



**MANAGEMENT BOARD REPORT ON THE
ACTIVITIES OF THE PARENT COMPANY
AND THE CAPITAL GROUP FOR THE
FINANCIAL YEAR 2021**

Contents

OPERATIONAL INFORMATION – NON-FINANCIAL INFORMATION	6
1. <i>Organisation of the Capital Group</i>	6
1.1. <i>Structure of the Capital Group</i>	6
1.2. <i>Changes in the structure of the Parent Company and the Capital Group in 2021 and their consequences</i>	7
2. <i>Activities of the Capital Group</i>	7
2.1. <i>Business model</i>	7
2.2. <i>Principal place of business</i>	8
2.3. <i>Value chain</i>	8
3. <i>Sales markets</i>	9
4. <i>Customer profile</i>	11
5. <i>Supply sources</i>	11
6. <i>Baglog</i>	12
7. <i>Regulatory environment</i>	12
8. <i>Strategic objectives of the Group</i>	12
9. <i>Development prospects</i>	13
10. <i>Factors believed by the Issuer to have an influence on the Issuer's and the Group's development</i>	17
11. <i>Risks believed by the Group to have influence on the Group's future results</i>	17
12. <i>Risks related to social and employee issues, natural environment, respect of human rights and counteracting corruption</i>	21
13. <i>Risks related to climate and climate policy</i>	22
14. <i>Influence of the coronavirus pandemic on the Group's activities</i>	22
15. <i>Influence of the situation in Ukraine on the Group's activities</i>	24
16. <i>Major events in the reporting period</i>	24
16.1. <i>Construction works</i>	24
16.2. <i>Financial agreements</i>	25
16.3. <i>Corporate events</i>	26
17. <i>Major events after the end of the reporting period</i>	26
18. <i>Transactions with related parties</i>	26
19. <i>Bonds and guarantees</i>	26
20. <i>Description of policies relating to social and employee issues, natural environment, respect of human rights and counteracting corruption</i>	27
20.1. <i>Social issues</i>	27
20.2. <i>Social issues and issues relating to the respect of human rights</i>	28
20.3. <i>Natural environment</i>	29
20.4. <i>Counteracting corruption</i>	29
20.5. <i>Protection of privacy</i>	30
21. <i>Integrated Management System</i>	30
22. <i>Impact on the natural environment</i>	32
22.1. <i>Consumption of energy</i>	32
22.2. <i>Consumption of materials</i>	32
22.3. <i>Consumption of water</i>	33
22.4. <i>Waste</i>	33
22.5. <i>Emission of gases</i>	33
22.6. <i>Impact on biodiversity</i>	33
22.7. <i>Climate issues</i>	33
22.8. <i>EU Taxonomy eligibility</i>	35
22.9. <i>Public funds</i>	36
23. <i>Human capital management</i>	36
24. <i>Management of occupational health and safety</i>	39
25. <i>Engagement with local communities</i>	41
25.1. <i>Corporate policy and social involvement</i>	42

25.2. Complaints made by the local community and the Company's response	42
FINANCIAL INFORMATION.....	42
26. Discussion of major items of the statement of profit or loss	42
27. Discussion of major balance sheet items.....	44
28. Discussion of items of the statement of cash flows.....	46
29. Discussion of results reported by segments.....	46
30. Analysis of ratios.....	47
30.1. Debt ratio.....	47
30.2. Liquidity ratios	48
30.3. Financing structure ratios.....	48
30.4. Profitability ratios.....	48
31. Unusual factors and events with significant influence on the Group's results	49
32. Statement by the Management Board of ZUE on financial projections.....	49
33. Investments.....	49
33.1. Investments made in 2021	49
33.2. Assessment of intended investments.....	49
34. Management of financial resources.....	49
35. Financial risk management	51
STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES	52
36. Scope of application of corporate governance principles	52
37. Key characteristics of ZUE's risk management internal control system relating to the preparation of financial statements.....	58
38. Assessment of internal control and risk management systems as well as supervision of compliance with the law and internal audit	58
39. Shares and shareholding structure.....	58
39.1. Share capital structure	58
39.2. Treasury shares.....	59
39.3. Shareholding structure.....	59
39.4. Shares of ZUE and related parties held by members of the Issuer's management and supervisory bodies	59
39.5. Holders of securities conferring special control powers	60
39.6. Restrictions on exercise of voting rights.....	60
39.7. Restrictions on transferability of securities.....	60
39.8. Agreements known to the Issuer likely to cause changes to the proportions of shares held by the existing shareholders.....	60
39.9. Issue of securities	60
GOVERNING BODIES.....	61
40. Composition and rules governing the operation of the Company's management and supervisory bodies and their committees.....	61
40.1. Management Board of ZUE.....	61
40.2. Agreements between the Issuer and managing personnel providing for compensation for resignation or dismissal 61	
40.3. Supervisory Board of ZUE.....	62
41. 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	62
42. Audit Committee	63
43. Amendments to ZUE's Articles of Association	64
44. Operation of the General Meeting of ZUE.....	64
45. Changes to basic rules of management of the Issuer's enterprise and its capital group.....	65
46. Diversity policy applied to the Issuer's governing bodies and key managers	65
OTHER INFORMATION ABOUT THE GROUP	67
47. Employee share scheme control system.....	67
48. Liabilities under pension and similar benefits	67
49. Preparation basis.....	67

50. Major research and development projects.....	67
51. Appointment of entity authorised to audit financial statements	67
52. Court proceedings.....	68
53. Other information significant for the assessment of the Issuer's position	69
STATEMENTS BY THE MANAGEMENT BOARD OF ZUE S.A.	69
54. Statement of compliance.....	69
55. Statement on the appointment of auditor	70
56. Signatures of the management personnel	71

Abbreviations and definitions:

ZUE, Company, Issuer, Parent Company	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. Parent company of the ZUE Capital Group.
BPK Poznań	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. Subsidiary of ZUE.
Railway gft	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. Subsidiary of ZUE.
RTI	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 280,000 paid up in full. Subsidiary of ZUE.
RTI Germany	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. The company was removed from the register on 14 July 2021. Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft and RTI.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Uniform text, Journal of Laws of 2020, item 1526).

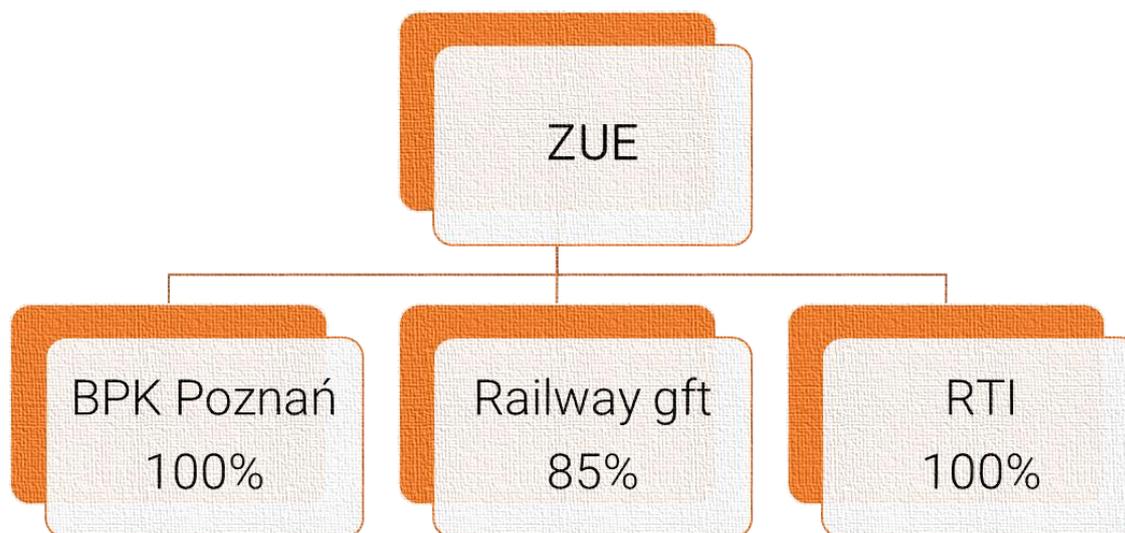
Share capital details as at 31 December 2021.

OPERATIONAL INFORMATION – NON-FINANCIAL INFORMATION

1. Organisation of the Capital Group

1.1. Structure of the Capital Group

Structure of the Capital Group as at 31 December 2021 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.

The companies within the Capital Group have been incorporated for indefinite period. 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 2021:

- | Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.

| Railway gft Polska Sp. z o.o.
 ZUE has the power to govern the financial and operating policies of BPK Poznań and Railway gft because at 31 December 2021, it held a 100% and 85% interest, respectively, in the companies.

At 31 December 2021, 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.

1.2. Changes in the structure of the Parent Company and the Capital Group in 2021 and their consequences

No major changes to the Group's structure occurred between the beginning of 2021 and the date of approval of these financial statements, except for the following changes.

W On 12 July 2021, the Extraordinary Shareholders Meeting of RTI resolved to increase the share capital of RTI from PLN 260 thousand to PLN 280 thousand through the creation of 400 new shares with the par value of PLN 50 each. All the new shares with the total value of PLN 20 thousand were acquired by the existing shareholder; i.e. ZUE.

On 14 July 2021, an entry was made in the District Court of Dresden to complete the liquidation process and remove RTI Germany from the register. Accordingly, the company was removed from the structures of the Group.

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:

- o 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;
- o Maintenance of tram and street lighting infrastructure.

| **Rail infrastructure**, including:

- o Construction and upgrade of railway tracks, railway traction, railway traffic control devices and telecommunications technology, traction substations, power lines, stations and civil structures.



In 2021, 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 complement 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

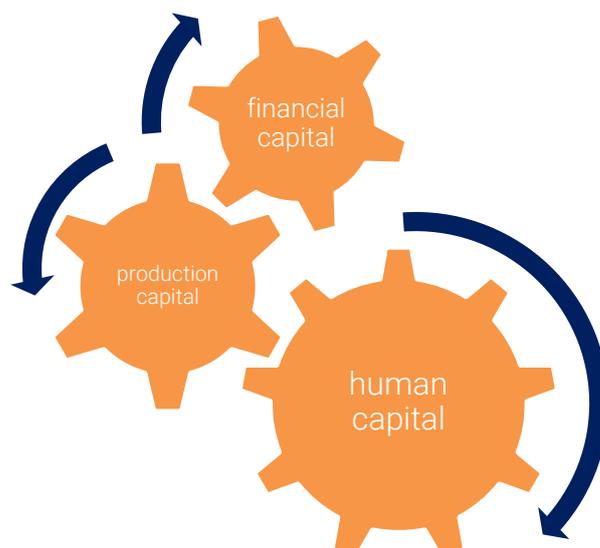
Cracow is the registered office of ZUE, Railway gft and RTI. BPK Poznań has its registered office in Poznań. The Group operates mainly on the Polish market and continues its efforts to win construction contracts abroad. In 2021, the Group carried out urban infrastructure contracts in such cities as Szczecin, Gorzów Wielkopolski, Grudziądz 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 2021, 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 and rail 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:



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 (as 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 contain the clauses dealing with safety at work.

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

Contracts with counterparties do not contain any human rights clauses (including clauses on working children or forced labour). Certain contracts with counterparties deal with ethical issues.

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 item 2.1.

The table below sets out the biggest contracts performed in 2021:

Contract	Contracting authority	Status	Contract value as at 31.12.2021 (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 PLK S.A.	In progress	582,722
Design and construction services in connection with the project no. 1: “Works on the Chabówka - Zakopane railway line no. 99” and the project no. 2: “Construction of railway link in Chabówka along the Sucha Beskidzka – Chabówka railway line no. 98 and the Chabówka – Zakopane railway line no. 99.”	PKP PLK S.A.	In progress	394,123
Design services and construction works in connection with the following project: “Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section” executed as part of Eastern Poland Operational Programme.	PKP PLK S.A.	In progress	390,145
Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section, Infrastructure and Environment Operational Programme (IEOP) 5.1-12.	PKP PLK S.A.	In progress	303,050
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 PLK S.A.	In progress	301,546
Design and construction services in connection with the project named: “Construction of the Annapol depot”.	Tramwaje Warszawskie sp. z o.o.	In progress	266,301
Reconstruction of the tram line and traction in the Nabrzeże Wieleckie, Nowa, Dworcowa, Kolumba, Chmielewskiego and Smolańska Streets and the Powstańców Wlkp. Avenue and the extension of the Pomorzany terminus in Szczecin.	City of Szczecin, Szczecińska Energetyka Ciepła Sp. z o.o., Zakład Wodociągów i Kanalizacji Sp. z o.o.	In progress	212,970
Reconstruction of the tram line 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).	City of Szczecin	In progress	152,913

Preparation of design documentation and completion of construction works as part of "design-build" project in connection with the Infrastructure and Environment Operational Programme (IEOP) 5.1-16 "Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section."	PKP PLK S.A.	In progress	91,824
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	78,440
Preparation of building and detailed designs and the completion of LOT B works as part of "design-build" project in connection with the Infrastructure and Environment Operational Programme (IEOP) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II.	PKP PLK S.A.	In progress	77,609
Restoration of railway infrastructure on the Dorota - Sosnowiec Dańdówka section, line no. 171, as part of the following investment project: "Works on the south eastern part of the Upper Silesian Industrial Region ring road and adjacent sections."	PKP PLK S.A.	In progress	69,008
Provision of bicycle lanes and reconstruction of road infrastructure along the Królowej Jadwigi and Piłsudskiego Streets (country road) in Dąbrowa Górnicza as part of the following project: "Promotion of green transport in Dąbrowa Górnicza – Stage III." Construction works for the project named: "Reconstruction of the separate tramway track along the Królowej Jadwigi Street and Piłsudskiego Street in Dąbrowa Górnicza, the Róż Avenue – the Kasprzaka Street section."	Dąbrowa Górnicza / Tramwaje Śląskie	In progress	61,986
Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section)."	PKP PLK S.A.	In progress	58,440
Maintenance and repair of tram lines in Cracow in 2019-2022.	City of Cracow	In progress	56,505
Reconstruction of the road and the tram line 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	53,793
Reconstruction of the tram line from the Wiejska Street to the OM Rządź tram terminus as part of the following project: "Reconstruction of tram infrastructure to improve public transport in Grudziądz."	City of Grudziądz	In progress	47,515
Works on the E59 railway line, the Dobięgniew – Słonice section – traction network.	Strabag Sp. z o.o.	In progress	46,189
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 PLK S.A.	In progress	42,511
Maintenance and repair of tram infrastructure (traction electrical power engineering services) in Cracow in 2019-2022.	City of Cracow	In progress	41,064

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	34,539
Reconstruction of the tram line along the Jana Pawła II Street, from the Plac Centralny to the Ptaszyckiego Street and from the Ptaszyckiego Street to the Bardosa Street, including the reconstruction of OCL network, dehydration and reconstruction of colliding technical infrastructure as part of the investment project named: "Upgrade of tram line and associated infrastructure."	City of Cracow	In progress	27,155
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 PLK S.A.	In progress	23,845
Construction of railway link in Kalwaria Zebrzydowska along the Skawina – Żywiec railway line no. 97 and the Kalwaria Zebrzydowska Lanckorona – Bielsko Biała Główna railway line no. 117" executed as part of the following project: "Works on the railway lines no. 97, 98, 99 of the Skawina –Sucha Beskidzka – Chabówka – Zakopane sections.	PKP PLK S.A.	In progress	22,924
Maintenance of tram lines and switches in Wrocław.	Miejskie Przedsiębiorstwo Komunikacyjne Sp. z o.o. in Wrocław	In progress	18,572

* 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. and Thales Polska Sp. z o.o. 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 2021 included Przedsiębiorstwo Usługowo Handlowe "RAJBUD" Sp. z o.o., PROGREG InfraCity Sp. z o.o. and Zakład Sieci i Zasilania Spółka z ograniczoną odpowiedzialnością.

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 2021, the companies within the Group operated as standalone contractors, consortium members or leaders, and, for some projects, as subcontractors.

Most of the contracts performed by the Group were awarded to it as a result of procurement processes. PKP Polskie Linie Kolejowe S.A. was ZUE's major customer in 2021. The company's share in ZUE's total sales revenue in 2021 was about 80%. There is no formal link between ZUE and PKP Polskie Linie Kolejowe S.A.

Other customers of ZUE mainly include self-government units such as urban infrastructure managers.

No company to which sales or design services are provided exceeded 10% of the consolidated sales revenue in 2021.

No ethical audits were carried out at the request of customers in 2021.

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 2021.

The purchase of materials directly by Railway gft., a subsidiary, accounted for 0.7% of the materials and services purchased by ZUE and 13.4% Railway gft.'s sales volume.

The Group signed a number of master agreements for the supply of strategic materials to secure the performance of contracts.

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 2021.



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 1,500m including the contracted construction and assembly works performed by ZUE with the total net value of PLN 1,481m. It provides the Group with an ability to carry out the works in the period 2020-2024. As for design services, the net value of the signed contracts scheduled for performance in 2022-2023 is PLN 5.9m. The backlog relating to the supply of materials and equipment by Railway gft in 2022-2024 is worth PLN 12.8m (net).

The value of the signed new construction contracts in 2021 is about PLN 736m, including the urban contacts of PLN 636m.

The Issuer participates in tender procedures for both railway and urban contracts.

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 applicable laws.



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 2022-2024 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 2021, 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 European Commission released the Sustainable and Smart Mobility Strategy in 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.

Principal aims of the Strategy directly or indirectly related to railways:

- | Doubling of the high-speed train network throughout Europe;
- | Carbon neutral collective travel for journeys under 500 km;
- | Climate neutrality for 100 European cities;
- | Introduction of automated transport on a large scale

by 2030

and

- | Doubling of the rail freight traffic;
- | Fully operational Multimodal Trans-European Transport Network (TEN-T) equipped with sustainable and smart transport with high-speed connectivity¹

by 2050.

Achieving the above goals requires significant investment outlays in railway infrastructure. Pursuing this strategy depends on the availability of funds from which Member States can obtain the financing they need to modernize their railway networks. In the case of the years 2021-2027, these funds will primarily come from the National Reconstruction Plan, the "Connecting Europe" programme, FENIKS and FEPW.

The Polish rail transport system consists of approximately 19,400 km of railway lines, approximately 25,000 engineering facilities and approximately 14,500 buildings (platforms, shelters, etc.). In terms of line length, it is the 5th largest network in Europe (including Russia) and the 15th in the world. In Poland, 46% of railway lines are double-track lines, and 62% of lines are electrified. Polish railways are poorly equipped to handle high-speed passenger transport. Only 2% of lines in the country can support speeds above 160 km / h, and about 14.5% of lines can handle speeds of between 120 and 160 km / h. The percentage of lines along which trains cannot achieve speeds of more than 60 km / h remains high, i.e., approx. 22% of the entire system.²

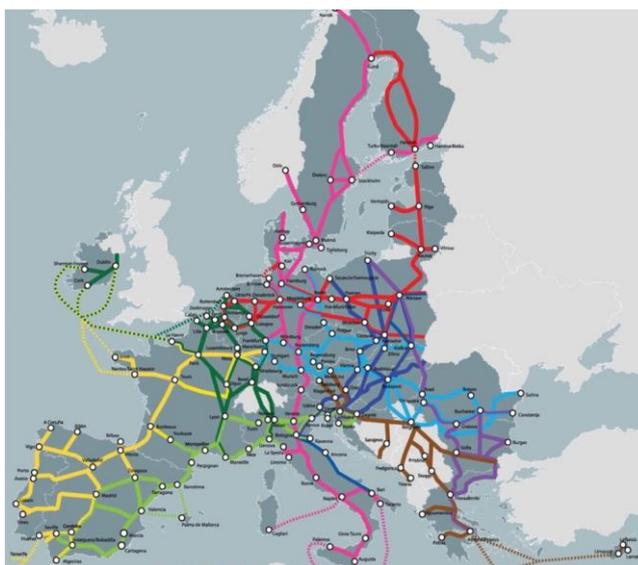
¹ https://ec.europa.eu/commission/presscorner/detail/pl/ip_20_2329

² Report by the Office of Rail Transport on the rail transport market in 2020

TEN-T is a trans-European transport network comprising rail, road, air, sea and river routes, which are the most important connections from the point of view of EU development, as well as nodal infrastructure, such as sea ports, airports, and inland ports as well as road-rail terminals. Within the framework of TEN-T, 4 priority projects run through Poland, including 2 railway projects:

- | The Gdańsk–Warsaw–Brno/Bratislava–Vienna railway axis;
- | The "Rail Baltica" Warsaw–Kaunas–Riga–Tallinn–Helsinki railway axis.

In 2021, TEN-T was expanded to include the E 30 main line and the planned high-speed Warsaw - Wrocław / Poznań line. The EC also proposes incorporating within TEN-T two further projects: the construction of a HSR line from the Tri-City to the planned Central Communication Port, and the modernization of the Bydgoszcz-Tri-City³ railway line. TEN-T projects should meet the set requirements by 2030, which will require capital expenditures.



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, however the modernisation of railway network will continue as part of the extended NRP or another long-term programme.

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 30 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.

³ <https://intermodalnews.pl/2021/12/16/nowe-korytarze-transportowe-i-przyspieszenie-inwestycji-ke-zaprezentowala-nowelizacje-dyrektywy-ten-t/>

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 31.12.2020	Target (2023)
Strengthening of the role of rail transport in the national integrated transport system	Length of reconstructed railways (track km)	Km	5,075	9,000
Enhancing of the rail transport efficiency	Length of railway lines with passenger train speeds above 160 km/h	Km	296	350
Improvement of the rail transport safety	Length of railway lines fitted with ETMS/ETCS	Km	884	2,000
Improvement of the passenger and freight transport quality	Average speed of freight trains on the PLK PLK network	km/h	30	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. 86/2021 of the Council of Ministers dated 20 July 2021 on the approval of the report on execution of the National Railway Programme until 2023 in 2020.

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.

One major project is the completion of the Central Communication Port (CCP). 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.

A diagram of the Polish railway network illustrates differences in rail density between the western and eastern parts of the country. This is a legacy of the Partitions, during which the Prussian and Austrian authorities embarked upon much more intense railway construction in the Polish lands under their control than their Russian counterparts. This factor has had a negative impact on economic life in the east of the country (there are large areas with limited or no access to public transport) as well as resulted in strategic flows between eastern and western regions. It has also had a debilitating effect on the international transit of goods within the framework of the New Silk Road.



One of the assumptions behind the project is to ensure that CCP 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

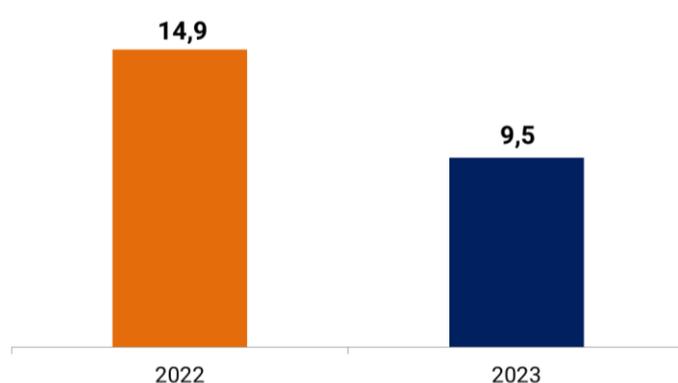
⁴ <https://www.cpk.pl/pl/inwestycja/kolej>

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. The estimate cost of the CCP rail component is approximately PLN 90 billion and a vast portion of the amount will be spent by 2027.⁵

PKP PLK estimates combined investment needs in railway infrastructure of approximately PLN 300 billion a significant amount of which will be incurred by 2030.⁶

Despite the economic problems caused by the pandemic, the NRP and the CCP have been implemented and are currently at different stages of development. Advanced construction work is under way as part of the NRP, while the railway component of the CCP is currently at the conceptual and planning stage. In 2021, PKP PLK did not announce new tenders for a total amount of several billion zlotys, as had been anticipated. Since the beginning of 2022, the PKP PLK company has organised 9 larger tenders with a total value of approximately PLN 10.6 billion. A steady flow of new tenders is necessary to maintain the continuity of the investment process and ensure price stability and to avoid the occurrence of 'peaks' and 'troughs' between perspectives which has had a negative effect on the industry in the past.

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



Source: Resolution no. 86/2021 of the Council of Ministers dated 20 July 2021 on the approval of the report on execution of the National Railway Programme until 2023 in 2020.

Urban infrastructure market

Urban rail transport is one of the best examples of ecological and effective transport. Over the last few decades, more and more cities in Europe have decided to develop this form of public conveyance. The largest number of investments of this type are located in France, where most cities with more than 100,000 citizens already have their own tram networks. In Poland, Olsztyn has decided to develop its own completely new tram system.

At the present time, 15 urban centres in Poland have functioning tram services. The total length of these tram routes is approx. 900 km. The largest tram networks are located in the Silesian Agglomeration, Warsaw, Łódź and Krakow. Virtually all urban centres have developed or are planning to develop light rail systems by modernizing lines and building new ones.

Under the FEnKS fund (European Funds for Infrastructure, Climate and Environment 2021-2027), approximately EUR 1.3 billion has been allocated to co-finance the construction of clean urban transport infrastructure.

Key indicators for Poland regarding tram infrastructure within the FEnKS programme:

- ! The construction of 49 km of new tramlines;
- ! The modernisation of 63 km of tramlines.

These investments are intended to increase the number of tram users from 24 million to 129 million by 2029, which is also in line with one of the established goals.



⁵ <https://polskiprzemysl.com.pl/budownictwo/budownictwo-kolejowe-w-polsce/>

⁶ <https://www.rynek-kolejowy.pl/mobile/trako-2021-oczekiwania-przed-nowa-perspektywa-104659.html>

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 cost estimates prepared by investors.

- **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 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 as well as disputes between Poland and the EU and the related delays in the awarding of funds 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.

- **Risk related to the war in Ukraine**

On 24 February 2022, Russia launched an invasion of Ukraine. The following factors may have a negative influence on the Polish economy and the construction industry:

- | Increased prices of certain imported products and materials caused by the weakening of PLN rate (as well as other currencies of the region);
- | Disruptions in the chains of supply of certain imported products and materials;
- | Increased prices of fuels, natural gas and electricity;
- | Greater financial risk of the countries of the region which may limit the access to financing and entail greater costs;
- | Possible migration of Ukrainian employees from Poland to Ukraine (to protect their families and properties or at the request of the authorities).

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 the 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. Risks related to climate and climate policy

- **Physical risk related to extreme weather events**

Weather phenomena which may influence the Group's operations:

- | Violent storms or gales and heavy rains may cause flooding at construction sites, disruption to traffic, damage to traction networks and disruption to the supply of utilities. They may also cause damage at construction sites and disrupt supply chains.
- | Heat may cause the overload of the power system and disrupt the supplies of electricity. This may lead work interruptions at construction sites and disruptions of supply chains. Heat may also make workers work shorter.
- | Fire may cause damage to the property of the Group or businesses operating within a supply chain.

- **Physical risk related to changing weather patterns**

Changing weather patterns in Europe such as temperature increases and limited rainfall entail a risk of a reduced amount of process water or groundwater, which may have a negative effect on construction processes. Long periods of high temperatures without rainfall may reduce working hours and cause health problems in people involved in construction processes.

- **Risk related to transition to zero-emission economy**

The current state of the climate, as well as forecasts of climate change in the future, necessitate the introduction of major changes in terms of the scope of decarbonisation in the economy and improvements in energy efficiency. As part of its climate and energy policy, the European Union has set a number of targets by 2030, such as reducing greenhouse gas emissions, increasing the share of energy from renewable sources and improving energy efficiency. The EU's next goal is to move towards climate neutrality in 2050. The above process will be connected, *inter alia*, with efforts to tighten energy efficiency requirements, as well as changes in the way in which fees are set for greenhouse gas emissions through the planned inclusion of other sectors, including construction, in the European emissions trading system (ETS).

The above factors, as well as the availability of low-emission technologies in the construction industry and actions taken by companies to reduce emissions, such as, for example, expenditure on modernizing vehicle fleets and machines, expenditure on green energy sources and the energy efficiency of buildings may translate into higher operating costs.

14. 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 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 pandemic situation in Poland following the Government's announcement of the new restrictions on 10 October 2020 and 20 March 2021 and considers the related recommendations. In times of the pandemic increase in 2021, the Company extended the ability of its employees to work remotely or on a rotational basis where remote work was 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.

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 2021

The coronavirus epidemic in Poland and the related restrictions have an influence both on the performance of construction contracts and other areas of the Company'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 contacts, arrangements and acceptances have continued remotely. The work has been organised to ensure the safety of people involved in the performance of construction contracts.

In addition to general restrictions witnessed in Poland at the end of the reporting period and at present, employees and other people involved in construction projects have been absent due to isolation and quarantine caused by COVID-19. These factors, however, have not disturbed the Group's construction processes or supply chains thanks to the measures taken by the Company and the fact that the absence from work has been relatively small. In addition, the Issuer believes that the situation is common and experienced by the majority of entities operating on the market.

BPK Poznań reported a decrease in revenues and profitability in 2021. The situation was due to the factors beyond the company's control such as delayed administrative procedures caused by the pandemic-related restrictions, long contract performance dates, the requirement of additional cost-generating activities reported by contracting authorities and, in consequence, postponed financial settlements.

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 predictions about further 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 position or results cannot be estimated at the date of preparation of this report. 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.

The Company has not taken and does not intend to take any advantage of the government shielding programmes.

Below please find the factors which may influence the markets in which the Issuer operates and the Group's activities 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;
- Possible suspension of works under construction contracts; and
- Rising inflation and growing financial expenses.

Factors which may have a positive influence:

- Government decisions to continue the national 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.

Impact of the coronavirus pandemic on social and employee issues, natural environment, respect of human rights and counteracting corruption:

The COVID-19 pandemic has mainly influenced the Group's employees and social issues. Interpersonal communication was affected in 2021 and work had, to a certain extent, to be done remotely. Remote communication tools were also used to recruit and train employees. Limited direct interactions among people reduced the mobility of employees and, consequently, limited the emission of gases to the atmosphere. Electronic communication was more environmentally friendly because less paper was used. The pandemic did not affect other areas, such as respect of human rights or counteracting corruption.

15. Influence of the situation in Ukraine on the Group's activities

The war in Ukraine has no direct material influence on the Group's operations or financial results at the date of approval of this report. Ukraine's political and economic situation is constantly monitored by the Group in terms of the actual and potential impact thereof on the Group's activities.

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

- a) Increased prices of certain imported products and materials caused by the weakening of PLN rate (as well as other currencies of the region);
- b) Disruptions in the chains of supply of certain imported products and materials;
- c) Increased prices of fuels, natural gas and electricity;
- d) Limited access to fuels;
- e) Greater financial risk of the countries of the region which may limit the access to financing and entail greater costs;
- f) Possible migration of Ukrainian employees from Poland to Ukraine (to protect their families and properties or at the request of the authorities); and
- g) Possible road obstructions after certain sections have been used for military transports or humanitarian aid.

16. Major events in the reporting period

16.1. Construction works

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 tram line from the Wiejska Street to the OM Rządź 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. **(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 6 September 2021, the Company entered into the contract with the City of Cracow for the project named: "Reconstruction of the tram line along the Jana Pawła II Street, from the Plac Centralny to the Ptaszyckiego Street and from the Ptaszyckiego Street to the Bardosa Street, including the reconstruction of OCL network, dehydration and reconstruction of colliding technical infrastructure – as part of the investment project named: Upgrade of tram line and associated infrastructure." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 20/2021. Contract net value: PLN 27.2m. Contract gross value: PLN 33.4m. Project completion date: 10 months of the site delivery. **(Current report 23/2021)**

On 27 September 2021, the Company and Dąbrowa Górnicza and Tramwaje Śląskie S.A. signed the two contracts for the reconstruction of the separate tramway track along the Królowej Jadwigi Street and Piłsudskiego Street in Dąbrowa Górnicza, the Róż Avenue – the Kasprzaka Street section. The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 16/2021. The total net value of the contracts: PLN 62m. The total gross value of the contracts: PLN 76.2m. Project completion date: End of 2022. **(Current report 25/2021)**

On 22 October 2021, the Company and PKP PLK S.A. signed the contract for the project named: "Restoration of railway infrastructure on the Dorota - Sosnowiec Dańdówka section, line no. 171, as part of the following investment project: "Works on the south eastern part of the Upper Silesian Industrial Region ring road and adjacent sections." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 26/2021. The Contract is divided into the three sections with the total gross amount of PLN 84.9m and the total net amount of PLN 69.0m: Main scope – the gross value of PLN 44.3m (the net value of PLN 36.0m), Option 1 – the gross value of PLN 24.9m (the net value of PLN 20.2m), Option 2 – the gross value of PLN 15.8m (the net value of PLN 12.8m). Option 1 and Option 2 will be carried out depending on the Contracting Authority's decision. Project completion date: Main scope: End of 2022, Option 1 and 2: 22 months of the date of the

statement made by the Contracting Authority about their decision to use Option 1 and Option 2. **(Current report 27/2021)**

On 16 November 2021, the Company entered into the contract with the City of Szczecin, Szczecińska Energetyka Ciepła Sp. z o. o. and Zakład Wodociągów i Kanalizacji Sp. z o.o. with registered office in Szczecin (the "Contracting Authority") for the project named: "Reconstruction of the tram line and traction in the Nabrzeże Wieleckie, Nowa, Dworcowa, Kolumba, Chmielewskiego and Smolańska Streets and the Powstańców Wlkp. Avenue and the extension of the Pomorzany terminus in Szczecin." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 21/2021. Net value of the contract: PLN 213m. Gross value of the contract: PLN 262m. Project completion date: 720 calendar days of the contract conclusion date. **(Current report 34/2021)**

On 16 November 2021, the Company learnt about the cancellation by the City of Gorzów Wielkopolski (the "Contracting Authority") of the tender procedure for the project named: "Reconstruction of the Dworcowa Street and the tram line and the construction of the transport hub at the railway station in Gorzów Wlk." The Company informed about the submission of the tender in the said tender procedure in the current report 29/2021. **(Current report 35/2021)**

On 17 November 2021, the Company learnt about the submission by the consortium of: 1) ZUE (Leader), 2) Mota-Engil Central Europe S.A. with registered office in Cracow (the Consortium") of the most economically advantageous tender in the tender procedure for the project named: Design and construction services for the project named "Construction of the *Kraków* Prądnik Czerwony Fast Commuter Rail train stop and the development of Park & Ride (ITI)." Contracting Authority: PKP PLK S.A. Net value of the tender submitted by the Consortium: PLN 68.8m out of which about 50% is attributable to ZUE. Gross value of the tender submitted by the Consortium: PLN 84.7m. Project completion date: 69 weeks of the commencement date. **(Current report 36/2021)**

On 6 December 2021, 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 Koleje Dolnośląskie S.A. (the "Contracting Authority") of the most economically advantageous tender submitted by the Company in the tender procedure for the project named "Extension of technical facilities to service the rolling stock of Koleje Dolnośląskie S.A." be cancelled and the Company's tender be rejected. The Company informed about the selection of the most economically advantageous tender in the current report 33/2021. **(Current report 37/2021)**

On 8 December 2021, the contract was entered into between the consortium of: 1) ZUE (Leader) and 2) Yörük Yapı İnşaat A.Ş. with registered office in Ankara (the "Consortium") and the Capital City of Warsaw and Tramwaje Warszawskie sp. z o.o. (the "Contracting Authority") for the project named: Design and construction services for the project named "Construction of the Annopol depot." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 28/2021. Contract net value: PLN 532.6m (out of which about 50% is attributable to ZUE). Contract gross value: PLN 665.1m. Project completion date: 26 months of the contract conclusion date. **(Current report 38/2021)**

On 22 December 2021, the Company's Management Board learnt about the reselection by Dąbrowa Górnicza, Tramwaje Śląskie S.A. (the "Contracting Authority") of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: "Reconstruction of the tramway track along the Sobieskiego Street and the Królowej Jadwigi Street in Dąbrowa Górnicza from the KWK Paryż Terminus to the Róż Avenue" – task no. 2.5 as part of the following project: "Integrated tram infrastructure modernisation and development project in the Upper Silesia and Zagłębie region including the purchase of tram vehicles – stage II." (the "Tender Procedure"). The Company informed about the cancellation of the selection of ZUE's tender in the current report 39/2021. Net value of the tender submitted by the Company: PLN 61.8m. Gross value of the tender submitted by the Company: PLN 76m. Project completion date: December 2022. **(Current report 42/2021)**

16.2. Financial agreements

On 12 March 2021, the Company published the 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 was extended until 21 March 2022. **(Current report 5/2021)**

On 25 March 2021, the Company received the signed annex to the master bond agreement with UNIQA TU S.A. of Łódź whereby the limit granted to the Company was raised from PLN 10m to PLN 30m. UNIQA may provide bid bonds, performance bonds or defects liability bonds to the Company within the said limit. The limit is valid until the end of 2021 and may be extended for another term. **(Current report 6/2021)**

On 31 May 2021, the Company and mBank S.A. of Warsaw signed an annex to the Master Agreement whereby the line limit was set as PLN 80m and could be used until 31 May 2022. **(Current report 13/2021)**

On 3 November 2021, the Company published the preliminary financial results for the three quarters of 2021. **(Current report 31/2021)**

On 3 November 2021, the agreement was signed by the Company and CaixaBank S.A. Polish Branch. The agreement provided for the bank guarantee limit up to PLN 30m. The revolving limit was granted for 6 months of the agreement conclusion date and could be extended. **(Current report 32/2021)**

16.3. Corporate events

On 10 May 2021, 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 2020 of PLN 4,362 thousand to reserve funds. The Company's Supervisory Board gave a favourable opinion on the said recommendations on 25 May 2021. **(Current report 7/2021 and 10/2021)**

On 22 June 2021, the Company's Ordinary General Meeting resolved to allocate the entire net profit for 2020 of PLN 4,362 thousand to reserve funds. **(Current report 14/2021)**

17. Major events after the end of the reporting period

On 31 January 2022, the Company published the preliminary financial results for 2021. **(Current report 5/2022)**

On 3 February 2022, the Company and Bank Polska Kasa Opieki S.A. with registered office in Warsaw signed an annex to the multi-purpose revolving credit limit agreement. Under the annex, the limit was raised from PLN 50m to PLN 75m. **(Current report 6/2022)**

On 16 February 2022, the Company informed that following the conclusion of the two signed contracts between the Company and PKP Polskie Linie Kolejowe S. A. (PKP PLK) for additional works relating to the contract specified in the current report 5/2018, the total net value of the contracts between PKP PLK and ZUE since 3 December 2021 amounted to approx. PLN 60.4m. **(Current report 7/2022)**

18. 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.

19. 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 2021 for the Group was PLN 285,433 thousand (including credit limits of PLN 28,900 thousand).

The unused bond limit as at 31 December 2021 for the Company was PLN 284,017 thousand (including credit limits of PLN 28,900 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 2021 is PLN 14,291 thousand.

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

Section 7.20 of the consolidated financial statements of the Group contains detailed information about off-balance sheet items in 2021.

20. 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. Incidental violations of ethical standards by employees pursuant to the Ethical Management Policy were identified outside working hours in 2021. Selected contracts with counterparties contain clauses about ethics.

20.1.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 20 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 built or modernised by the Group 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 51 of this report.

In spite of precautionary measures and efforts to respect the environment in which construction works were carried out, in 2021 there were a total of fifteen cases involving damage to the assets or property of third parties worth the combined sum of PLN 72 thousand. In ten cases where damage was sustained in 2021 compensation was paid

and five cases are pending. In addition, PLN 159 thousand was paid in 2021 in connection with damages which occurred in prior years.

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.

20.2.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 2021. 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 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 2021.

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.



20.3. 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.

20.4. 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 was the Stefan Batory Foundation. ZUE is the only contractor from Poland 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. No corruption or abuse was observed and the fact was published in the pilot evaluation available at the Foundation's website. 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 at the Group companies were identified in 2021.

No ethical audits were carried out at the request of customers in 2021.

No discrimination, sexual abuse or mobbing cases were confirmed in 2021.

No violation of human rights at the Company, including the Company's subcontractors, was reported in 2021.

Anti-corruption rules for suppliers and service providers

The anti-corruption programme addressed to subcontractors engaged by the Company to perform the Company's contracts was adopted by ZUE as part of the Ethical Management Policy. The document entitled "Anti-corruption rules for the suppliers and businesses carrying out works and providing other services to ZUE S.A. of Cracow" is available on the Company's website. The abovementioned anti-corruption rules include:

- | Anti-corruption clause (including the statement according to which no part of the remuneration payable for the performance of a contract will be allocated to cover the cost of illegal material and/or personal benefits);
- | Declaration against corruption;
- | Obligation to counteract corruption (including a subcontractor's obligation to provide the Company, at each written request of the Company, with written statements according to which no works, deliveries or services have anything to do with expecting or accepting any gifts, favours, attractive offers or any other items or behaviours which could be perceived as bribery or corruption); and
- | Information about the Company's standards of conduct towards people who report violations relating to the performance of contracts.

The anti-corruption clauses are contained in contracts with subcontractors.

20.5. Protection of privacy

2021 saw no leakage or unauthorised use of customers' or employees' personal data.

No administrative proceedings were instigated in 2021 by the Personal Data Protection Office against the Company in connection with any violation of personal data protection laws (especially the provisions of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation).

No fine was imposed on the Company in connection with any non-compliance with the personal data protection laws or regulations.

21. 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 analysis of issues relating to the organisation's values, culture, knowledge and operation helps it understand the internal context.

The global pandemic in the last two years is a major factor directly influencing the Company's activities. Out of concern for the health and safety of employees, COVID-related restrictions and obligations were imposed in all organisational units as a result of which safety measures were employed by the Company's Management Board in offices and construction sites to reduce the risk of infection.

The company has developed a risk assessment process in accordance with the requirements of ISO 9001: 2015 and ISO 45001: 2018, which takes into account the risks and opportunities that arise in an organization in connection with ongoing processes, based on the adopted 'risk matrix' assessment methodology. This approach provides information on what to do to ensure that the organization operates and develops without disruption, and that a customer's requirements are constantly met, and thus ensuring customer satisfaction.

The Company's constant efforts to reduce the impact of its processes, products and services on the environment and neighbouring community as well as strict observation of the rules of occupational health and safety imposed both by the law and the Company are reflected in the Policy of Integrated Quality, Environmental and Occupational Health and Safety Management System discussed by the employees' representatives (including trade unions) and approved of by the Management Board President.

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.

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.

I interim audit of the Integrated Management System was carried out between 24 January 2022 and 26 January 2022 to confirm the compliance with ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018. The audit was carried out to keep the certificates but also to assess the effectiveness of the management system to ensure that the Company is able to achieve the defined goals and complies with legal and contractual requirements.

A hybrid audit approach was adopted due to the pandemic. Some audits were carried out remotely using Microsoft Teams while other audits were conducted in person under a sanitary regime.

Audits were carried out on units engaged in operational activities, including the following city contract: "Reconstruction of the separate tramway track along the Królowej Jadwigi Street and Piłsudskiego Street in Dąbrowa Górnicza, the Róż Avenue – the Kasprzaka Street section – task no. 2.6," units included in the transport and special equipment base as well as an infrastructure maintenance facility.

The audit's particular focus was on the management of system and operating processes during crisis.

DNV auditors did not identify any non-conformities and they only had 19 observations. Accordingly, the management system was assessed as efficient and compliant with the standards.

Following a positive assessment of its management system, the Company was allowed to keep its certificates of compliance with ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 standards.

The certificates are available on the Company's website. They have a unique QR code so that their validity and authenticity can be checked.

Integrated Management System at ZUE S.A.:

- | Quality Management System
- | Environmental Management System
- | Occupational Health and Safety Management System.

22. 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.

22.1. 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	
	2021	2020	2021	2020
Purchased electric energy (MWh)	590	620	0.8	0.7
Purchased thermal energy (GJ)	6,307	5,660	8.1	6.7

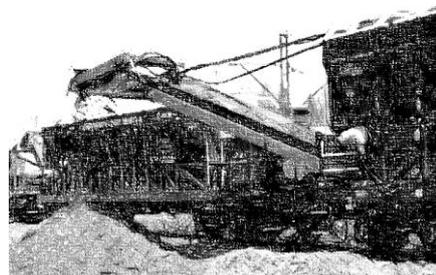
The Group companies did not generate electric or thermal energy in 2021.

The Group companies did not use any energy from renewable sources in 2021.

22.2. Consumption of materials

Type of material	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2021	2020	2021	2020
Rails (tonnes)	3,335	6,794	4.3	8.0
Breakstone and aggregate (tonnes)	711,421	821,756	910.5	967.2
Contact wire (km)	224	172	0.3	0.2
CU line (km)	214	195	0.3	0.2
Tram crossovers and switches (set)	71	111	0.1	0.1
Vibroinsulating mat (m2)	52,445	41,673	67.1	49.0
Pre-stressed concrete sleepers (psc.)	20,524	22,820	26.3	26.9

No recycled materials were used in 2021.



22.3. Consumption of water

	Consumption		Consumption per PLN 1,000,000 of ZUE's revenue	
	2021	2020	2021	2020
Water	2,363	2,361	3.0	2.8
Sewage	2,363	2,361	3.0	2.8

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.

22.4. Waste

Type of waste	Amount		Amount per PLN 1,000,000 of ZUE's revenue	
	2021 (tonnes)	2020 (tonnes)	2021	2020
Hazardous waste	396	2,121	0.5	2.5
Other than hazardous waste	16,283	46,250	20.8	54.4

Waste was recovered in 2021 and the recovery included 4.5 thousands of tonnes of land and soil, 1.2 thousands of tonnes of concrete, 2 thousands of tonnes of breakstone, 135 tonnes of brick rubble and 200 tonnes of wood.

22.5. Emission of gases

Type of gas (kg)	Amount		Amount per PLN 1,000,000 of ZUE's revenue	
	2021	2020	2021	2020
CO2*	0	4,802	0	5.65
CO	0.38	0.76	0.0005	0.001
Dust	1.15	0.30	0.001	0.0004
NO	0.88	4.80	0.001	0.006
SO	0	0.25	0	0.0003

* Emissions resulting from the consumption of fuels in buildings and systems.

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

22.6. 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 2021.

22.7. 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 2021, 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.

In 2021, the Company purchased six specialized CNG-powered vehicles intended for the provision of maintenance services for municipal track infrastructure. The vehicles meet the requirements set out in the Electromobility and Alternative Fuels Act. 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	
		2021	2020
Scope 1			
Emissions resulting from the consumption of fuels in buildings and systems.	Mg CO ₂	0	5
Emissions resulting from the consumption of fuels in transport.	Mg CO ₂	3,139	3,720
Total Scope 1 Emissions.	Mg CO ₂	3,139	3,725
Scope 1 Emissions per PLN 1,000 thousand of revenue.	Mg CO ₂ / PLN 1,000 thousand of ZUE's revenue	4.0	4.4
Scope 2			
Emissions resulting from the purchase of electric energy.	Mg CO ₂	486	463
Emissions resulting from the purchase of thermal energy.	Mg CO ₂	1,442	1,171

Total Scope 2 Emissions.	Mg CO ₂	1,928	1,634
Scope 2 Emissions per PLN 1,000 thousand of revenue.	Mg CO ₂ / PLN 1,000 thousand of ZUE's revenue	2.5	1.9
Scope 1+2			
Total Scope 1+2 Emissions.	Mg CO ₂	5,067	5,359
Scope 1+2 Emissions per PLN 1,000 thousand of revenue.	Mg CO ₂ / PLN 1,000 thousand of ZUE's revenue	6.5	6.3

22.8. EU Taxonomy eligibility

The following indicators are presented by the Group for the first time on the basis of the Regulation (EU) 2020/852⁷ of the European Parliament and of the Council. Pursuant to the Commission Delegated Regulation (EU) 2021/2178⁸, the Group discloses information on the proportion of the Taxonomy-eligible turnover, capital expenditure and operating expenditure without verifying the Technical Screening Criteria laid down in the Commission Delegated Regulation (EU) 2021/2139⁹. Accordingly, the Group specifies the proportion of the three key indicators (KPIs) associated with Taxonomy-eligible activity and provides the qualitative information referred to in Section 1.2 of Annex 1 to the Commission Delegated Regulation (EU) 2178 to the extent they relate to the abovementioned indicators for the financial year 2021.

89.9% of the Group's turnover, 99% of the Group's capital expenditure (CapEx) and 66% of the Group's operating expenditure (OpEx) relate to business activities qualifying as environmentally sustainable. This data has been obtained on the basis of the Group's accounting and management systems.

The Group's core business is the delivery of comprehensive infrastructure projects as part of the construction activities relating to rail infrastructure. The Group's Taxonomy-eligible net sales revenue was specified on the basis of the analysis. It refers mainly to the following Taxonomy sections: 6.2, 6.14., 6.15 and the Taxonomy-eligibility refers both to Annex 1 to the Regulation 2139; i.e. Climate change mitigation and Annex 2 to the Regulation 2139; i.e. Climate change adaptation. The sections contain the NACE codes corresponding to the PKD codes assigned to the entities within the Group.

Adopted analysis methodology:

1. Turnover was calculated on the basis of the Group's consolidated revenue in 2021 disclosed in the consolidated financial statements under the item Sales revenue. Taxonomy-eligible sales revenue was allocated to the numerator. Revenue was recognised according to the international accounting standard (IAS) 1.82.a) adopted on the basis of the Commission Regulation (EC) No. 1126/2008 and is disclosed in consolidated financial statements of the Group for 2021.
2. Capital expenditure (CapEx) was calculated on the basis of capital expenditure; i.e. additions to *Non-current assets, Intangible assets and Rights of use* disclosed in the consolidated financial statements. The part of CapEx relating to Taxonomy-eligible activity was allocated to the numerator. The indicator was calculated on the basis of capital expenditure covering costs that are accounted based on:
 - a) IAS 16 Property, Plant and Equipment, paragraphs 73, (e), point (i) and point (iii);
 - b) IAS 38 Intangible Assets, paragraph 118, (e), point (i);
 - c) IAS 40 Investment Property, paragraphs 76, points (a) and (b) (for the fair value model);
 - d) IAS 40 Investment Property, paragraph 79(d), points (i) and (ii) (for the cost model);
 - e) IAS 41 Agriculture, paragraph 50, points (b) and (e);
 - f) IFRS 16 Leases, paragraph 53, point (h), and the lease is not treated by the Group as operating expenditure. Each lease transaction is recognised as finance lease and mainly concerns the purchase of machinery as part of capital expenditure.

⁷ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment.

⁸ Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation.

⁹ Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

3. Operating expenditure (OpEx) was calculated on the basis of costs relating to the servicing of the Group's assets and keeping them in good condition; i.e. the costs of equipment renovation and repair, personnel costs relating to the renovation and repair as well as the costs of security services, building cleaning and insurance. The part of OpEx relating to Taxonomy-eligible economic activity was allocated to the numerator. The denominator of the OpEx KPI was determined based on the definitions contained in the Regulation 2178.

83% of the Group's turnover falls under category 6.14 *Rail transport infrastructure*, 6.3% of the Group's turnover falls under category 6.15 *Infrastructure supporting low emission road and public transport* and 0.7% of the Group's turnover falls under category 6.2 *Freight rail transport*. As for the turnover, the Group's economic activity is 89.9% taxonomy-eligible.

CapEx is 99% Taxonomy-eligible. It is the capital expenditure associated with the Taxonomy-eligible economic activity of the Group.

OpEx is 66% Taxonomy-eligible. It is the operating expenditure associated with the Taxonomy-eligible economic activity of the Group.

The indicators were analysed and disclosed by the Group for the first time without any comparative information. Therefore, no changes in calculations were presented or discussed.

No major changes with reference to the completion of the Group's investment plan occurred in 2021. The Group did not develop the plan referred to in section 1.1.2.2. of Annex 1 to the Regulation 2178.

The Company avoided double counting of turnover, CapEx and OpEx across several economic activities because an item allocated to the KPI indicator was not recognised again.

The Group did not identify any Taxonomy-eligible economic activity pursued for own internal consumption.

No shares or bonds were issued by any company within the Group in 2021 with the purpose of financing Taxonomy-eligible activities.

No property, plant and equipment or intangible assets were acquired in 2021 through business combinations.

Capital expenditure was incurred in 2021 as needed. The Group intends to develop and implement the investment plan referred to in section 1.1.2. of Annex 1 to the Delegated Regulation 2178.

22.9. Public funds

About 90% of the Group's revenue in 2021 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 2021.

23. Human capital management

At 31 December 2021, the Group employed 873 people, including 185 women.

The total number of employees included 453 white-collar workers and 420 blue-collar workers.

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

	2020				2021			
	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	
		2020	2021	2020	2021
Employment contract for an indefinite period	F	101	105	131	140
	M	532	550	562	573
Total		616	633	655	692
Employment contract for a definite period	F	43	38	51	42
	M	165	112	168	112
Total		231	208	150	219

Number of new full-time employees:

	Sex	ZUE		Group	
		2020	2021	2020	2021
Number of new employees	F	26	25	33	28
	M	88	80	90	81
Total		157	114	105	123
Number of leaving employees	F	23	24	32	27
	M	99	111	103	121
Total		94	122	135	135

Age structure for new employees:

	ZUE		Group	
	2020	2021	2020	2021
20-30	35	35	41	36
31-40	41	27	42	30
41-50	22	28	24	28
51-60	11	9	12	9
61+	5	6	5	6
Total	114	105	124	109

Age structure for leaving employees:

	ZUE		Group	
	2020	2021	2020	2021
20-30	26	28	32	33
31-40	37	43	41	49
41-50	19	28	23	29
51-60	17	17	17	17

61+	23	19	26	21
Total	122	135	139	149

In 2021, the Group companies were the parties to civil law agreements concluded with 33 persons. The total gross amount of remuneration paid under these agreements was PLN 401 thousand.

The Group companies did not hire any temporary workers.

At the end of 2021, the Company employed eight disabled persons who accounted for 1% of the Group's total employment.

The average monthly gross salary of the Company's employees employed under employment contract in 2021 was PLN 8.6 thousand for women and PLN 9.5 thousand for men. The average wages of blue-collar workers in 2021 amounted to PLN 6.9 thousand. The ratio of the average wages of blue-collar workers to the minimum pay in 2021 was 245% (244% in 2020). The ratio of the average wages of blue-collar workers to the average pay in business sector amounted to 103% in December 2021.

At the end of 2021, the companies within the Group employed 34 foreigners whose average monthly salary was PLN 6.8 thousand.

The ratio of the average gross salary of women to the average gross salary of men at ZUE in 2021 was 91%.

The total amount of contributions to the State Fund for Rehabilitation of Disabled Persons (*PFRON*) was PLN 919 thousand (including PLN 833 thousand for ZUE).

There were no cases in 2021 in which a woman returned to work after childbirth and resigned within 12 months after the return.

Employment structure at the Group in 2021 according to the types of activity:

Activity	ZUE		Group	
	2020	2021	2020	2021
Management and administration	191	195	212	214
Sales and marketing	20	23	30	34
Production	426	405	426	405
Engineers and technicians	204	182	251	220
Total	841	805	919	873

The ratio of the average gross salary of women to the average gross salary of men employed in the following departments:

	2021
Engineers and technicians	66%
Production	73%
Sales and marketing	89%
Management and administration	50%

Employment structure at the Group in 2021 according to education:

Education	ZUE		Group	
	2020	2021	2020	2021
Elementary	72	75	73	76
Vocational	197	195	197	195
Secondary	224	197	232	203
Higher	348	338	417	399
Total	841	805	919	873

Employment structure at the Group in 2021 according to age:

Age	ZUE		Group	
	2020	2021	2020	2021
20-30	155	135	175	149

31-40	276	259	304	279
41-50	181	202	197	222
51-60	159	138	166	147
61+	70	71	77	76
Total	841	805	919	873

Average seniority at the Group was 6.8 years in 2021 and 6.6 years in 2020.

In 2021, ZUE paid salaries and wages under employment contracts in the gross amount of PLN 91,012 thousand. No fines were imposed in 2021 on ZUE in connection with the employment.

Trainings	ZUE		Group	
	2020	2021	2020	2021
Number of external trainings	101	151	103	164
Number of internal trainings *	406	350	407	354
Total number of trainings	507	501	510	518
Number of trained people – internal trainings	114	105	119	117
Number of trained people – internal trainings (trainings for new employees)	520	707	527	722
Total number of employees receiving trainings	634	812	646	839
Total number of participants	0	0	1	22
Language courses, external trainings - number of trained people (number of people / month)	101	151	103	164

* including trainings for new employees

The years 2021 and 2020 were difficult due to the COVID-19 pandemic. However, the experience gained in the past two years relating to the reorganisation of trainings and tailoring of the offer to the current needs enabled ZUE S.A. to provide 501 trainings whose total cost amounted to PLN 200,000.

In 2021, a total of 812 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 maintenance or work train managers and controllers. 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, class III single-bucket excavator and forklifts.

In addition, training courses were organised for the staff in 2021 to improve their ability to use MS Project and MS Excel.

A first aid course was also organised by the Group. During the training, employees could learn lifesaving skills using manikins. Each manikin was monitored so the course participants could see their activities on the screen and correct their mistakes.

ZUE S.A. participated in the Job Fair and unlike 2020, the event took place in the Sports and Recreation Centre at Cracow University of Technology. The Company also took part in the "HR Challenges" conferences held online.

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.

24. Management of occupational health and safety

An occupational health and safety management system consistent with OHSAS 18001:1997 was implemented by

ZUE in 2003 to ensure the maximum safety of the Company's employees. In 2021, the occupational health and safety management system OHSAS 18001:2007 was audited and the audit result was positive.

At the end of 2020, the Company launched the process of recertification and transition from OHSAS 18001:2007 to ISO 45001:2018. On 15.02.2021, ZUE Spółka Akcyjna was issued ISO 45001:2018 occupational health and safety management system certificate no. 254972-2018-AHSO-POL-RvA valid until 15.02.2024.

The system is supervised, improved and corrected on an ongoing basis by regular inspections, audits and records of the controlled activities made by the management of ZUE S.A. The effectiveness of the Integrated Management System has been confirmed by the certificates awarded in February 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 2021, 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.

There was one fatal accident within the Group in 2021 (traffic accident). The Police and the Prosecutor's Office are investigating the case. The accident will probably be classified as an accident at work. The inspections carried out in 2021 by the National Work Standards and Safety Inspectorate did not reveal any significant deviations from applicable laws.

	2021	2020
Total accidents, including:	19	8
<i>Fatal</i>	1 *	0
<i>Serious</i>	0	0
<i>Slight</i>	18	8

*Accident qualified as an accident at work.

At the Capital Group, accidents took place at the Parent Company. One slight accident took place at BPK Poznań.

The most common reasons for accidents at work in 2021 included human error, technical factor, inattention, carelessness, haste and insufficient focus on a task.

One fatal accident at work was reported in 2021 by ZUE's subcontractors.

Accident frequency rate (accidents at work per 1000 of employees) was 22.36 for the Company and the Group.

The total number of days of employees' incapacity for work due to accidents was 1159 days.

Accident seriousness rate (number of days of incapacity for work / 1 accident) in 2021 was 68.17.

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 2020-2021.

	2021	2020
Occupational health and safety trainings for employees, including: *	490	590
<i>ZUE</i>	485	570
<i>Railway gft</i>	3	0

BPK Poznań	2	20
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* Periodic trainings + trainings for new employees.

No fines relating to occupational health and safety were imposed on the companies within the Group in 2021.

No on-the-job illnesses were reported in 2021. The number of employees working in the conditions where maximum admissible concentration (MAC) or maximum admissible intensity (MAI) values are exceeded was 158.

25. Engagement with local communities

Despite the difficult situation related to the world-wide coronavirus pandemic in 2021, the Company pursued the aims of the ethical management policy and continued to cooperate with institutions, foundations and associations by supporting social and charity projects and sponsoring their activities.

In 2021, ZUE supported fifteen such projects and offered the support in the total gross amount of almost PLN 94,000, including approximately PLN 40,000 for charity. In 2020, ZUE supported eight projects for the total gross amount of approximately PLN 80,000, including approximately PLN 9,000 for charity.

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 and occupational therapy for people with severe or moderate disabilities to help them live as independently as possible and take up a job;
- | *Funkomitywa* Foundation organising shows for children treated in the St. Louis Hospital in Cracow and children undergoing rehabilitation in the Rehabilitation Centre in Radziszów;
- | *Gramy do Końca* Foundation organising the 10th Integration Swimming Marathon for the Cup of the Rector of Cracow University of Economics – Cracow competition for the disabled;
- | *Poland Business Run* Foundation supporting people with physical disability.

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.

In 2021, the Company offered its annual support to the Cracow Archdiocese in connection with the project known as "Christmas Tree under the Papal Window 2021 – 15th edition." The event is organised to prepare Christmas gifts for the children from poor families, children's homes and school and education centres located in Cracow and the Małopolska province.

The Company's involvement in such issues as the respect of human rights and freedom is manifested by the Company's cooperation with the Villa Decius Association which has continued uninterrupted since 2013.

As part of the cooperation, ZUE sponsored in 2021 the 18th edition of the Polish Prize of Sergio Vieira de Mello, UN High Commissioner for Human Rights (2002-2003). The prize is awarded to people and non-governmental organisations for special merits in peaceful coexistence and cooperation of communities, religions and cultures.

In the 18th edition, the prize committee including Wiesław Nowak, the President of the Management Board of ZUE, awarded the prize to Doctor Feras Alghadban in the category "PERSON" and the Polish Medical Mission in the category "NON-GOVERNMENTAL ORGANISATION." The honorary prize was awarded to the group of organisations providing financial, visa, legal, psychological, living and rehabilitation assistance to the oppressed citizens of Belarus after August 2020.

In response to the common challenge of an access to drinking water in Africa, the Company pursued one of the objectives of the ethical management policy, namely fighting social discrimination, and supported the installation of a water system, containers and water tower for the four existing drilled wells for the congregation of Ndotoi in the Archdiocese of Arusha in Tanzania.

The access to drinking water will help Africans avoid many diseases, lift them out of poverty and give them a chance to develop.

25.1. 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.

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

In 2021, 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 2021 are similar to the factors influencing the condition of ZUE discussed in items 25-27.

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

The Company's sales revenue generated in 2021 was PLN 781,383 thousand. The Company's revenue decreased by 8% compared to the figure reported in 2020 and by 16% compared to 2019. In the fourth quarter of 2021, ZUE generated 28% of annual revenue.

Seasonality of sales of ZUE in 2021:

Item	I quarter	II quarter	III quarter	IV quarter
Sales revenue (PLN '000)	141,222	191,015	211,917	237,229
% - quarter	18%	24%	27%	30%
% - half year	43%		57%	

The seasonal sales at ZUE look similar every year. The Company reports the biggest sales volume during the second half of a year. The poorest volume is seen in the first quarter due to weather conditions.

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

	Group		ZUE	
	2021	2020	2021	2020
Sales revenue	851,450	901,358	781,383	849,649
Cost of sales	816,414	870,040	751,471	821,626
Gross profit (loss) on sales	35,036	31,318	29,912	28,023
<i>Gross margin</i>	4.1%	3.5%	3.8%	3.3%
General and administrative expenses	25,123	23,405	20,377	19,378
Other operating income	5,686	4,624	5,478	2,926
Other operating expenses	1,435	1,917	1,303	1,789
Operating profit (loss) (EBIT)	14,164	10,620	13,710	9,782
<i>EBIT margin</i>	1.7%	1.2%	1.8%	1.2%
EBITDA	27,057	23,926	26,370	22,919
<i>EBITDA margin</i>	3.2%	2.7%	3.4%	2.7%
Financial income	2,505	1,383	2,778	1,705
Financial expenses	1,305	1,992	1,051	1,452
Pre-tax profit (loss)	15,364	10,011	15,437	10,035
Corporate income tax	3,543	5,746	3,296	5,673
Net profit (loss) from continuing operations	11,821	4,265	12,141	4,362
Net profit (loss)	11,821	4,265	12,141	4,362
<i>Net margin</i>	1.4%	0.5%	1.5%	0.5%

2021 was another year where the Company's gross margin improved. ZUE's margins increase year on year regardless of the level of revenues. In 2021, the Company reported positive results at all profit levels and an almost threefold increase in net profit.

Gross profit on sales generated by the Company in 2021 increased over the year by PLN 1,889 thousand, operating profit grew by PLN 3,928 thousand, EBITDA increased by PLN 3,451 thousand and net profit grew over the year by PLN 7,859 thousand.

The Company reported other operating income of PLN 5,478 thousand – up by 87% compared to 2020. Other operating income included the payments relating to subcontractors' bonds whose aim was to cover the costs of substitute performance and penalties for subcontractors. It also influenced gross margin. Other operating expenses amounted to PLN 1,303 thousand and decreased over the year by 27%.

ZUE's financial income increased over the year by 63% and stood at PLN 2,778 thousand. Items with the biggest influence on financial income included the discount of retentions or warranty claims.

The Company reduced debt and, consequently, financial expenses which amounted to PLN 1,051 thousand (down by 28% compared to 2020).

Current market situation and winning new contracts.

In 2021, the Company operated on the two major markets, namely the tram and rail markets. ZUE is one of the largest contractors on the rail market involved in the extensive modernization of Polish rail infrastructure, an area that has generated a high level of revenues in recent years. The Company continues to perform the contracts won in 2016-2017. Some of these contracts are scheduled for completion in 2022. Last year, when a smooth transition was expected between different EU perspectives, there were forecasts for railway tenders with a total value in the region of more than ten billion zlotys. Eventually, however, the actual tenders announced were worth several billion zlotys overall. As a consequence, since last year we have been dealing with an investment gap and facing increased competition from contractors for new orders. This is due to the absence of agreement on financing for planned investments from the EU. Beginning in 2022, PKP PLK declared that it would announce new tenders worth more than ten billion zlotys a year, which should contribute to greater stability on the market. From the beginning of 2022 right up to the publication of the present report, the Infrastructure Manager for Polish railways called nine major tenders with a total value of approximately PLN 10.6 billion.

It should be emphasized that the investment plans envisaged by Polish railways for the current decade have a much larger scope than the current National Railway Program worth approximately PLN 76 billion.

In anticipation of the complications affecting railway orders, in 2021 the Company took active steps to win investment contracts on the tram market. Numerous tenders were called in this sector last year, as a consequence of which ZUE won contracts with a total value of approximately PLN 634 million. Most of these are "build" type contracts, which ensure a smooth transition to construction work once the contract is concluded. The tram market prospects are also promising. ZUE's focus is on further expansion on the market and winning more city contracts.

The Company has the backlog worth approximately PLN 1.5bn. These are mainly railway contracts but the number of tram contracts is growing. The tendency will change when the new railway tenders start under the current EU perspective. Major railway contracts are worth much more than tram contracts. The Company submits tenders on the railway market. The acquisition by the Company of new, large-scale railway orders will translate into a greater share of railway contracts in its future portfolio.

27. 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 as at 31 December 2021 and the comparative information at 31 December 2020.

Item (PLN '000)	Group		ZUE	
	2021	2020	2021	2020
ASSETS				
Non-current assets				
Property, plant and equipment	64,718	63,601	64,623	63,380
Investment property	6,145	6,497	6,145	6,497
Intangible assets	2,716	2,073	2,697	2,047
Right-of-use assets	41,510	41,900	41,356	41,675
Goodwill	31,172	31,172	31,172	31,172
Investments in subordinates	0	0	221	221
Investments in other entities	0	0	0	0
Long-term receivables	0	0	0	0
Retentions on construction contracts	7,431	8,515	7,393	8,472
Deferred tax assets	21,778	14,557	21,606	14,296
Advanced loans	0	0	0	22
Other financial assets	42	0	0	0
Other assets	0	224	0	0
Total non-current assets	175,512	168,539	175,213	167,782
Current assets				
Inventories	37,822	25,306	30,359	22,110
Trade and other receivables	137,057	149,222	126,699	141,335
Measurement of long-term construction contracts	107,149	146,929	98,329	138,371
Retentions on construction contracts	3,713	4,371	3,387	4,042
Advance payments	3,425	3,123	3,994	3,692
Current tax assets	32	0	0	0
Advanced loans	0	10	3,572	1,702
Other financial assets	105	0	0	0
Other assets	616	646	463	462
Cash and cash equivalents	108,736	23,487	106,612	20,230
Current assets	398,655	353,094	373,415	331,944

Assets held for sale	3,340	3,340	3,544	3,544
Total current assets	401,995	356,434	376,959	335,488
Total assets	577,507	524,973	552,172	503,270

Item (PLN '000)	Group		ZUE	
	2021	2020	2021	2020
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	69,287	57,589	68,765	56,691
Total equity	166,192	154,494	165,670	153,596
Equity attributable to non-controlling interests	211	155	-	-
Total equity	166,403	154,649	165,670	153,596
Non-current liabilities				
Long-term loans and bank credits	0	4,443	0	4,443
Long-term lease liabilities	14,248	12,020	14,178	11,925
Retentions on construction contracts	24,068	18,821	23,231	17,841
Other financial liabilities	0	0	0	0
Liabilities under employee benefits	1,864	1,411	1,789	1,358
Provision for deferred tax	284	129	0	0
Long-term provisions	16,570	15,086	16,127	14,670
Other liabilities	0	0	0	0
Total non-current liabilities	57,034	51,910	55,325	50,237
Current liabilities				
Trade and other payables	134,916	135,073	122,266	127,583
Accruals	70,258	65,617	66,463	61,490
Measurement of long-term construction contracts	49,539	3,659	49,426	3,310
Retentions on construction contracts	17,760	19,393	16,628	18,911
Advance payments	6,737	28,841	6,737	28,741
Short-term loans and bank credits	7,964	13,108	4,443	8,890
Short-term lease liabilities	6,289	9,130	6,244	9,051
Other financial liabilities	36	36	36	36
Liabilities under employee benefits	42,057	33,313	40,220	31,188
Current tax liabilities	1,098	5	1,098	0
Short-term provisions	17,050	9,873	17,250	9,871
Total current liabilities	353,704	318,048	330,811	299,071
Lease liabilities associated with assets held for sale	366	366	366	366

Total liabilities	411,104	370,324	386,502	349,674
Total equity and liabilities	577,507	524,973	552,172	503,270

As at 31 December 2021, ZUE's total assets and liabilities amounted to PLN 552,172 thousand and increased by 10% compared to total assets and liabilities reported at the end of 2020.

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

Item	Change compared to 31.12.2020	PLN '000	
		Balance at 31.12.2021	Description
<u>Assets</u>			
Measurement of long-term construction contracts	-40,042	98,329	Settlement of certain construction works
Cash and cash equivalents	+86,382	106,612	Settlement of certain construction works
<u>Equity and liabilities</u>			
Long-term loans and bank credits	-4,443	0	Repayment of long-term financial liabilities
Measurement of long-term construction contracts	+46,116	49,426	Invoices for higher margin stages of works
Advance payments	-22,004	6,737	Settlement of certain construction works

28. Discussion of items of the statement of cash flows

2021 was the second year where positive cash flows from operating activities were generated by the Company. In 2021, the Company repaid loans, credits and lease liabilities in the total amount of PLN 22,769 thousand. Compared to the end of 2020, cash increased by PLN 86,382 thousand to PLN 106,612 thousand.

Item (PLN '000)	Group		ZUE	
	2021	2020	2021	2020
Cash flows from operating activities	109,826	16,314	111,809	11,520
Cash flows from investing activities	-3,995	-6,051	-5,792	-7,632
Cash flows from financing activities	-20,597	-17,160	-19,650	-11,643
Total net cash flows	85,234	-6,897	86,367	-7,755
Foreign exchange gains / losses	15	6	15	6
Cash and cash equivalents at the beginning of the period	23,487	30,378	20,230	27,979
Cash and cash equivalents at the end of the period	108,736	23,487	106,612	20,230

29. Discussion of results reported by segments

The total amount of revenue generated by the Group is PLN 851,450 thousand. The largest portion of the Group's

revenue is derived from construction activity conducted by ZUE (90%).

Item (PLN '000)	Construction	Sales	Design	Exclusions	Total
Sales revenue	781,383	73,126	9,602	-12,661	851,450
Gross profit on sales	29,912	3,947	1,509	-332	35,036
Net profit	12,141	571	-712	-179	11,821

In 2021, sales activities conducted at the Group by Railway gft generated 9% of the consolidated revenue (before exclusions). Design activities conducted by BPK Poznań generated 1% of the consolidated revenue (before exclusions). Design activities complement construction activities.

The Group's sales structure according to segments looks similar every year.

30. Analysis of ratios

The information on the following ratios is monitored on a cyclical basis and presented in subsequent interim 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.

30.1. Debt ratio

Item	Group		ZUE		Calculation rules
	2021	2020	2021	2020	
Net debt	-79,833	15,615	-81,345	14,481	<i>(long- and short-term loans and bank credits and other financing sources + long- and short-term other financial liabilities) – cash and cash equivalents – other financial assets</i>
Debt ratio	0.7*	0.7	0.8*	0.7	<i>(non-current and current liabilities + provisions for liabilities) / total assets</i>
Debt to equity ratio	2.5*	2.4	2.3*	2.3	<i>(non-current and current liabilities) / equity</i>
Equity to assets ratio	0.3	0.3	0.3	0.3	<i>equity / total assets</i>
Fixed capital to non-current assets ratio	1.3	1.2	1.3	1.2	<i>(equity + non-current liabilities) / non-current assets</i>
Short-term debt ratio	0.6*	0.6	0.6*	0.6	<i>current liabilities / total assets</i>

Long-term debt ratio	0.3	0.3	0.3	0.3	<i>non-current liabilities / equity</i>
Interest coverage ratio	12.3	7.0	13.8	7.7	<i>EBIT / interest paid</i>

* Current liabilities saw a significant increase in the measurement of construction contracts due to uneven margins, which affects debt ratios.

30.2.Liquidity ratios

Item	Group		ZUE		Calculation rules
	2021	2020	2021	2020	
Working capital	48,291	38,386	46,148	36,417	<i>current assets – current liabilities</i>
Current ratio	1.1	1.1	1.1	1.1	<i>current assets / current liabilities</i>
Quick ratio	1.0	1.0	1.0	1.0	<i>(current assets – inventory) / current liabilities</i>
Cash ratio	0.31	0.07	0.32	0.07	<i>cash and cash equivalents / current liabilities</i>

30.3.Financing structure ratios

Item	Group		ZUE		Calculation rules
	2021	2020	2021	2020	
Equity to assets	0.3	0.3	0.3	0.3	<i>equity / total assets</i>
Equity to non-current assets	0.9	0.9	0.9	0.9	<i>equity / non-current assets</i>
Debt ratio	0.7	0.7	0.7	0.7	<i>(total assets - equity) / total assets</i>
Debt to equity ratio	2.5	2.4	2.3	2.3	<i>(total assets - equity) / equity</i>

30.4.Profitability ratios

Item	Group		ZUE		Calculation rules
	2021	2020	2021	2020	
Gross profit margin	4.1%	3.5%	3.8%	3.3%	<i>gross profit / revenue</i>
EBITDA	27,057	23,926	26,370	22,919	<i>operating profit + depreciation / amortisation</i>
EBITDA margin	3.2%	2.7%	3.4%	2.7%	<i>EBITDA / revenue</i>
EBIT margin	1.7%	1.2%	1.8%	1.2%	<i>EBIT / revenue</i>
Gross margin	1.8%	1.1%	2.0%	1.2%	<i>gross profit / (revenue + other operating income + other financial income + extraordinary gains)</i>

Net margin	1.4%	0.5%	1.5%	0.5%	<i>net profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
ROA	2.05%	0.8%	2.2%	0.9%	<i>net income / total assets</i>
ROE	7.65%	2.84%	7.9%	2.9%	<i>net income / equity</i>

31. 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 Information" 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.

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

No separate or consolidated financial projections for the financial year 2021 were published by the Company.

33. Investments

33.1. Investments made in 2021

The total capital expenditure in the statement of cash flows disclosed in the reporting period amounted to PLN 6,037 thousand.

As at 31 December 2021, net liabilities incurred to purchase property, plant and equipment amounted to PLN 239 thousand.

As at 31 December 2020, net liabilities incurred to purchase property, plant and equipment amounted to PLN 183 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 2,843 thousand;
- Implementation of a new ERP system – PLN 802 thousand;
- Purchase of trucks – PLN 384 thousand.

Capital expenditure was also financed by means of leasing. Leases were entered into for a total amount of PLN 9,925 thousand. Major transactions concerned the purchase of road-rail vehicle (PLN 4,300 thousand), wheel excavator (PLN 815 thousand) and special-purpose vehicle (PLN 735 thousand).

The total amount of capital expenditure from financial flows and financed through leasing amounted to PLN 15,962 thousand.

In 2021, the Group sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 1,313 thousand. In 2020, the Group sold the property, plant and equipment and intangible assets whose total net carrying amount was PLN 799 thousand.

33.2. 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.

34. 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 2021.

Group				
Bank	Description	Principal according to the agreement	Use as at 31.12.2021	Repayment date
		PLN '000	PLN '000	
mBank S.A.(i)	Overdraft	10,000	0	2022-07-08
mBank S.A. (ii)	Cooperation agreement	25,000	0	2022-05-31
	including:			
	sublimit for bonds	25,000	100	
	sublimit for working capital credits	25,000	0	
mBank S.A. (iii)	Master agreement	80,000	38,765	2022-05-31
	including:			
	sublimit for bonds	80,000	38,765	
BNP PARIBAS (iv)	Multipurpose line of credit agreement	100,000	51,516	2022-03-21
	including:			
	sublimit for bonds	100,000	51,516	
BNP PARIBAS (v)	Premium multipurpose line of credit agreement	65,000	0	2022-07-30
	including:			
	sublimit for bonds	65,000	0	
	overdraft	4,000	0	
PEKAO SA (vi)	Multipurpose line of credit agreement	50,000	42,076	2022-11-30
	including:			
	sublimit for bonds	50,000	42,076	
CaixaBank (vii)	Agreement for bank guarantee limit	30,000	8,060	2022-05-02
	including:			
	sublimit for bonds	30,000	8,060	
Agencja Rozwoju Przemysłu SA	Loan agreement	20,000	20,000	2022-06-30
Magdalena Nowak	Loan agreement concerning BPK	272	272	Indefinite
Railway gft				
mBank S.A. (viii)	Working capital credit	3,250	3,250	2022-05-31
mBank S.A. (ix)	Master agreement	5,700	4,700	2022-05-31
	including:			
	sublimit for bonds	5,700	4,700	
Total use of credits at the Group			24,217	
Total use of bonds at the Group			145,217	

- (i) repayment date by another year.
- (ii) On 31 May 2021, the Company and mBank S.A. signed an annex to the Master Agreement of 29 July 2014 whereby the maturity date was extended by one year.
- (iii) On 31 May 2021, the Company and mBank S.A. signed an annex to the Master Agreement of 29 June 2016 whereby the limit was set as PLN 80m and could be used until 31 May 2022.
- (iv) On 22 March 2021, the Company and BNP Paribas S.A. signed an annex to the multipurpose line of credit agreement whereby the limit for bonds could be used until 21 March 2022.
- (v) On 22 March 2021, the Company received a signed annex to the *premium* multipurpose line of credit agreement entered into with BNP Paribas S.A. Under the annex, the limit granted to the Company was raised to PLN 65m and the security was changed accordingly. The tenor did not change.
- (vi) On 29 November 2021, the Company and Bank Pekao signed an annex to the multipurpose line of credit agreement whereby the limit could be used until 30 November 2022.
- (vii) On 3 November 2021, the agreement was signed by the Company and CaixaBank S.A. Polish Branch. The agreement provided for the bank guarantee limit up to PLN 30m. The agreement was concluded for six months of the conclusion date and could be extended.
- (viii) On 31 May 2021, a subsidiary signed an annex whereby the credit repayment date was extended by one year and a new repayment schedule was prepared.
- (ix) On 26 May 2021, a subsidiary signed an annex to the Master Agreement whereby the limit was reduced and the limit could be used until 31 May 2022.

After the end of the reporting period:

On 3 February 2022, the Company and Bank Pekao signed an annex to the multi-purpose revolving credit limit agreement whereby the limit was raised from PLN 50m to PLN 75m and the security was changed accordingly.

35. 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

36. Scope of application of corporate governance principles

The information about the Company's compliance with the principles and recommendations contained in 2021 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.

Since 1 July 2021, ZUE has been subject to 2021 Code of Best Practice for WSE Listed Companies (2021 Code of Best Practice) corporate governance principles contained in the appendix to the Resolution no. 13/1834/2021 passed by the Warsaw Stock Exchange Supervisory Board on 29 March 2021 (effective since 1 July 2021). Until 1 July 2021, 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.

The Management Board of ZUE state that in the financial year 2021, the Company complied with the majority of the corporate governance principles set out in the appendix to the Resolution no. 13/1834/2021 passed by the Warsaw Stock Exchange Supervisory Board on 29 March 2021, except for the following principles.

Chapter I – Disclosure Policy, Investor Communications

1.3.1.) - Content

"Companies integrate ESG factors in their business strategy, including in particular: 1.3.1. environmental factors, including measures and risks relating to climate change and sustainable development."

1.3.1.) – Company's comment

ESG factors (E – Environment, S – Social and G – Governance) have not been formally integrated in ZUE's business strategy. However, the Company is aware of the negative effects of human activity and the related legal requirements and treats these factors seriously. The Company respects all the applicable laws and regulations. The Company's strategic objectives are pursued with due regard to non-financial aspects such as human rights or employee factors as well as impact on local communities and natural environment. The Company is in the processes of integrating ESG factors in ZUE's business strategy.

1.3.2.) - Content

"Companies integrate ESG factors in their business strategy, including in particular: 1.3.2. social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations."

1.3.2.) – Company's comment

ESG factors (E – Environment, S – Social and G – Governance) have not been formally integrated in ZUE's business strategy. However, the Company is aware of the negative effects of human activity and the related legal requirements and treats these factors seriously. The Company respects all the applicable laws and regulations. The Company's strategic objectives are pursued with due regard to non-financial aspects such as human rights or employee factors as well as impact on local communities and natural environment. The Company is in the processes of integrating ESG factors in ZUE's business strategy.

1.4.) - Content

"To ensure quality communications with stakeholders, as a part of the business strategy, companies publish on their website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial. ESG information concerning the strategy should among others;"

1.4.) – Company's comment

According to applicable laws, the information on strategic objectives pursued by the Company is provided to stakeholders in interim reports published on the Company's website. The Company's strategic objectives are pursued with due regard to non-financial aspects such as human rights or employee factors as well as impact on local communities and natural environment. The Company is in the processes of integrating ESG factor's in ZUE's business strategy.

2.1.) - Content

"Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%."

2.1.) – Company's comment

The Company does not apply the diversity policy to the management board or the supervisory board. Members of the management supervisory boards are appointed on the basis of 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. However, it is possible that the diversity policy, including gender diversity, will be implemented in the future.

2.2.) - Content

"Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1."

2.2.) – Company's comment

The Company does not apply the diversity policy to the management board or the supervisory board. Members of the management supervisory boards are appointed on the basis of 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. However, it is possible that the diversity policy, including gender diversity, will be implemented in the future.

2.9.) - Content

"The chair of the supervisory board should not combine this function with that of chair of the audit committee of the supervisory board."

2.9.) – Company's comment

The chair of the Company's supervisory board combines this function with that of the chair of the audit committee. However, the person meets the independence criteria laid down in the Act on Auditors, Audit Firms and Public Supervision. The combination of these functions follows, first and foremost, from the knowledge and experience of the chair of the Company's supervisory board and the Company believes that the committee's independence is not threatened. The Company will consider the incorporation of this principle in the Company's regulations after the term of the supervisory board expires and new members are appointed.

3.5.) - Content

"Persons responsible for risk and compliance management report directly to the president or other member of the management board."

3.5.) – 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.

3.6.) - Content

"The head of internal audit reports organisationally to the president of the management board and functionally to the chair of the audit committee or the chair of the supervisory board if the supervisory board performs the functions of the audit committee."

3.6.) – 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.

3.7.) - Content

"Principles 3.4 to 3.6 apply also to members of the company's group which are material to its activity if they appoint persons to perform such tasks."

3.7.) – Company's comment

Given the type and scope of the activities conducted by the companies within the Group, no independent organisational units responsible for internal audit tasks have been separated from their structures. Consequently, there are no objective reasons to state that these standards are observed by the companies within the Group.

4.1.) - Content

"Companies should enable their shareholders to participate in a general meeting by means of electronic communication (e-meeting) if justified by the expectations of shareholders notified to the company, provided that the company is in a position to provide the technical infrastructure necessary for such general meeting to proceed."

4.1.) – 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 general meetings in a comprehensive and sufficient manner. In addition, the Management Board state that the Company's expenses associated with the holding of a general meeting with the use of electronic communication means are incommensurate with the advantages for investors.

4.3.) - Content

"Companies provide a public real-life broadcast of the general meeting."

4.3.) – Company's comment

Due to the Company's shareholding structure, the proceedings of general meetings have not been transmitted in real time. The Company's general meetings have been held in a standard manner typical for such kind of meetings. Therefore, the Issuer believes that shareholders' rights are properly protected by the laws governing the provision of information about the course of general meetings binding on public companies. In addition, shareholders have an access to material information about the course of general meetings contained in the reports published on the Company's website.

4.8.) - Content

"Draft resolutions of the general meeting on matters put on the agenda of the general meeting should be tabled by shareholders no later than three days before the general meeting."

4.8.) – Company's comment

As for shareholders' rights, the Company complies with the applicable laws according to which shareholder or shareholders holding at least one twentieth of the Company's share capital may table draft resolutions on matters put on the agenda or matters to be put on the agenda before the date of the general meeting. In addition, each shareholder may table draft resolutions on matters put on the agenda during the general meeting. The Company has no influence on shareholders' activities, however it encourages them to table draft resolutions with reasonable notice.

4.9.1.) - Content

"Candidates for members of the supervisory board should be nominated with a notice necessary for shareholders present at the general meeting to make an informed decision and in any case no later than three days before the general meeting; the names of candidates and all related documents should be immediately published on the company's website."

4.9.1.) – Company's comment

As for shareholders' rights, the Company complies with the applicable laws according to which shareholder or shareholders holding at least one twentieth of the Company's share capital may table draft resolutions on matters put on the agenda or matters to be put on the agenda before the date of the general meeting. In addition, each shareholder may table draft resolutions on matters put on the agenda during the general meeting. The Company has no influence on shareholders' activities, however it encourages them to name candidates with reasonable notice.

In addition, the Company states that until 1 July 2021, ZUE complied with the majority of the corporate governance principles set out in 2016 Code of Best Practice, 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 2000 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.

37. 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 2021 with the use of ERP software by IFS, which could be accessed by authorised personnel only. The system was implemented in 2021 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.

38. 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.

39. Shares and shareholding structure

39.1. Share capital structure

As at 31 December 2021, the registered share capital disclosed in the financial statements was PLN 5,757,520.75.

Share capital as at 1 March 2022

(PLN)

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

Class A, B or C shares are not preferred and rights to shares are not limited.
At 31 December 2021, the share capital structure was the same as at 1 March 2022.

39.2. 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.

39.3. Shareholding structure

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

Shareholder	Number of shares/votes at 2 March 2022	% 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%	1,460,000	6.34%
PKO Bankowy OFE	1,780,786 ⁽³⁾	7.73%	1,780,786	7.73%
Other	5,388,977 ⁽⁴⁾	23.40%	5,388,977	23.40%
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 2021): 17 November 2021.

(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 22 June 2021. 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 22 June 2021. 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.

39.4. 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 2 March 2022	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

(1) Publication of the last interim report (Consolidated report of the Group for the three quarters of 2021): 17 November 2021.

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.

39.5. Holders of securities conferring special control powers

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

39.6. Restrictions on exercise of voting rights

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

39.7. Restrictions on transferability of securities

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

39.8. 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 2021.

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.

39.9. Issue of securities

No securities were issued by the Group companies in 2021.

GOVERNING BODIES

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

40.1. 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
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.

40.2. 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.

40.3. 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 records 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.

On 12 January 2022, the Extraordinary General Meeting of ZUE resolved to dismiss Mr. Michał Lis and appoint Ms. Agnieszka Klimas to the Supervisory Board.

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
Agnieszka Klimas	Supervisory Board Member
Bogusław Lipiński	Supervisory Board Member
Piotr Korzeniowski	Supervisory Board Member

Agnieszka Klimas, Mariusz Szubra and 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 7.18 Remuneration of key management personnel of the separate financial statements presents the remuneration paid to the members of the Company's Supervisory Board.

41. 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.

42. 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 2021, 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).

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 2021 and 2022 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 2021, Polinvest evaluated the Report on remuneration of members of the Company's Management and Supervisory Boards for 2019 and 2020. The Audit Committee 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.

43. 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.

44. 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.

45. Changes to basic rules of management of the Issuer's enterprise and its capital group

The organisational structure of the Company in 2021 did not change considerably when compared with 2020. Section 1.2 of this Report deals with major changes concerning the Group's organisation.

46. 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

47. Employee share scheme control system

ZUE has no employee share scheme control system.

48. 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 2021.

49. Preparation basis

This Management Board Report on the Activities of ZUE between 1 January – 31 December 2021 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 2021 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 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.

50. Major research and development projects

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

51. 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 2021.

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

- a) audit of the separate and consolidated financial statements of the Company for 2021 and 2022;
- b) review of the half-yearly separate and consolidated financial statements of the Company for the first half of 2021 and 2022.

The agreement was concluded on 19 July 2021 the for duration of the audit.

The net remuneration of Polinvest-Audit Sp. z o.o. for the audit and review of the financial statements for 2021 was set as PLN 133 thousand.

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

In the reporting period, Polinvest-Audit Sp. z o.o. evaluated the Report on remuneration of members of the Company's Management and Supervisory Boards for 2019 and 2020. No other services were provided in the reporting period by Polinvest-Audit Sp. z o.o. to the Issuer.

Polinvest-Audit Sp. z o.o. also reviewed and audited the separate and consolidated financial statements of the Company for 2019 and 2020.

52. 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 was prepared according to which the petitioner's claims were to a considerable extent well-grounded. There was also another opinion and the arguments contained therein were basically the same as in the first opinion. The Parties made further reservations and the Court ordered that another opinion be prepared. The date of the next trial was not set by the date of preparation of these financial statements.

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

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

The litigation value (the "Amount") was PLN 39.3m and included:

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

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

On 11 March 2019, the Court delivered the partial judgment whereby it ordered that PKP Polskie Linie Kolejowe S.A. pay ZUE 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. After the trial of 8 April 2021, the Court admitted the opinion by the expert appointed by the Court. The date of the next trial, however, was not set.

Court case relating to claim in connection with the following contract: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section."

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. The Plaintiff upheld the claim. Witnesses and the parties were heard and the proceedings are pending. The parties were set the date to provide detailed evidence in writing for the purpose of admitting an expert opinion and proposing the candidate expert.

Other court cases concerning inflation claims in respect of railway contracts

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. Accordingly, the Issuer and consortium members filed the four claims in December 2021 for the total amount (attributable to ZUE S.A.) of approx. PLN 19m. The claims concern the following projects:

- | 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);"
- | "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section;"
- | "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;"
- | "Works on the railway lines no. 140, 148, 157, 159, 173, 689, 691 of the Chybie – Żory – Rybnik – Nędza / Turze section."

53. 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.

54. 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 2021 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.

55. 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 28 February 2022 on the appointment of the 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 2021 and 2022;
 - b) review the half-yearly separate and consolidated financial statements of the Company for the first half of 2021 and 2022;
- 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 2021 have met the requirements necessary to prepare 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.

