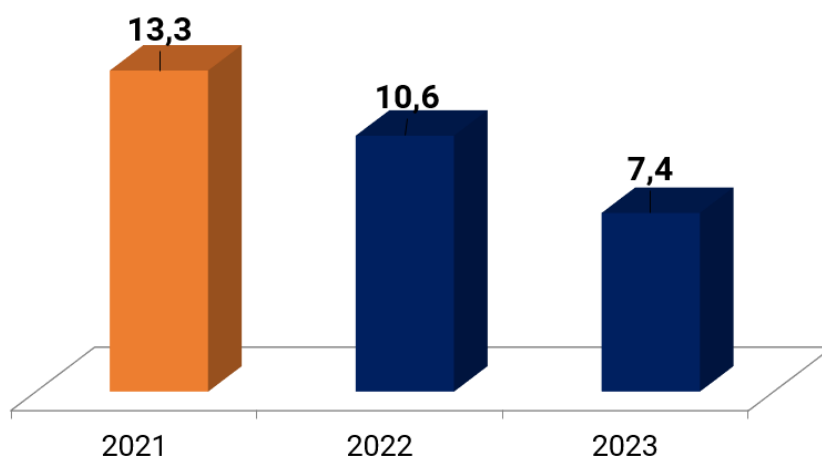
Source: Resolution no. 73/2020 of the Council of Ministers dated 12 June 2020 on the approval of the report on execution of the National Railway Programme until 2023 in 2019.

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.

² <https://forsal.pl/swiat/unia-europejska/artykuly/7754375,ile-polska-otrzyma-na-kolej-z-ue-budzet-na-kolej-nowy-unijny-budzet.html>

Planned expenditure of PKP PLK S.A. under the NRP until 2023 (PLN bn)



Source: Resolution no. 73/2020 of the Council of Ministers dated 12 June 2020 on the approval of the report on execution of the National Railway Programme until 2023 in 2019.

The NRP tasks are carried out despite the pandemic-related obstacles. In November 2020, PKP PLK said it planned to announce by the end of 2021 the tenders (mainly for "build" contracts) worth approximately PLN 17 billion to enable the completion of the final projects under the NRP and the projects under the new 2021-2027 EU perspective. This is to ensure the continuity of investments and the stability of prices, and prevent the occurrence of so-called peaks and decays between the perspectives, which exerted a negative impact on the industry in the past.³

One major project is the completion of 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 1,800 km of brand new railway lines and revamping of existing routes.⁴ 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.

³ <https://www.plk-sa.pl/biuro-prasowe/informacje-prasowe/plk-gotowe-na-ogloszenie-przetargow-na-ponad-17-mld-zl-do-konca-2021-roku-4931/>

⁴ <https://www.cpk.pl/pl/inwestycja/kolej>

Urban infrastructure market

Urban rail transport is considered environmentally friendly. Accordingly, from the perspective of the 2021-2027 EU perspective, investments in such projects offer excellent potential in terms of financing. Cracow, Warsaw, Gdańsk, Bydgoszcz, Szczecin, Poznań or the Upper Silesia cities are planning the construction or modernisation of the new lines. Warsaw intends to build the most modern tram depot in Poland. The urban market is the Company's main path to diversify its backlog. ZUE intends to increase the share of the urban backlog by getting "build" and "maintain" orders.

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 may 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**

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 until 2023 (the "NRP") sets out the financial terms and the Poland's objectives concerning the execution of railway projects until 2023. PKP PLK SA finances 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 projects in Poland.

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

Given the current economic situation, there is a risk that both banks (credit facilities and bonding products) and insurance companies (performance or bid bonds) will 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 pandemic 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, a different form 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. Accordingly, competitive entities do not gain advantage over the Company.

13. Influence of the coronavirus pandemic on the Group's activities

Measures taken by the Group

The Issuer has taken preventive measures to reduce the risk of infection among the Group's employees and associates by letting the staff work remotely, giving instructions on hygiene and precautions to its employees and subcontractors' employees, providing employees with protective equipment such as face masks or disinfectant agents, limiting the number of business meetings, giving comprehensive information on the activities aimed at reducing the risk of infection and measures to be taken in case of infection and limiting contacts with the employees who stayed in higher risk areas.

The Company reacts on an ongoing basis to the worsening pandemic situation in Poland. After the new restrictions had been announced by the Polish government on 10 October 2020 and on later dates, the Company considered the recommendations and extended the ability of its employees to work remotely or on a rotational basis where remote work is impossible. The Company also employed additional measures to keep its employees informed, monitor their health and provide them with protective equipment. The situation is constantly monitored.

These measures have been taken by the Company to ensure the safety of employees and collaborators and to continue operating activities.

Impact of the coronavirus pandemic on the Group's activity and financial standing in 2020

The coronavirus epidemic in Poland and the related restrictions have an influence both on the performance of construction contracts and other areas of the Group's activity. Direct contacts with the representatives of investors and other entities involved in construction projects have been kept to a minimum and due precaution measures have been taken. Most of the contracts, arrangements and acceptances have continued remotely. The work has been organised to ensure the safety of people involved in the performance of construction contracts.

At the end of the reporting period or at the date of preparation of this report, there are no major disruptions to construction processes or the chain of supplies caused by the COVID-19 restrictions which could influence the Group's financial results. The situation is monitored on an ongoing basis.

The Management Board of ZUE believe there are no indicators of impairment or any reasons for the recognition of additional provisions in connection with the pandemic. There are no major changes to the scope of operating activities. The Group's predictions about the performance of concluded contracts enable it to establish the projections which confirm the recoverable amount of the Company's key assets.

Possible impact of the coronavirus pandemic on the Group's activity and financial standing

The impact of the coronavirus pandemic on the Group's future situation or results cannot be estimated at the date of preparation of this report. The construction works are carried out by the Company without obstacles but the restrictions and changes in the economy continue and it is hard to predict when the situation will return to the way it was before the pandemic.

Below please find the factors which may influence the Group's activity and the markets in which the Issuer operates in the next quarters.

Factors which may have a negative influence:

- Limited supply of certain building materials caused by disruptions in the chains of supply;
- Increased prices of certain imported building materials caused by the weakening of PLN to EUR and USD rates;
- Temporary suspension of competitive tenders for new urban infrastructure contracts as a result of poorer financial condition of the cities caused by the imposed restrictions;
- Possible problems associated with the liquidity of certain enterprises (e.g. subcontractors);
- Possible extensions of deadlines for certain construction contracts caused by delays in the issue of certain administrative consents or approvals;
- Impediments relating to the absence or temporary exclusion of the Company's employees, subcontractors and consortium members; and
- Possible suspension of works under construction contracts.

Factors which may have a positive influence:

- Government decisions to continue the domestic transport infrastructure modernisation projects;
- Simplified procedures concerning, for instance, the acceptance of works and the circulation of documents in connection with railway contracts and quick payments for the works performed;
- Better supply of employees and lower financial expectations (growing unemployment in Poland).

14. Major events in the reporting period

14.1. Construction works

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 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 17 March 2020, the Company submitted the termination notice relating to the contract for the provision of design services and the completion of construction 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" performed by the Company for PKP Polskie Linie Kolejowe S.A. (the "Contract") for PKP Polskie Linie Kolejowe S.A. (the "Contracting Authority"). The Company declared its intention to terminate the services provided by the Company (the remaining part of the construction works which had not been performed)

under the Contract between the Company and the Contracting Authority due to the circumstances blamed on the Contracting Authority. On 5 May 2020, the Issuer and the Contracting Authority defined the rules on which ZUE would continue the works relating to the completion of the Contract. **(Current reports 9/2020 and 14/2020)**

On 15 April 2020, the Company received the annex signed by both parties to the subcontract entered into in June 2019 between the Company and Pilar-Rail sp. z o.o. with registered office in Raszyn (the "Subcontractor"). Accordingly, the total net value of orders and contracts entered into between ZUE and the Subcontractor since June 2019 is approx. PLN 30.4m. **(Current report 10/2020)**

On 16 April 2020, the consortium of ZUE (Leader) and FDO sp. z o.o. entered into the contract with the City of Gorzów Wlkp., Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o., Polska Spółka Gazownictwa Sp. z o.o., Oddział Zakład Gazowniczy w Gorzowie Wielkopolskim (jointly referred to as the "Contracting Authority") in connection with the following project: "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 selection of the tender as the most economically advantageous offer in the current report 7/2020. Net value of the contract: PLN 56.1m out of which 95% is attributable to the Company. Gross value of the contract: PLN 69.0m. Project completion date: 18 months of the contract conclusion date. **(Current report 11/2020)**

On 17 July 2020, the Company received the signed contract with PKP Polskie Linie Kolejowe S.A. for the project named: "Provision of design services and completion of works at the Munina and Żurawica stations" as part of the project named: "Modernization of the railway line no. 91 Kraków Główny Osobowy – Medyka and the railway line no. 92 Przemyśl – Medyka, the Rzeszów – State Border section." The Company informed about the selection of the most economically advantageous tender in the current report 19/2020. Net value of the contract: PLN 23.4m. Gross value of the contract: PLN 28.8m. Project completion date: 670 days of the contract conclusion date. **(Current report 22/2020)**

On 17 July 2020, the Company learnt about ZUE's submission of the lowest price tender in the tender procedure for the project named: "Expansion of a tram line in Olsztyn." Contracting Authority: City of Olsztyn. Net value of the tender submitted by the Company: PLN 310.7m. Gross value of the tender submitted by the Company: PLN 382.2m. Project completion date: 791 days of the contract conclusion date. On 17 August 2020, the Company learnt about the selection by the Contracting Authority of ZUE's offer as the most economically advantageous tender. On 30 September 2020, the Company learnt about the oral judgment delivered on the same date by the National Appeals Chamber (the "Chamber"). The Chamber ordered that the selection by the City of Olsztyn of the most economically advantageous tender submitted by the Company in the said tender procedure be cancelled. On 19 October 2020, the Company appealed in the District Court in Olsztyn against the judgment delivered by the National Appeals Chamber. In the said judgment, the Chamber ordered that the selection by the City of Olsztyn of the most economically advantageous tender submitted by the Company. On 7 December 2020, the Company learnt that the appeal lodged by ZUE against the judgment delivered by the National Appeals Chamber was dismissed by the Court of Olsztyn. **(Current report 23/2020, 28/2020, 32/2020, 34/2020, 37/2020)**

On 11 September 2020, the Company entered into the subcontracting agreement with Pilar-Rail sp. z o.o. of Falenty. Net value of the agreement: PLN 22.4m. Completion date: February 2023. **(Current report 31/2020)**

On 5 October 2020, the Company learnt about the selection of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the completion of the second part of the project named: "Reconstruction of the tramway track from the Toruńska Street to the OM Rząd tram terminus" and "Reconstruction of the Chełmińska Street between the Laskowicka Street and the Wiejska Street" as part of the following projects: "Reconstruction of tram infrastructure to improve public transport in Grudziądz" and "Reconstruction of a part of the provincial road no. 498 (the Chełmińska Street) in Grudziądz." The Contracting Authority: Zarząd Dróg Miejskich w Grudziądz. Net value of the tender submitted by the Company: PLN 47.7m. Gross value of the tender submitted by the Company: PLN 58.6m. Project completion date: 31 October 2021. The Company informed about the submission of the most economically advantageous tender in the current report 24/2020. **(Current report 33/2020)**

On 24 November 2020, the Company signed the subcontract with Zakład Robót Inżynieryjnych Henryk Chrobok i Hubert Chrobok Sp. J. of Bojszowy Nowe. Subcontract net value: PLN 25.6m. Subcontract completion date: November 2021. **(Current report 36/2020)**

On 11 December 2020, the Company signed the contract for the following project: "Reconstruction of the track together with OCL network from the Żołnierza Square to the Niebuszewo terminus and along the Żołnierza Polskiego Square – the Matejki Street – the Piłsudskiego Street (to the Rodła Square)." The Contacting Authority: The City of Szczecin. Contract net value: PLN 141.8m. Contract net value: PLN 174.4m. Project completion date: 720 days of the Contract conclusion date. The Company informed about the submission and the selection of the most economically advantageous tender in the current reports 15/2020 and 30/2020. **(Current report 38/2020)**

On 17 December 2020, an annex to the construction contract with Zarząd Dróg Miasta Krakowa for the project named: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow" was signed by the consortium of: 1) ZUE (Leader), 2) Przedsiębiorstwo Inżynieryjne IMB-Podbeskidzie sp. z o.o. (Partner), 3) Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. (Partner) (the "Consortium"). Under the annex, the contract completion date was set as 20 March 2022. **(Current report 39/2020)**

14.2. Financial agreements

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

On 4 May 2020, the Company signed the annex to the master agreement for project-related bonding products with Korporacja Ubezpieczeń Kredytów Eksportowych S.A. Under the annex, the limit provided to the Company was raised from PLN 30m to PLN 40m. **(Current report 13/2020)**

On 26 May 2020, the Company received the two signed annexes to the agreements with mBank S.A. (the "Bank") whereby the Company was provided by the Bank with the banking products such as guarantee lines or credits to finance day-to-day operations. On the basis of one of the abovementioned documents, the limit of the guarantee line granted under the master agreement was set as PLN 100m to be used by 31 May 2021. The other document defined the limit of the guarantee line granted under the cooperation agreement as PLN 25m to be used by 31 May 2021. **(Current report 17/2020)**

On 30 July 2020, the Company and BNP Paribas Bank Polska S.A. entered into premium multi-purpose credit line agreement whereby the Company would be granted the credit limit of up to PLN 30m. The limit would be available to the Company until 30 July 2022. The credit tenor was set until 30 July 2030. The Company may use the credit limit to issue bank guarantees and to finance day-to-day operations. **(Current report 25/2020)**

On 9 November 2020, the Company published the preliminary financial results for the three quarters of 2020. **(Current report 35/2020)**

14.3. Corporate events

On 22 April 2020, the Management Board of ZUE passed the resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2019 of PLN 3,135 thousand to

reserve funds. The Company's Supervisory Board gave a favourable opinion on the said recommendations on 18 June 2020. **(Current report 12/2020 and 18/2020)**

On 21 May 2020, the Company received a notice from NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. according to which all investment funds managed by NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. had dropped below 5% of votes at the Company's General Meeting. **(Current report 16/2020)**

On 30 July 2020, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2019 of PLN 3,135 thousand to reserve funds. **(Current report 26/2020 and 27/2020)**

15. Major events after the end of the reporting period

On 28 January 2021, the Company learnt about the conclusion by the other party of the contract between the Company and the city of Grudziądz – Zarząd Dróg Miejskich w Grudziądzu for the project named: "Reconstruction of the tramway track from the Wiejska Street to the OM Rząd tram terminus" as part of the following project: "Reconstruction of tram infrastructure to improve public transport in Grudziądz." The Company informed about the selection of the Company's offer as the most economically advantageous tender in the current report 33/2020. Contract net value: PLN 47.7m. Contract gross value: PLN 58.6m. Completion date: 31 October 2021. **(Current report 2/2021)**

On 3 February 2021, the Company learnt about the contract signed the Company and the City of Wrocław – Miejskie Przedsiębiorstwo Komunikacyjne sp. z o.o. for the project named: "Maintenance of tram tracks and switches in Wrocław, B region". Contract net value: Approx. PLN 18.5m. Contract gross value: Approx. PLN 22.8m. Project completion date: between 3 February 2021 and 31 December 2023. **(Current report 3/2021)**

On 12 March 2021, the Company published preliminary financial results for 2020. **(Current report 4/2021)**

On 22 March 2021, the Company received the signed annex to premium multi-purpose credit line agreement entered into between the Company and BNP Paribas Bank Polska S.A. (BNP) whereby the credit limit granted to the Company was increased from PLN 30m to PLN 65m. On the same date, the Company received the signed annex to the bond line agreement with BNP whereby the line would be available until 21 March 2022. **(Current report 5/2021)**

16. Transactions with related parties

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

Sections 7.15 and 7.15, respectively, "Transactions with related parties" of the separate and the consolidated financial statements contain detailed information about transactions with related parties.

17. 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. Banks and insurance companies have recourse against the Company.

The unused bond limit as at 31 December 2020 for the Group was PLN 191,170 thousand (including credit limits of PLN 25,507 thousand).

The unused bond limit as at 31 December 2020 for the Company was PLN 187,736 thousand (including credit limits of PLN 25,507 thousand).

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries for their liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total amount of the guarantees as at 31 December 2020 is PLN 15,056 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 2020.

18. 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 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 violations of ethical standards pursuant to the Ethical Management Policy were identified in 2020. Selected contracts with counterparties contain clauses about ethics.

18.1.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 or the cities dealing with local infrastructure, for instance Zarząd Dróg Miasta Krakowa, Tramwaje Śląskie or the City of Szczecin. 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 19 of this report.

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 2020 there were a total of fifteen cases involving damage to the assets or property of third parties worth the combined sum of PLN 245 thousand. In nine cases where damage was sustained in 2020 compensation was paid and four cases are 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.

18.2.Social issues and issues relating to the respect of human rights

The Group's employees are the key resource with an influence on the Group's activities and the key factor of the Group's success. We attach great significance to such issues as employees' rights, clear remuneration system, creation of proper work conditions, benefits other than salaries and wages and professional development. No violation of human rights was identified at the Group in 2020. 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 within the Group which conduct operating activities (i.e. 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. The anti-mobbing policy was updated in November 2019. It was incorporated into the Ethical Management Policy and became one of its chapters. 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 2020.

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 it excludes members of the Company's Management Board and the Chief 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 employees. The employees of the subsidiaries are not the parties to any corporate labour agreement.

Diversity of employees

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

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

18.3. 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 guidelines given by 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.

18.4. Counteracting corruption

Potential areas exposed to corruption risk include, in particular, the 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 a corruption clause to enable a contact with the Advisor: etyka@zue.krakow.pl.

No corruption incidents involving people employed with the Group companies were identified in 2020.

No violation of ethical standards pursuant to the Ethical Management Policy was identified in 2020.

19. Integrated Management System

The Integrated Management System has been developed and implemented at ZUE 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 Integrated Management System at ZUE is based on the following standards:

- PN-EN ISO 9001:2015-10 Quality Management Systems – Requirements;
- PN-EN ISO 14001:2015 Environmental Management Systems. Requirements with guidance for use;
- PN-ISO 45001:2018 Occupational Health and Safety Management Systems. Requirements with guidance for use.

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 covers:

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.

ZUE defined certain external and internal factors significant for the aim and strategic path of the Company's operations and the factors with an influence on the Company's ability to deliver an intended result of the quality, environmental and occupational health and safety management systems.

ZUE considers certain legal, technological, competition, market, social, cultural and economic issues as well as national, international, local or regional issues, which helps it understand the external context, and the issues relating to the organisation's values, culture, knowledge and operation, which helps it understand the internal

context. The Company also considers 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. In addition, SWOT analysis is made to highlight both strong and weak points of the organisation as well as risks and opportunities relating to the Company's development.

As a result of implementation and maintenance of the Integrated Management System, ZUE 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 great commitment of key management personnel provide the Company with an ability to properly deliver its services in Poland and on international markets where ZUE intends to carry out contracts in the future.

After the publication on 12 March 2018 of the new international standard for occupational health and safety ISO 45001:2018 and a three-year transition period, the Company was obliged in 2020 to take measures to prepare the Company for transfer audit from OHSAS 18001:2007 to ISO 45001:2018. The migration audit was carried out on 11 December 2020 based on the issues contained in the checklist and evidence delivered by the representatives of ZUE.

The audit revealed no implementation non-conformances. Observations and opportunities for improvement were recorded in the observation list. Corrective measures were implemented by the Company and verified during the recertification audit conducted in the period 18 – 22 January 2021.

The Quality, Environmental and Occupational Health and Safety Integrated Management System Policy changed with regard to the new ISO 45001:2018 standard and the ISO 9001:2015 and 14001:2015 standards. The Policy was consulted with employees' representatives (including trade unions) and approved of by the Management Board President.

The Integrated Management System Policy was supplemented with the obligation to eliminate occupational health and safety threats and reduce the related risks, consultations with employees or their representatives and involvement of employees or their representatives in activities relating to occupational health and safety.

A recertification audit of the Integrated Management System was conducted at the Company between 18 and 22 January 2021 to confirm compliance with the ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 standards.

The coronavirus pandemic caused auditors to work both remotely and in person with all security measures taken. During the audit, DNV auditors identified two small [2. degree] non-conformities with no influence on the management system's capacity to achieve its aims. The Company responded immediately and implemented corrective measures accepted both by DNV certification unit and the accreditation unit of the Netherlands. The Company was issued certificates for the next three years; i.e. until 15 February 2024. The certificates have a unique QR code so that their validity and authenticity can be checked at any moment.



20. Impact on the natural environment

The non-financial information statement contains information about the 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.

20.1. 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	
	2020	2019	2020	2019
Purchased electric energy (MWh)	620	709	0.7	0.8
Purchased thermal energy (GJ)	5,660	5,923	6.7	6.3

The Group companies did not generate electric or thermal energy in 2020.

The Group companies did not use any energy from renewable sources in 2020.

20.2. Consumption of materials

Type of material	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2020	2019	2020	2019

Rails (tonnes)	6,794	8,640	8.0	9.2
Breakstone and aggregate (tonnes)	821,756	728,843	967.2	779.6
Contact wire (km)	172	248	0.2	0.3
CU line (km)	195	205	0.2	0.2
Pre-stressed concrete sleepers (psc.)	22,820	321,381	26.9	343.8

No recycled materials were used in 2020.

20.3. Consumption of water

	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2020	2019	2020	2019
Water	2,361	24,826*	2.8	26.6
Sewage	2,361	24,826*	2.8	26.6

*A significant increase in water consumption in 2019 resulted 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 carried out in various parts of the country.

20.4. Waste

Type of waste	Amount		Amount per PLN 1,000,000 of ZUE's revenue	
	2020 (tonnes)	2019 (tonnes)	2020	2019
Hazardous waste	2,121	1,464	2.5	1.6
Other than hazardous waste	46,250	50,367	54.4	53.9

Waste was recovered in 2020 and the recovery included 11.1 thousands of tonnes of land and soil, 12.4 thousands of tonnes of concrete, 8 thousands of tonnes of breakstone and 68 tonnes of wood.

20.5. Emission of gases

Type of gas (kg)	Amount		Amount per PLN 1,000,000 of ZUE's revenue	
	2020	2019	2020	2019
CO2	4,802	25,202	5.652	26.96
CO	0.76	4.0	0.001	0.004
Dust	0.3	1.2	0.000	0.001
NO	4.8	19.3	0.006	0.021
SO	0.25	1.0	0.0003	0.0011

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

20.6. Impact on biodiversity

In the reporting period, construction works were carried out by ZUE in environmentally valuable areas or in their neighbourhood, 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 2020.

20.7. 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 2020, 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 carried out 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.

The traditional lighting is being replaced with LED lights inside and around the premises in the K. Czapieńskiego 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	
		2020	2019
Scope 1			
Emissions resulting from the consumption of fuels in buildings and systems.	Mg CO2	5	25
Emissions resulting from the consumption of fuels in transport.	Mg CO2	3,720	4,255
Total Scope 1 Emissions.	Mg CO2	3,725	4,280
Scope 1 Emissions per PLN 1,000 thousand of revenue.	Mg CO2/ PLN 1,000 thousand of ZUE's revenue	4.4	4.6
Scope 2			
Emissions resulting from the purchase of electric energy.	Mg CO2	463	528
Emissions resulting from the purchase of thermal energy.	Mg CO2	1,171	1,225
Total Scope 2 Emissions.	Mg CO2	1,634	1,753
Scope 2 Emissions per PLN 1,000 thousand of revenue.	Mg CO2/ PLN 1,000 thousand of ZUE's revenue	1.9	1.9
Scope 1+2			
Total Scope 1+2 Emissions.	Mg CO2	5,359	6,033
Scope 1+2 Emissions per PLN 1,000 thousand of revenue.	Mg CO2/ PLN 1,000 thousand of ZUE's revenue	6.3	7.8

20.8. Public funds

Nearly 94% of the Group's revenue in 2020 was generated by ZUE. 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 2020.

21. Human capital management

At 31 December 2020, the companies within the Group employed 918 people, including 187 women.

The total number of employees included 478 white-collar workers and 411 blue-collar workers.

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

Item	31.12.2019				31.12.2020			
	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	
		2019	2020	2019	2020
Employment contract for an indefinite period	F	94	101	126	131
	M	522	532	547	562
Total		616	616	633	673
Employment contract for a definite period	F	44	43	55	51
	M	187	165	196	168
Total		231	231	208	251

Number of new full-time employees:

Item	Sex	ZUE		Group	
		2019	2020	2019	2020
Number of new employees	F	27	26	36	33
	M	130	88	140	90
Total		157	114	175	123
Number of leaving employees	F	15	23	24	32
	M	79	99	87	103
Total		94	122	111	135

In 2020, the Group companies were the parties to civil law agreements concluded with 42 persons. The total gross amount of benefits paid under these agreements was more than PLN 1m.

The Group companies did not hire any temporary workers.

At the end of 2020, the Company employed eight disabled persons who accounted for 1% of the Group's total employment.

The average monthly remuneration of the Company's employees employed under employment contract in 2020 was PLN 7.9 thousand for women and PLN 8.7 thousand for men. The average wages of blue-collar workers in 2020 amounted to PLN 6.3 thousand. The ratio of the average wages of blue-collar workers to the minimum pay in 2020 was 244% (289% in 2019). The ratio of the average wages of blue-collar workers to the average pay in business sector amounted to 106% in December 2020.

At the end of 2020, the companies within the Group employed 31 foreigners whose average monthly remuneration was PLN 5.3 thousand.

The ratio of the average gross salary of women to the average gross salary of men at ZUE in 2020 was 91%.

The total amount of contributions to the State Fund for Rehabilitation of Disabled Persons (*PFRON*) was PLN 923 thousand (including PLN 834 thousand for ZUE).

There were two cases in 2020 in which a woman returned to work after childbirth and resigned within 12 months after the return.

Employment structure at the Group in 2020 according to the types of activity:

Activity	ZUE		Group	
	2019	2020	2019	2020
Management and administration	108	191	129	212
Sales and marketing	19	20	30	30
Production	457	426	457	426
Engineers and technicians	263	204	316	251
Total	847	841	932	919

Employment structure at the Group in 2020 according to education:

Education	ZUE		Group	
	2019	2020	2019	2020
Elementary	77	72	78	73
Vocational	204	197	204	197
Secondary	228	224	237	232
Higher	338	348	413	417
Total	847	841	932	919

Employment structure at the Group in 2020 according to age:

Age	ZUE		Group	
	2019	2020	2019	2020
20-30	143	155	164	175
31-40	267	276	298	304
41-50	182	181	200	197
51-60	166	159	171	166
61+	89	70	99	77
Total	847	841	932	919

Average seniority at the Group was 6.6 years in 2020 and 6.8 years in 2019.

In 2020, ZUE paid salaries and wages under employment contracts in the gross amount of PLN 93.5m.

No fines were imposed in 2020 on ZUE in connection with the employment.

Trainings	ZUE		Group	
	2019	2020	2019	2020
Number of external trainings	117	101	126	103
Number of internal trainings	0	0	0	1
Total number of trainings	117	101	126	104
Number of trained people – internal trainings	0	0	0	5
Number of trained people – internal trainings (trainings for new employees)	156	114	156	114
Total number of employees receiving trainings	760	520	784	527
Total number of participants	916	634	940	646
Language courses, external trainings - number of trained people (number of people / month)	30	0	33	1

In 2020, a total of 520 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 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 unlimited slinger signaller licences, extended licences to carry goods, 5-year trackside signaller certificates, mobile platforms installed on rail vehicles, jacks installed on rail vehicles, jacks used to lift rail vehicles and licences to direct road traffic. There were trainings for 114 new employees.

The year 2020 was exceptionally hard for everyone. It forced us to reorganize the work on many levels. We faced many restrictions and were not able to perform certain activities related to trainings. Despite the difficulties, we managed to complete 101 trainings whose total cost was PLN 157.8 thousand.

ZUE provides its employees with an ability to take part in language courses. Unfortunately, due to the coronavirus pandemic, we have not been able to organise classes since April.

ZUE participated in the Job Fair at Cracow University of Technology held in the pandemic year online as the UT Virtual Job Fair 2020, the conference entitled "HR Challenges" and the meeting of the Regional Industrial Councils.

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 their significance and their impact on the employer/employee relations

22. 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 2020, 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 by regular inspections, audits and records of the controlled activities made by the management of ZUE. The effectiveness of the Integrated Management System has been confirmed by the certificates awarded in January 2021 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 authority and the abovementioned Occupational Health and Safety Committee and relevant inspection protocols are prepared. In 2020, about 170 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 2020. The inspections carried out in 2020 by the National Work Standards and Safety Inspectorate did not reveal any significant deviations from applicable laws.

	2020	2019
Total accidents, including:	8	12
<i>Fatal</i>	0	0
<i>Serious</i>	0	0
<i>Slight</i>	8	12

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

The most common reasons for accidents at work in 2020 included human error, inattention, carelessness, haste, insufficient focus on a task and small experience of employees.

No accidents at work were reported in 2020 by the subcontractors of ZUE.

Accident frequency rate (accidents at work per 1000 of employees) was 9.4 for the Company and 7.44 for the Group.

The total number of days of employees' incapacity for work due to accidents was 720 days.

Accident seriousness rate (number of days of incapacity for work / 1 accident) in 2020 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 2020 and 2019.

	2020	2019
Occupational health and safety trainings for employees, including:*	590	598
<i>ZUE</i>	570	560
<i>Railway gft</i>	0	1
<i>BPK Poznań</i>	20	37

* 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 2020. However, the fine of PLN 1.2 thousand was imposed in 2020 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 2020. The number of employees working in the conditions where maximum admissible concentration (MAC) or maximum admissible intensity (MAI) values are exceeded was 25.

23. Engagement with local communities

The world-wide coronavirus pandemic in 2020 had a significant impact on social responsibility efforts and, consequently, reduced the Company's ability to offer its support. Certain projects were postponed and certain other projects were modified and adjusted to the new conditions. Despite the difficult situation, the Company continued to cooperate with institutions, foundations and associations by supporting social and charity projects

and sponsoring their activities.

In 2020, ZUE supported eight such projects and offered the support in the total gross amount of approximately PLN 80,000, including approximately PLN 9,000 for charity. In 2019, ZUE supported eleven projects for the total amount of approximately PLN 137,000, including PLN 40,000 for charity. The amount was smaller because of the pandemic.

ZUE 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.

The Company contributed to the protection and promotion of the national heritage and monuments by becoming a patron of the *Miracle of Light. Medieval Stained Glass in Poland* exhibition organised by the National Museum in Cracow. It is one of the corporate social responsibility efforts and a unique project enabling people to see the stained glass from the Polish public museums and private collections as well as the Polish churches and monasteries. Many exhibits had not been available to the public before. Some of them were carefully studied and conserved in recent years at the Faculty of Conservation and Restoration of Works of Art at the Academy of Fine Arts in Cracow, for example the stained glass from the former collection of the Zamoyski family in Adampol made around the year 1200.

The Company's involvement in such issues as the respect of human rights and freedom, fighting social discrimination and the initiatives aimed at the improvement of young people's skills is manifested by the Company's cooperation with the Villa Decius Association. ZUE sponsored the 17th edition of the Polish Prize of Sergio Vieira de Mello, UN High Commissioner for Human Rights (2002-2003), the 19th edition of the Visegrad Summer School, the Write and Game Summer School at the Villa Decius and the project "Enhancing Social Cohesion through Sharing the Cultural Heritage of Forced Migrations" – SO-CLOSE.

The SO CLOSE project started in 2020. The Villa Decius Association is one of the eight institutions involved in the project supervision and execution in the next three years. SO CLOSE has been created to contribute to social cohesion and fight refugee marginalization or exclusion by facilitating the encounters between similar life stories, through the mediation of innovative digital and artistic tools. Its aim is to improve social cohesion and promote mutual understanding between refugees and their local communities.

The Polish Prize of Sergio Vieira de Mello has been sponsored by ZUE for seven years. The prize is awarded every year to people and non-governmental organisations for special merits in peaceful coexistence and cooperation of communities, religions and cultures. In the 17th edition, the prize committee including Wiesław Nowak, the President of the Management Board of ZUE, awarded the prize to Hussein Koro Ibrahim Alqaidi of Iraq in the category "PERSON," the Viasna Human Rights Centre of Belarus in the category "NON-GOVERNMENTAL ORGANIZATION" and the honorary prize to Marian Turski of Poland.

In times of the global pandemic, it is important to help those who need it most. ZUE supported rehabilitation processes and the initiatives aimed at the improvement of health conditions and the promotion of healthy living. It offered financial support to:

- Foundation for the Disabled in Stróże organising hippotherapy classes for youth and children;
- *Funkomitywa* Foundation organising shows for children treated in the St. Louis Hospital in Cracow;
- *Heart for a Tiny Tot* Foundation raising money for the treatment and rehabilitation of their patients; and
- *Poland Business Run* Foundation supporting people with physical disability.

23.1. 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.

23.2.Complaints made by the local community and the Company's response

In 2020, local communities complained about nuisances caused by the construction works carried out 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 2020 are similar to the factors influencing the condition of ZUE discussed in sections 24-26.

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

The Company's sales revenue generated in 2020 was PLN 849,649 thousand. The Company's revenue decreased by 9% compared to the figure reported in 2019 and increased by 11% compared to the figure reported in 2018. In the fourth quarter of 2020, ZUE generated 28% of annual revenue.

Seasonal character of sales at ZUE in 2020:

Item	I quarter	II quarter	III quarter	IV quarter
Sales revenue (PLN '000)	152,324	230,095	228,345	238,885
% - quarter	18%	27%	27%	28%
% - half year	45%		55%	

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

	Group		ZUE	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Sales revenue	901,358	996,215	849,649	934,899
Cost of sales	870,040	968,268	821,626	911,825

Gross profit (loss) on sales	31,318	27,947	28,023	23,074
<i>Gross margin</i>	3.5%	2.8%	3.3%	2.5%
General and administrative expenses	23,405	21,173	19,378	17,083
Other operating income	4,624	1,938	2,926	1,089
Other operating expenses	1,917	842	1,789	779
Operating profit (loss) (EBIT)	10,620	7,870	9,782	6,301
<i>EBIT margin</i>	1.2%	0.8%	1.2%	0.7%
EBITDA	23,926	21,040	22,919	19,312
<i>EBITDA margin</i>	2.7%	2.1%	2.7%	2.1%
Financial income	1,383	1,227	1,705	1,465
Financial expenses	1,992	2,344	1,452	1,846
Pre-tax profit (loss)	10,011	6,753	10,035	5,920
Corporate income tax	5,746	2,976	5,673	2,785
Net profit (loss) from continuing operations	4,265	3,777	4,362	3,135
Net profit (loss)	4,265	3,777	4,362	3,135
<i>Net margin</i>	0.5%	0.4%	0.5%	0.3%

The Company's gross margin improved in 2020 and was 3.3% (2.5% in 2019). The Company reported positive results at all profit levels. ZUE is one of major contractors of the National Railway Programme until 2023 (the "NRP") – the modernisation project of key significance for the Polish railways. In 2019-2020, the value of services provided by ZUE was more than PLN 800m owing to the Company's significant involvement in the execution of projects under the NRP. In 2020, the Company performed several railway contracts won on the difficult market of 2016-2017. They were the low-margin contracts and the reasons for this included 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. Many of these contracts are scheduled for completion in 2021.

In 2020, the Company won the new contracts with the total value of approx. PLN 269m. The total value of ZUE's backlog is approx. PLN 1.47bn. It mainly includes railway contracts but is diversified by increasing the number of urban contracts. Since November 2020, the Company the three contracts on the urban market, including two "build" contracts and one "maintain" contract worth in total approx. PLN 208m. The project completion dates on the urban market are shorter and do not include design activities. Accordingly, the risks relating to project execution are much smaller when compared with the risks associated with railway contracts.

PKP PLK, the entity dealing with railway projects in Poland, said it planned to announce by the end of the year the tenders worth approx. PLN 17bn to carry out the final projects under the NRP and the projects under the new 2021-2027 EU perspective. There will be mainly the "build" projects. This should limit the Company's exposure to unexpected changes in production prices. ZUE intends to take an active part in the said tender procedures and is hoping that the contracts will soon be awarded.

Compared to 2019, ZUE's gross profit on sales grew by PLN 4,949 thousand to PLN 28,023 thousand at the end of 2020.

The Company reported other operating income of PLN 2,926 thousand – up by 169% compared to the analogous period of 2019. Other operating expenses amounted to PLN 1,789 thousand and increased over the year by 130%.

Operating profit generated by ZUE in 2020 was PLN 9,782 thousand (year-on-year increase by 55%).

ZUE's financial income increased over the year by 16% and stood at PLN 1,705 thousand. ZUE's financial expenses amounted to PLN 1,452 thousand – down by 21% compared to 2019.

In 2020, the Company reported the net profit of PLN 4,362 thousand (year-on-year increase by 39%).

25. 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 2020 and the comparative information at 31 December 2019.

Item (PLN '000)	Group		ZUE	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
ASSETS				
Non-current assets				
Property, plant and equipment	63,601	56,525	63,380	53,695
Investment property	6,497	5,877	6,497	9,487
Intangible assets	2,073	1,521	2,047	1,484
Right-of-use assets	41,900	57,092	41,675	56,059
Goodwill	31,172	31,172	31,172	31,172
Investments in subordinates	0	0	221	221
Retentions on construction contracts	8,515	9,758	8,472	9,455
Deferred tax assets	14,556	20,202	14,296	19,954
Advanced loans	0	0	22	107
Other assets	224	189	0	0
Total non-current assets	168,539	182,336	167,782	181,634
Current assets				
Inventories	25,306	30,353	22,110	25,114
Trade and other receivables	149,222	185,772	141,335	175,133
Measurement of long-term construction contracts	146,929	111,893	138,371	99,287
Retentions on construction contracts	4,371	3,057	4,042	2,984
Advance payments	3,123	9,722	3,692	10,291
Current tax assets	0	0	0	0
Other financial assets	0	0	0	0
Advanced loans	10	0	1,702	95
Other assets	646	1,126	462	814
Cash and cash equivalents	23,487	30,378	20,230	27,979
Current assets	353,094	372,301	331,944	341,697
Assets held for sale	3,340	0	3,544	0
Total current assets	356,434	372,301	335,488	341,697
Total assets	524,973	554,637	503,270	523,331

Item (PLN '000)	Group		ZUE	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
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	57,589	53,386	56,691	52,386
Total equity	154,494	150,291	153,596	149,291
Equity attributable to non-controlling interests	155	150	-	-
Total equity	154,649	150,441	153,596	149,291
Non-current liabilities				
Long-term loans and bank credits	4,443	13,333	4,443	13,333
Long-term lease liabilities	12,386	12,450	12,291	12,385
Retentions on construction contracts	18,821	12,946	17,841	12,505
Other financial liabilities	0	0	0	0
Liabilities under employee benefits	1,411	2,092	1,358	1,200
Provision for deferred tax	129	48	0	0
Long-term provisions	15,086	12,449	14,670	12,076
Other liabilities	0	0	0	0
Total non-current liabilities	52,276	53,318	50,603	51,499
Current liabilities				
Trade and other payables	135,073	165,631	127,583	156,784
Accruals	65,617	61,422	61,490	54,041
Measurement of long-term construction contracts	3,659	4,584	,3,310	4,247
Retentions on construction contracts	19,393	19,807	18,911	19,167
Advance payments	28,841	27,890	28,741	27,788
Short-term loans and bank credits	13,108	15,983	8,890	6,667
Short-term lease liabilities	9,130	10,016	9,051	9,931
Other financial liabilities	36	106	36	36
Liabilities under employee benefits	33,313	29,497	31,188	27,671
Current tax liabilities	5	0	0	0
Short-term provisions	9,873	15,942	9,871	16,209
Total current liabilities	318,048	350,878	299,071	322,541
Total liabilities	370,324	404,196	349,674	374,040
Total equity and liabilities	524,973	554,637	503,270	523,331

As at 31 December 2020, total assets and liabilities amounted to PLN 503,270 thousand and decreased by 4% compared to total assets and liabilities reported at the end of 2019.

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

Item	PLN '000		
	Change compared to 31.12.2019	Balance at 31.12.2020	Description
Assets			
Right-of-use assets	-14,384	41,675	The change mainly results from the end of leases and current payment.
Measurement of long-term construction contracts	+39,084	138,371	More construction works performed in connection with construction contracts.
Trade and other receivables	-33,798	141,335	Settlement of certain completed construction works.
Cash and cash equivalents	-7,749	20,230	Use of cash to conduct operating activities.
Equity and liabilities			
Long-term loans and bank credits	-8,890	4,443	Repayment of financial liabilities.
Trade and other payables	-29,201	127,583	Settlement of certain completed construction works.
Accruals	+7,449	61,490	Increase in provisions for subcontractors in connection with performed contracts.
Short-term provisions	-6,338	9,871	Decrease in connection with progress in construction works.

26. Discussion of items of the statement of cash flows

The Company's cash flows from operating activities of [PLN 11,520 thousand] were mainly influenced by changes in receivables, payables, advance payments and measurement of construction contracts.

The Company's cash flows from investing activities of [PLN (-) 7,632 thousand] were mainly influenced by the purchase of non-current assets and intangible assets financed by own resources.

The Company's cash flows from financing activities of [PLN -11,643 thousand] were mainly influenced by loans and credits and a decrease in lease liabilities.

Item (PLN '000)	Group		ZUE	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Cash flows from operating activities	16,314	-53,530	11,520	-52,549
Cash flows from investing activities	-6,051	-2,245	-7,632	-2,508
Cash flows from financing activities	-17,160	4,432	-11,643	3,634
Total net cash flows	-6,897	-51,343	-7,755	-51,423
Foreign exchange gains / losses	6	-2	6	-2
Cash and cash equivalents at the beginning of the period	30,378	81,723	27,979	79,404

Cash and cash equivalents at the end of the period	23,487	30,378	20,230	27,979
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27. Discussion of results reported by segments

The total amount of revenue generated by the Group is PLN 901,358 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	849,649	52,395	11,082	-11,768	901,358
Gross profit on sales	28,023	2,492	1,081	-278	31,318
Net profit	4,362	-21	74	-150	4,265

Sales activities conducted at the Group by Railway gft generated in 2020 6% of the consolidated revenue (before exclusions). Design activities conducted by BPK Poznań generated in 2020 1% of the consolidated revenue (before exclusions). Design activities complement construction activities.

28. 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.

28.1. Debt ratio

Item	Group		ZUE		Calculation rules
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	
Net debt	15,615	21,510	14,481	14,373	(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	0.7	0.7	0.8	(non-current and current liabilities + provisions for liabilities) / total assets
Debt to equity ratio	2.4	2.7	2.3	2.5	(non-current and current liabilities) / equity
Equity to assets ratio	0.3	0.3	0.3	0.3	equity / total assets

Fixed capital to non-current assets ratio	1.2	1.1	1.2	1.1	(equity + non-current liabilities) / non-current assets
Short-term debt ratio	0.6	0.6	0.6	0.6	current liabilities / total assets
Long-term debt ratio	0.3	0.4	0.3	0.3	non-current liabilities / equity
Interest coverage ratio	7.4	4.3	7.7	6.4	EBIT / interest paid

28.2.Liquidity ratios

Item	Group		ZUE		Calculation rules
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	
Working capital	38,386	21,423	36,417	19,156	current assets – current liabilities
Current ratio	1.1	1.1	1.1	1.1	current assets / current liabilities
Quick ratio	1.0	1.0	1.0	1.0	(current assets – inventory) / current liabilities
Cash ratio	0.07	0.09	0.07	0.09	cash and cash equivalents / current liabilities

28.3.Financing structure ratios

Item	Group		ZUE		Calculation rules
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	
Equity to assets	0.3	0.3	0.3	0.3	equity / total assets
Equity to non-current assets	0.9	0.8	0.9	0.8	equity / non-current assets
Debt ratio	0.7	0.7	0.7	0.7	(total assets - equity) / total assets
Debt to equity ratio	2.4	2.7	2.3	2.5	(total assets - equity) / equity

28.4.Profitability ratios

Item	Group	ZUE	Calculation rules
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	31.12.2020	31.12.2019	31.12.2020	31.12.2019	
Gross profit margin	3.5%	2.8%	3.3%	2.5%	<i>gross profit / revenue</i>
EBITDA	23,926	21,040	22,919	19,312	<i>operating profit + depreciation / amortisation</i>
EBITDA margin	2.7%	2.1%	2.7%	2.1%	<i>EBITDA / revenue</i>
EBIT margin	1.2%	0.8%	1.2%	0.7%	<i>EBIT / revenue</i>
Gross margin	1.1%	0.7	1.2%	2.5%	<i>gross profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
Net margin	0.5%	0.4%	0.5%	0.7%	<i>net profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
ROA	0.81%	0.7%	0.87%	0.6%	<i>net profit / total assets</i>
ROE	2.84%	2.58%	2.92%	2.14%	<i>net profit / equity</i>

29. 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.

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

No separate or consolidated financial projections for the financial year 2020 were published by the Company.

31. Investments

31.1. Investments made in 2020

The total capital expenditure in the statement of cash flows disclosed in the reporting period amounted to PLN 7,369 thousand.

As at 31 December 2020, net liabilities incurred to purchase property, plant and equipment amounted to PLN 183 thousand.

As at 31 December 2019, net liabilities incurred to purchase property, plant and equipment amounted to PLN 893 thousand.

Major investments in property, plant and equipment and intangible assets made by the Group in the reporting period:

- Complete overhauls of vehicles (mainly wagons) – PLN 3,484 thousand;
- Purchase of trucks – PLN 938 thousand;
- Implementation of a new ERP system – PLN 564 thousand;
- Purchase of lifting devices – PLN 283 thousand;
- Purchase of excavators – PLN 393 thousand.

In 2020, the Group sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 799 thousand. In 2019, the Group sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 111 thousand.

31.2. Assessment of intended investments

New investments in property, plant and equipment as well as intangible assets will be made by the Company and the Group 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 the intended projects.

The table below sets out the use of bank credits, multipurpose lines and loans as at 31 December 2020.

ZUE				
Bank / entity	Description	Principal according to the agreement [PLN '000]	Amount used as at 31.12.2020 [PLN '000]	Repayment date
mBank S.A. (i)	Overdraft	10,000	0	2021-07-09
mBank S.A. (ii)	Cooperation agreement	25,000	0	2021-05-31
	including:			
	sublimit for bonds	21,600	0	
mBank S.A.	sublimit for working capital credits	3,400	0	2021-05-31
	Master Agreement	100,000	44,227	
	including:			
BNP PARIBAS (iii)	sublimit for bonds	100,000	44,227	2021-01-28
	Multipurpose line of credit agreement	100,000	44,752	
	including:			
BNP PARIBAS (iv)	sublimit for bonds	100,000	44,752	2022-07-30
	Premium multipurpose line of credit agreement	30,000	26,093	
	including:			
PEKAO SA (v)	sublimit for bonds	30,000	26,093	2021-11-30
	Overdraft	3,907	0	
	Multipurpose credit limit agreement	50,000	42,076	
Agencja Rozwoju Przemysłu SA (vi)	including:			2022-06-30
	sublimit for bonds	50,000	42,076	
Magdalena Lis	Loan agreement concerning BPK	20,000	20,000	indefinite
Railway gft				
mBank S.A. (vii)	Working capital credit	268	268	2021-01-29
mBank S.A. (viii)	Master Agreement	3,950	3,950	2021-01-29
	including:	6,200	2,707	
	sublimit for bonds	6,200	2,707	
Total use of credits at the Group			24,213	
Total use of bonds at the Group			159,855	

- (i) On 9 July 2020, the Company and mBank signed the annex to the overdraft agreement whereby the repayment date was extended by another year and the type of security was changed. According to the agreement, the tenor is until 30 July 2030.
- (ii) On 26 May 2020, the Company and mBank signed the annex whereby the maturity date was extended by one year, the type of security was changed and the available limit was reduced.
On 10 June 2020, the Company entered into the working capital credit as part of the sublimit available under the Master Agreement.
On 11 December 2020, the Company and mBank signed the annex no. 2 to the working capital credit agreement whereby a new repayment schedule was defined.
On 3 March 2021, the Company fully repaid the credit granted on 10 June 2020 before the deadline.
- (iii) On 28 January 2020, the Company and BNP Paribas signed the annex to the multipurpose line of credit agreement whereby the line was extended for another year and the available limit was reduced from PLN 170m to PLN 100m and could be used only for bonds. No credit can be taken out under the agreement and, consequently, the agreement is not disclosed by the Company in the table of credit agreement and the available limit is disclosed only in the list of limits. On 22 March 2021; i.e. after the end of the reporting period, the Company signed the annex whereby the limit would be available until 21 March 2022.
- (iv) On 30 July 2020, the Company and BNP Paribas signed the new *premium* multipurpose line of credit agreement whereby the Company was granted the credit limit of up to PLN 30m which could be used for bonds or overdraft up to PLN 4m. After the end of the reporting period, the Company signed the amendment no. 1 to the agreement whereby the limit was raised to PLN 65m.
- (v) On 1 December 2020, the Company and Bank Pekao signed the annex to the multipurpose credit limit agreement whereby the limit could be used until 30 November 2021.
- (vi) In 2020, ZUE repaid PLN 6.7m under the loan granted by Agencja Rozwoju Przemysłu SA and the balance as at 31.12.2020 was PLN 13.3m.
- (vii) On 19 August 2020, the related company signed the annex to the working capital credit agreement whereby the repayment date was extended until 30 November 2020 and the new repayment schedule was defined.
On 18 November 2020, the related company signed the annex to the agreement whereby the repayment date was

extended until 29 January 2021 and the new repayment schedule was defined.

On 26 January 2021; i.e. after the end of the reporting period, the related company signed the annex whereby the credit repayment date was extended until 31 May 2021.

(viii) On 22 May 2020, the related company signed the annex to the master agreement whereby the limit was reduced and a type of security changed.

On 21 August 2020, the related company signed the annex to the master agreement whereby the limit could be used until 30 November 2020.

On 18 November 2020, the related company signed the annex to the master agreement whereby the limit could be used until 29 January 2021.

After the end of the reporting period:

On 26 January 2021, Railway gft and mBank S.A. signed the annex whereby the limit could be used until 31 May 2021.

On 3 March 2021, the Company fully repaid the working capital credit granted on 10 June 2020 before the deadline.

On 22 March 2021, the Company received from BNP Paribas the signed annex to *premium* multipurpose line of credit agreement whereby the limit granted to the Company was raised to PLN 65m and the type of security was changed. The tenor remained unchanged.

On 22 March 2021, the Company and BNP Paribas signed the annex to the multipurpose line of credit agreement whereby the limit could be used for a longer time until 21 March 2022.

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. As at 31 December 2020, the amount of unused credit lines for the Group and the Company was PLN 17,307 thousand.

In 2020, the Company continued to finance its capital expenditures with finance lease or leaseback and adjusted the repayment dates to its backlog. The Company periodically financed its operations with working capital credit. 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 under loans and credits was PLN 17,551 thousand and the debt under leases was PLN 21,516 thousand.

The Group's cash and cash equivalents at the end of 2020 was PLN 23,487 thousand.

In the reporting period, the Group granted the special-purpose loans of PLN 90 thousand to subsidiaries.

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;
- 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 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 cash flow forecasts reporting.

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 2020, 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 2020, 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 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 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 a decision about the participation is made by the entity convening the meeting. 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 "traditional" 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 were previously 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 was defined by the General Meeting. On 30 July 2020, the Company's Ordinary General Meeting resolved to adopt the Remuneration Policy for members of the Company's Management and Supervisory Boards. The Remuneration Policy has been in force since the date of adoption by the General Meeting. Variable remuneration payable to members of the Company's Management Board for 2020 (annual bonuses) will be defined and paid on the same basis as before.

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

Taking into consideration the matter of trade secret and strong competition and the fact that the Remuneration Policy referred to in the Company's comment to VI.R.1 will be in force since 2021, the Company will continue to present the information on remuneration for 2020 according to the current applicable laws. However, the Company adopted the Remuneration Policy in July 2020 and in the future it may include the remuneration policy report in the reports on activities. Regardless of this, the Company states that pursuant to applicable laws, the next ordinary general meeting of the Company will deal with the Supervisory Board's report on remuneration prepared according to the Public Offering Act.

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." Certain tasks within individual functions or systems were decentralised in 2020 and were carried out in the Company's individual organisational units.

Key characteristics of ZUE's risk management internal control system 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 were maintained in 2020 with the use of the Microsoft Dynamics AX system, which could be accessed by authorised personnel only. In February 2021, the Company implemented a new ERP system by IFS to significantly improve the safety and efficient circulation of information within the organisation. 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.

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

Due to 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. 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 the areas to which potential material risks relate, 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.

Due to 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.

35. Shares and shareholding structure

36.1. Share capital structure

As at 31 December 2020, the registered share capital disclosed in the financial statements was PLN 5,757,520.75.

Share capital as at 24 March 2021

(PLN '000)

Class / issue	Type of shares	Number of shares	Value of class/issue at par value	Contribution	Registration date (Right to dividend from registration)
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					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 2020, the share capital structure was the same as at 24 March 2021.

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 2020.

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 25 March 2021	% 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	1,460,000 ⁽²⁾	6.34%	1,400,000	6.08%
PKO Bankowy OFE	1,778,681 ⁽³⁾	7.72%	1,500,000	6.51%
Other	5,391,082 ⁽⁴⁾	23.41%	5,729,763	24.88%
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 2020): 18 November 2020.

(2) Shareholding on the basis of information provided by the Central Securities Depository of Poland for the purposes of the Ordinary General Meeting of ZUE held on 30 July 2020. According to the Company's best knowledge, the information is valid as the date of publication of this report.

(3) Shareholding on the basis of information provided by the Central Securities Depository of Poland for the purposes of the Ordinary General Meeting of ZUE held on 30 July 2020. According to the Company's best knowledge, the information is valid as the date of publication of this report.

(4) 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 24 March 2021	Nominal 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 2020): 18 November 2020.

According to the best knowledge of the Company's Management Board, other members of the Issuer's management or supervisory bodies did not hold any ZUE shares at this report preparation 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 2020.

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

36.9. Issue of securities

No securities were issued by the Group companies in 2020.

GOVERNING BODIES

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

37.1. Management Board of ZUE

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

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

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

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

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

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

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

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

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

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

Section 7.18 Remuneration of key management personnel of the separate financial statements presents the remuneration paid to the members of the Company's Management Board.

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

All employment contracts signed by 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
Piotr Korzeniowski	Supervisory Board Member

Michał Lis

Supervisory Board Member

Mr. Mariusz Szubra and Mr. Piotr Korzeniowski meet the independence criteria referred to in the Act on Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, item 1089, as amended).

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.

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

Members of the Management Board of ZUE are appointed for the common term of three years and removed from the office by the Supervisory Board. The Management Board of ZUE has no power to decide about the issue of shares. The only body authorised to make such decisions is the General Meeting. Powers of the Management Board of ZUE to make decisions concerning share buybacks are as stipulated in the Act.

39. Audit Committee

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

In 2020, the Audit Committee operated uninterruptedly and was composed of:

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

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

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

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

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

- Monitoring of financial reporting;
- Monitoring of effectiveness of the Company's internal control systems, risk management systems and internal audit, including financial reporting;
- Monitoring of financial audit including, in particular, audits of the Company's financial statements conducted by audit firms and taking into consideration any comments and findings of the Auditing Oversight Committee following from an inspection carried out at the audit firm;
- Control and monitoring of independence of an auditor or audit firm delivering services to the Company;
- Informing the Supervisory Board about the results of the Company's financial statements audit and explaining how the audit contributes to reliable financial reporting at the Company and the role of the Committee during the audit;

- Assessment of an auditor's independence and giving consent to the provision of services to the Company by the said auditor;
- Developing the policy of appointing an audit firm to conduct the audit of the Company's financial statement;
- Developing the policy of delivering non-audit services by an audit firm conducting the audit of the financial statements, entities related to the said audit firm and a member of the audit firm network;
- Defining the procedure of appointment of an audit firm by the Company; and
- Making recommendations to ensure reliable financial reporting at the Company.

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

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

The Audit Committee's recommendation concerning the appointment of 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 2020, 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-Audit Sp. z o.o. 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.

Shareholders may also participate in the General Meeting by means of electronic communication, unless the Articles of Association provide otherwise. A decision about such a participation is made by the entity convening the 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

The organisational structure of the Company in 2020 did not change considerably when compared with 2019. 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 2020.

46. Preparation basis

This Management Board Report on the Activities of ZUE between 1 January – 31 December 2020 contains the information whose scope has been defined 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 the Activities of the Parent Company referred to in § 70.1.4 of the Regulation. Accordingly, no separate Report on the Activities of the Parent Company is published by the Issuer.

The financial statements of the Company and the Group for the financial year 2020 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 non-financial information statement 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 non-financial information statement has been prepared on the basis of the new Non-Financial Information Standard (the Standard) developed by the Reporting Standards Foundation. The non-financial information statement 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 non-financial information statement 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 Łukasiewiczza Street no. 1, 31-429 Cracow, was appointed to audit the separate and consolidated financial statements of ZUE for the financial year 2020.

The Agreement with Polinvest-Audit Sp. z o.o. provides for:

- 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 duration of the audit.

The net remuneration of Polinvest-Audit Sp. z o.o. for the audit and review of the financial statements for 2020 was set as PLN 120 thousand.

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

No other services were provided in the reporting period by Polinvest-Audit Sp. z o.o. 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:

There are no pending court proceedings concerning liabilities.

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 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 11.5m (out of which PLN 2.9m 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."

An expert opinion is being prepared. The date of the next trial has not been set.

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 Biadolino – 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 PLN 347 thousand plus statutory default interest from 21 December 2016 to the date of payment and dismissed ZUE's claim concerning the payment of PLN 283 thousand 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 thousand plus statutory interest and the Defendant appealed against the order to pay PLN 347 thousand 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 and the partial judgment became final and binding. The date of the next trial was set as 8 April 2021.

Court case relating to contractual claims

The Group previously declared its intention to make contractual claims relating to railway projects in order to increase the amount of remuneration payable to the contractor for the performance of the railway contracts in case of any risks beyond the contractor's control. On 28 April 2020, the claim of approx. PLN 34.8m was lodged against PKP PLK S.A. with the District Court in Warsaw to increase/pay the remuneration for the performance of the following contract: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." The case is pending. The Parties exchange the pleadings. The Defendant (PKP PLK S.A.), represented by the General Counsel to the Republic of Poland, responded to the claim and applied for the dismissal thereof and the Plaintiff upheld the claim.

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 2020 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 the 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 the 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 19 March 2021 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 Audit Sp. z o.o. and members of the team involved in the audit of the separate and consolidated financial statements of the Company and the Group for 2020 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, 24 March 2021