



GRUPA ZUE

MANAGEMENT BOARD REPORT

For Period 1 January 2012 - 30 June 2012

Cracow, 24 August 2012

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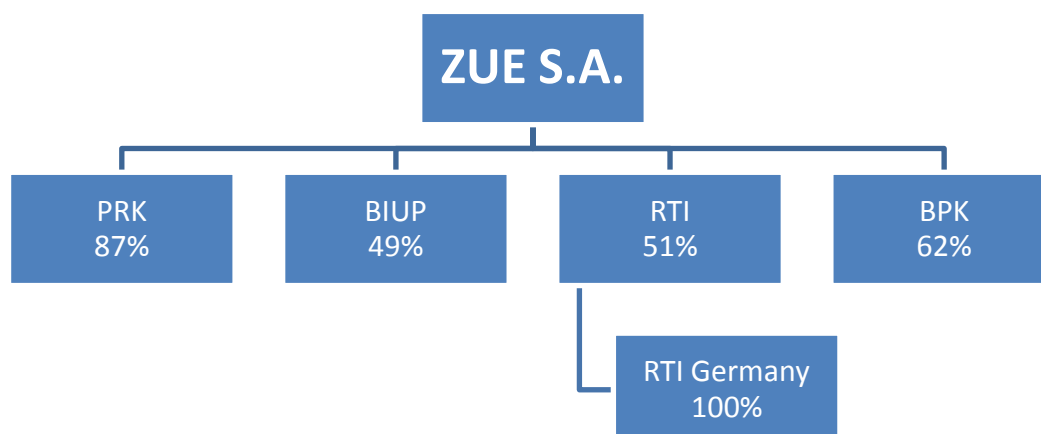
ZUE, Company	<p>ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,500,000 paid up in full.</p> <p>Parent company of the ZUE Capital Group.</p>
PRK	<p>Przedsiębiorstwo Robót Komunikacyjnych w Krakowie 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 0000150723, share capital of PLN 9,500,000 paid up in full.</p> <p>Subsidiary of ZUE S.A.</p>
BIUP	<p>Biuro Inżynierskich Usług Projektowych 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 0000332405, share capital of PLN 19,400 paid up in full.</p> <p>Subsidiary of ZUE S.A.</p>
RTI	<p>Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 50,000 paid up in full.</p> <p>Subsidiary of ZUE S.A.</p>
RTI Germany	<p>Railway Technology International Germany GmbH i.G. with registered office in Essen, Germany. Share capital of EUR 25,000 paid up in full.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
BPK	<p>Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, under entry number KRS 0000160302, share capital of PLN 747,500 paid up in full.</p> <p>Subsidiary of ZUE S.A.</p>
ZUE Group, Group, Capital Group	<p>ZUE Capital Group comprising: ZUE S.A., Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., Biuro Inżynierskich Usług Projektowych Sp. z o.o., Railway Technology International Sp. z o.o., Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. and Railway Technology International Germany GmbH i.G.</p>
PLN	<p>Polish złoty.</p>
EUR	<p>Euro.</p>

1. STRUCTURE OF THE ZUE GROUP

Composition of the ZUE Group:

- ZUE S.A. with registered office in Cracow (the parent) operating mainly on the urban infrastructure construction market with a focus on the construction and modernisation of tramways and associated infrastructure;
- Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. (subsidiary – 87% of shares) whose core business is the provision of comprehensive services related to railway construction including tracks, lines, stations as well as civil structures and buildings;
- Biuro Inżynierskich Usług Projektowych Sp. z o.o. (subsidiary – 49% of shares) whose core business is the preparation of tram and rail infrastructure designs;
- Railway Technology International Sp. z o.o. (subsidiary – 51% of shares) whose core business is the winning and execution of foreign projects;
- Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. (subsidiary – 62% of shares) whose core business consists of the preparation of comprehensive design documentation including feasibility studies, concepts, basic designs including construction designs, tender materials and detailed construction designs for high complexity investments in the road, tram and rail infrastructure and power engineering.
- Railway Technology International Germany GmbH i.G. (subsidiary of RTI – 100% of shares) whose core business is the winning and execution of foreign projects.

ZUE coordinates the operation of the Group companies and optimizes the Group's operating expenses through, *inter alia*, the coordination of investment projects and bank borrowings, supplies and logistics. In addition, ZUE's task is to create a uniform trade and marketing policy of the Capital Group and to promote the Group's potential among its clients.



In the first six months of 2012, ZUE purchased the employee shares of PRK. As at the date of this report, ZUE held 824,933 shares of PRK; i.e. 86.84% of the subsidiary's share capital.

During the six months ended 30 June 2012, the Capital Group expanded to include BPK, a subsidiary of ZUE.

On 19 March 2012, ZUE purchased 830 BPK shares at PLN 1,593.84 per share; i.e. 58.5% of the company's share capital. On 24 April 2012, ZUE bought another 50 BPK shares at PLN 1,593.84 per share. The total of 880 shares in BPK cost PLN 1,402,579.20. The par value of each share was PLN 500.

As at the date of this report, ZUE held the total of 880 BPK shares with the par value of PLN 440,000.00; i.e. 62.06% of the company's share capital.

BPK's core business consists of the preparation of comprehensive design documentation including feasibility studies, concepts, basic designs including construction designs, tender materials and detailed construction designs for high complexity investments with a focus on:

- Railway lines, stations and sidings (with drainage);
- Tramways;
- Roads, streets and crossings;
- Road and railway bridges, overpasses, tunnels and passages;
- Rail traffic control equipment;
- Wire and radio communication, line and junction digitalisation, computer network and computer science devices;
- Buildings and structures with technology (stations, switch towers, technical bases);
- Tram depots;
- Environmental protection and water and sewage management;
- High-, medium- and low-voltage power systems;
- Overhead contact line network and non-overhead contact lines.

The purchase of BPK shares will enable the development of the Group's design activities. The transaction will provide for the execution of major projects on the railway and tram market, more flexible margins and completion dates, lower standing costs of the ZUE Group's operation and better service quality management.

On 8 May 2012, RTI established RTI Germany. The share capital of RTI Germany amounts to EUR 25,000. According to the company's articles of association, the activities of RTI Germany consist of:

- Planning and designing tasks and research in the rail sector;
- Research and development in the rail sector;
- Trade in goods and materials used in the construction of railway lines and rolling stock;
- Manufacture of goods and materials used in the construction of railway lines and rolling stock;
- Advisory services concerning the organization of railways all over the world;

- Construction services;
- Commissioning of construction services;
- Engineering services.

RTI holds a 100% stake in RTI Germany.

The consolidated entities include PRK, BIUP and BPK. RTI was not consolidated as at 30 June 2012 given an insignificant impact of its financial data on the assets and financial situation.

2. SCOPE OF THE ZUE GROUP OPERATION

The ZUE Group operates on the entire Polish market. The Group's core business consists of engineering and construction activities related to the construction of urban and rail transport infrastructure. The activities include:

- Design, construction and comprehensive modernisation of urban transport systems;
- Design, construction and comprehensive modernisation of railway lines;
- Services related to power networks and power electronics; and
- Steel and aluminium structures (as part of PRK's activity).

ZUE uses a number of modern and tested solutions on the urban transport infrastructure market to provide as a general contractor the services related to the design, construction and comprehensive modernisation of urban road systems along with the associated infrastructure including, in particular, the construction, upgrade and repairs of overhead contact line networks, tram tracks, overhead contact linesubstations and street lighting and the construction of traffic lights.

As regards the construction and comprehensive upgrade of tram tracks, ZUE offers comprehensive solutions based on different technologies covering all track widths.

Track design and development technologies include:

- Ballastless track;
- Prestressed concrete sleeper track;
- Reduced noise level tracks (noise damping with vibration damping coatings or epoxy resins fillings;
- "Green" tracks.

As regards the construction of tracks, the infrastructure elements offered by ZUE include the delivery and assembly of:

- Tram point switches;
- Crossings;
- Safe-locking of point mechanisms;

- State-of-the-art point mechanisms;
- Track drainage systems;
- Rail lubrication systems.

As part of overhead contact line development and upgrade, ZUE offers:

- Comprehensive development and maintenance of tram overhead contact line;
- Development, upgrade and maintenance of overhead contact line substations; and
- Related design services.

The comprehensive services ranging from design to development of tram overhead contact line network have been provided by the Company almost since its creation. ZUE delivers complete solutions, including the delivery of all necessary elements, relying on Polish and European technologies.

The last key element of ZUE's operation is the construction, upgrade and maintenance of overhead contact line substations. ZUE offers the construction of overhead contact line substations using the components manufactured by both Polish and international manufacturers, harnessing advanced world-wide technologies.

The Group has operated on the rail infrastructure construction market since 2006. In 2010, ZUE purchased from the State Treasury 85% of shares in PRK. This transaction enabled the Group to comprehensively execute the tasks related to design, construction and repairs of railway lines.

The main focus of PRK is on earthworks and substructure, drainage systems, civil structures and buildings (station buildings, depots, switch towers), development of new railway lines and sidings, upgrade and repair of tracks and low-voltage electric installations. In addition, PRK executes the tasks related to clearing landslide from railway lines. Services are provided with the use of modern geosynthetic materials of cellular structure enabling a new engineering approach to the design and development of geotechnical structures used to stabilize and reinforce the land.

BIUP and BPK complement the Group's comprehensive activities by developing the following rail transport engineering projects:

- **Tram infrastructure** – design of new overhead contact line networks and tram depots, upgrade of existing tracks;
- **Rail infrastructure** – preparation of upgrade documentation – repair of railway lines, stations and sidings (with drainage), overhead contact line networks, bridges, tunnels and passages;
- **Power engineering** – electric installations and systems – street lighting development and maintenance design and high-, medium- and low-voltage power systems; and
- **Water, gas and air systems** – water supply, sewerage, heat and gas networks.

3. GOVERNING BODIES

3.1. MANAGEMENT BOARD

As at the date of this report, the Management Board of ZUE was composed of:

Wiesław Nowak	President of the Management Board – Chief Executive Officer
Marcin Wiśniewski	Vice-President of the Management Board – Director of the Projects Execution Units
Maciej Nowak	Vice-President of the Management Board – Legal Proxy
Jerzy Czeremuga	Vice-President of the Management Board – Director of the Railway Works Unit

3.2. SUPERVISORY BOARD

As at the date of this report, the Supervisory Board of ZUE was composed of:

Mariusz Szubra	Chairman of the Supervisory Board
Bogusław Lipiński	Member of the Supervisory Board
Magdalena Lis	Member of the Supervisory Board
Piotr Korzeniowski	Member of the Supervisory Board
Michał Lis	Member of the Supervisory Board

On 19 June 2012, Beata Jaglarz resigned from the position of the Chairperson and Member of the Supervisory Board of ZUE. The resignation took effect on 16 July 2012. Ms. Jaglarz resigned for personal reasons.

On 16 July 2012, Michał Lis was appointed a Member of the Supervisory Board on the basis of the resolution no. 18 adopted by the Annual General Meeting. Mr. Lis is the husband of Magdalena Lis, Member of the Supervisory Board of ZUE, and the son-in-law of Wiesław Nowak, President of the Management Board of ZUE.

On 16 July 2012, Mariusz Szubra was appointed the Chairman of the Supervisory Board on the basis of the resolution no. 19 adopted by the Annual General Meeting. Beata Jaglarz, who resigned on 19 June 2012, was dismissed from the position.

4. MAJOR EVENTS IN THE REPORTING PERIOD

4.1. Contracts

23 January 2012

PRK and Elektrownia "Rybnik" S.A. with registered office in Rybnik signed the construction contract for the following project: "Reconstruction of railway siding and internal access roads at Elektrownia "Rybnik" S.A. with associated infrastructure."

Net value of the contract: PLN 89,975,323.72

Completion date: August 2013

17 February 2012

ZUE and Tramwaje Warszawskie Sp. z o.o. with registered office in Warsaw signed the construction contract for the following project: "Construction of tram route overhead contact line infrastructure elements on the Marii Skłodowskiej-Curie Bridge (previously: Północny Bridge) with *Obrazkowa* rectifier substation."

Net value of the contract: PLN 8,288,600.00

Completion date: December 2012

16 April 2012

PRK and Swietelsky Baugesellschaft m.b.h. with registered office in Linz, represented by Swietelsky Baugesellschaft M.B.H Sp. z o.o. Polish Branch with registered office in Cracow, signed the contract for the reconstruction of the Tarnów Mościce station (72.8km – 74.6km) involving track, drainage and construction works as part of the following task: "Design and completion of construction works on the Kraków – Medyka – state border railway line, Biadoliny – Tarnów section between 61,300km and – 80,200km" as part of the following Project: "Modernisation of E 30/C-E 30 railway line, Kraków – Rzeszów section, stage III" ("Main Contract").

Net value of the contract: PLN 21,681,992.42

Completion date: December 2014

14 May 2012

PRK and PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw signed the contract for the reconstruction of the Pyskowice station and the replacement of overhead contact line network in the tracks no. 1 and no. 2 of the Pyskowice – Paczyna route up to 44,480km and the reinforcement of the substructure in the tracks no. 1 and no. 2 between 43,100km and 43,500km of the line 132 as part of the following project: "Upgrade of the railway line no. 132/135 on the Gliwice Łabędy – Strzelce Opolskie – Opole Groszowice section."

Net value of the contract: PLN 27,389,200.00

Completion date: November 2012

22 June 2012

ZUE and Zarząd Infrastruktury Komunalnej i Transportu w Krakowie signed the contract for ongoing maintenance, servicing and emergency repairs of tram infrastructure in Cracow.

Net value of the contract: PLN 26,944,876.10

Completion date: April 2015

4.2. Insurance Agreements

15 February 2012

ZUE and PRK, and Powszechny Zakład Ubezpieczeń S.A. with registered office in Warsaw ("PZU") signed an annex to the agreement of 29 April 2010 (as amended) for project-related bonding products.

Under the annex, the maximum limit in respect of the bonding products provided by PZU was increased from PLN 79,700,000.00 to PLN 120,000,000.00 and the agreement was extended until 31 December 2012.

20 February 2012

ZUE and PRK, and Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. with registered office in Sopot (the "Guarantor") signed the agreements for the provision of bonding product (bid bond).

Under the first agreement, the Guarantor provided the bonding product (bid bond) to PRK and undertook to pay PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw (the "Beneficiary"), at their first request, between 21 February 2012 and 25 May 2012, the amount up to PLN 22,500,000.

PRK issued a blank bill of exchange guaranteed by ZUE to secure any claims the Guarantor may have in connection with the payment under the abovementioned guarantee.

Under the second agreement, the Guarantor provided the bonding product (bid bond) to the Company and undertook to pay PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw (the "Beneficiary"), at their first request, between 21 February 2012 and 25 May 2012, the amount up to PLN 10,000,000.

The Company issued a blank bill of exchange guaranteed by PRK to secure any claims the Guarantor may have in connection with the payment under the abovementioned guarantee.

The said agreements were concluded in connection with the joint participation of the Company and PRK in tender for the following project: "Design and completion of construction works for the upgrade of E75 Rail Baltica Warszawa – Białystok – Lithuanian border railway line, Stage I, Warszawa Rembertów – Zielonka – Tłuszcz (Sadowne) section."

18 April 2012

ZUE and PRK, and Generali Towarzystwo Ubezpieczeń S.A. (the "Guarantor") signed an annex to the master agreement of 22 April 2012 for the provision of project-related guarantees under a revolving guarantee facility. Under the annex, the limit

of the facility was raised from PLN 39,660,000.00 to PLN 44,200,000.00 with the following breakdown:

- ZUE: PLN 44,200,000.00
- PRK: PLN 15,000,000.00

4.3. Corporate Events

12 June 2012

The Supervisory Board of ZUE resolved to appoint Deloitte Audyt Sp. z o.o. with registered office in Warsaw to review the separate and consolidated semi-annual financial statements and to audit the separate and consolidated annual financial statements of the Company for the financial year 2012.

19 June 2012

The Management Board of ZUE received a notice by Beata Jaglarz of resignation from the position of the Chairperson and Member of the Company's Supervisory Board. The resignation took effect on 16 July 2012. Ms. Jaglarz resigned for personal reasons.

5. EVENTS AFTER THE BALANCE SHEET DATE

11 July 2012

ZUE and PRK, and Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. with registered office in Warsaw (the "Guarantor") concluded the agreement for project-related bonding products (bid bonds, performance bonds, defects liability bonds and advance payment bonds) within a specified guarantee limit.

The maximum guarantee limit: PLN 50,000,000.00

Term of the agreement: June 2013

16 July 2012

The Annual General Meeting of ZUE resolved to allocate the entire separate net profit for the 2011 financial year of PLN 18,718,177.90 to reserve funds.

16 July 2012

Michał Lis was appointed a Member of the Supervisory Board of ZUE under the resolution no. 18 adopted by the Ordinary General Shareholders Meeting of ZUE.

16 July 2012

Mariusz Szubra was appointed the Chairman of the Supervisory Board of ZUE under the resolution no. 19 adopted by the Annual General Meeting of ZUE.

6 August 2012

The consortium including:

- Przedsiębiorstwo Napraw i Utrzymana Infrastruktury Kolejowej w Krakowie Sp. z o.o. with registered office in Cracow (Leader),
- Przedsiębiorstwo Remontowo Budowlane "TOR" Sp.

z o.o. with registered office in Mysłowice (Partner),

- ZUE S.A. with registered office in Cracow (Partner),

concluded the contract with PKP Polskie Linie Kolejowe S.A. with registered office in Warsaw to reconstruct the railway infrastructure on the line no. 61, Koniecpol - Turów section, as part of the following project: "Revitalization of the track no. 1 of the railway line no. 61."

Net value of the contract: PLN 68,452,400.00
 Net value of the contract assignable to ZUE: PLN 17,550,000.00
 Completion date: November 2012

6. LIST OF SHAREHOLDERS HOLDING AT LEAST 5% OF THE TOTAL VOTE AT ZUE GENERAL MEETING AS AT THE DATE OF THE REPORT

List of shareholders holding at least 5% of the total vote at the Company's General Meeting as at the date of this report according to the information held by the Management Board of ZUE:

Shareholder	Type of shares	Number of shares held	Share in the share capital	Number of votes at the GM	% of votes at the GM*
Wiesław Nowak	Ordinary	16,000,000	72.73%	16,000,000	72.73%
PKO Bankowy OFE	Ordinary	1,126,144	5.12%	1,126,144	5.12%

7. HOLDINGS OF ZUE SHARES BY MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES

Holdings of ZUE shares by members of the Issuer's management and supervisory bodies as at the date of this report according to the information held by the Management Board of ZUE:

Person	Position at ZUE	Number of shares held	Share in the share capital	Number of votes at the GM	% share of votes at the GM*	Changes in the shareholding structure since the last report
Wiesław Nowak	Management Board President	16,000,000	72.73%	16,000,000	72.73%	None
Maciej Nowak	Management Board Vice-President	7,706	0.04%	7,706	0.04%	Purchase of 154 shares
Marcin Wiśniewski	Management Board Vice-President	969	0%	969	0.00%	None
Jerzy Czeremuga	Management Board Vice-President	136	0%	136	0.00%	None
Magdalena Lis	Supervisory Board Member	3,327	0.02%	3,327	0.02%	Purchase of 260 shares
Michał Lis	Supervisory Board Member	661	0.00	661	0.00%	None

8. ANALYSIS OF FINANCIAL RESULTS OF THE ZUE GROUP FOR THE PERIOD 1 JANUARY 2012 - 30 JUNE 2012

8.1. Consolidated Statement of Financial Position

Items (PLN '000)	30.06.2012	31.12.2011	Change	% Change
FIXED ASSETS				
Tangible fixed assets	64,226	62,858	1,368	2.2%
Investment real property	9,251	9,351	-100	-1.1%
Intangible assets	11,164	10,613	551	5.2%
Goodwill	31,172	31,172	0	0.0%
Investments in non-consolidated subsidiaries	29	661	-632	-95.6%
Advance payments for investments in subsidiaries	0	0	0	0.0%
Retentions on construction contracts	3,257	3,179	78	2.5%
Deferred tax assets	21,085	18,293	2,792	15.3%
Other assets	451	617	-166	-26.9%
Total fixed assets	140,634	136,744	3,890	2.8%
CURRENT ASSETS				
Inventories	18,901	18,726	175	0.9%
Trade and other receivables	269,572	216,549	53,023	24.5%
Retentions on construction contracts	1,035	299	736	246.2%
Current tax assets	0	434	-434	-
Other current assets	3,278	3,083	195	6.3%
Loans advanced	109	44	65	147.7%
Cash and cash equivalents	43,751	48,392	-4,641	-9.6%
Assets held for sale	0	2,200	-2,200	-
Total current assets	336,646	289,728	46,918	16.2%
TOTAL ASSETS	477,280	426,472	50,808	11.9%

Items (PLN '000)	30.06.2012	31.12.2011	Change	% Change
EQUITY AND LIABILITIES				
Share capital	5,500	5,500	0	0.0%
Share premium account	85,361	85,361	0	0.0%
Retained earnings	90,220	85,551	4,669	5.5%
Equity attributable to shareholders of ZUE	181,080	176,411	4,669	2.7%
Equity attributable to non-controlling interests	9,603	8,941	662	7.4%
Total equity	190,683	185,353	5,330	2.9%
LONG-TERM LIABILITIES				
Long-term bank borrowings and other debt instruments	4,020	5,271	-1,251	-23.7%
Retentions on construction contracts	3,901	4,174	-273	-6.5%
Other financial liabilities	1,960	0	1,960	-
Liabilities under employee benefits	2,451	2,259	192	8.5%
Deferred tax provision	28,315	24,419	3,896	16.0%
Long-term provisions	6,819	7,434	-615	-8.3%
Total long-term liabilities	47,466	43,557	3,909	9.0%
SHORT-TERM LIABILITIES				
Trade and other payables	150,129	132,494	17,635	13.3%
Retentions on construction contracts	5,048	3,715	1,333	35.9%
Short-term bank borrowings and other debt instruments and other financing sources	71,983	48,515	23,468	48.4%
Other financial liabilities	210	0	210	-
Liabilities under employee benefits	6,154	5,693	461	8.1%
Current tax liabilities	1,043	3,460	-2,417	-69.9%
Short-term provisions	4,564	3,685	879	23.9%
Total short-term liabilities	239,131	197,562	41,569	21.0%
Total liabilities	286,597	241,119	45,478	18.9%
TOTAL EQUITY AND LIABILITIES	477,280	426,472	50,808	11.9%

Item	30.06.2012	31.12.2011
Debt ratio	0.6	0.6
Debt to equity ratio	1.5	1.3
Equity ratio	0.4	0.4
Equity to fixed assets ratio	1.7	1.8
Short-term debt ratio	0.5	0.5
Long-term debt ratio	0.1	0.1

Formulas used to calculate the ratios:

Debt ratio = (long- and short-term liabilities) / total assets

Debt to equity ratio = long- and short-term liabilities / equity

Equity ratio = equity / total assets

Equity to fixed assets ratio = (equity + long-term liabilities) / fixed assets

Short-term debt ratio = short-term liabilities / total assets

Long-term debt ratio = long-term liabilities / total assets

Item	30.06.2012	31.12.2011
Working capital	97,515	92,166
Current ratio	1.4	1.5
Quick ratio	1.3	1.4
Cash ratio	0.2	0.2

Formulas used to calculate the ratios:

Working capital = current assets – short-term liabilities

Current ratio = current assets / short-term liabilities

Quick ratio = (current assets – inventory) / short-term liabilities

Cash ratio = cash and cash equivalents / short-term liabilities

During the reporting period, total assets grew by 11.9% compared to the end of 2011. This was driven by an increase in the value of current assets by 16.2% and of fixed assets by 2.8% when compared with the figures recorded as at 31 December 2011. The increase in current assets was mainly impacted by the growth in trade and other receivables by 24.5% when compared with 2011. Deferred tax assets, which grew by 15.3% compared to the figure as at 31 December 2011, had the largest contribution to the increase in fixed assets. The ZUE Group's liabilities during the reporting period stood at PLN 286,597 thousand and grew over 2011 by PLN 45,478 thousand (by 18.9%). It was due to an increase in the value of short-term liabilities by 21.0% and of long-term liabilities by 9.0% when compared with 2011. Short-term liabilities were primarily impacted by the growth of short-term bank borrowings and other debt instruments by 48.4% and of trade and other payables by 13.3% over the figures disclosed as at 31 December 2011. The greatest growth with an impact on long-term liabilities in the first six months of 2012 was recorded in the case of deferred tax provision, which grew by 16.0% over the end of 2011.

8.2. Consolidated Statement of Comprehensive Income

Items (PLN '000)	30.06.2012	30.06.2011	Change	% Change
Sales revenue	233,903	206,996	26,907	13.0%
Cost of sales	219,880	192,900	26,980	14.0%
Gross profit (loss) on sales	14,023	14,096	-73	-0.5%
General and administrative expenses	8,753	8,640	113	1.3%
Other operating income	1,135	1,416	-281	-19.8%
Other operating expenses	2,581	1,255	1,326	105.7%
EBITDA	7,326	9,475	-2,149	-22.7%
Profit (loss) on operating activities	3,824	5,616	-1,792	-31.9%
Financial income	3,506	1,908	1,598	83.8%
Financial expenses	1,998	1,844	154	8.4%
Pre-tax profit (loss)	5,332	5,680	-348	-6.1%
Corporate income tax	1,183	1,110	73	6.6%
Consolidated net profit (loss)	4,149	4,570	-421	-9.2%
<i>Attributable to shareholders of the Parent</i>	4,122	4,500	-378	-8.4%
Consolidated net profit (loss) per share (PLN)	0.19	0.20	-0.01	-5.0%

Item	30.06.2012	30.06.2011
Gross margin	6.0%	6.8%
EBITDA margin	3.1%	4.6%
EBIT margin	1.6%	2.7%
Gross margin	2.2%	2.7%
Net margin	1.8%	2.2%
ROA	0.9%	1.2%
ROE	2.2%	2.7%

Formulas used to calculate the ratios:

Gross margin = gross profit / revenue

EBITDA = operating profit + depreciation + amortisation

EBITDA margin = EBITDA / revenue

EBIT margin = EBIT / revenue

Gross margin = gross profit / (revenue + other operating income + other financial income)

Net margin = net profit / revenue

ROA = net profit / assets

ROE = net profit / equity

In the period 1 January 2012 – 30 June 2012, sales revenue generated by the ZUE Group stood at PLN 233,903 thousand; i.e. it grew by 13.0% when compared with the analogous period of 2011. Cost of sales increased by 14.0% to stand as at 30 June 2012 at PLN 219,880 thousand. Gross profit amounted to PLN 14,023 thousand and declined by 0.5% compared to the first half of 2011. General and administrative expenses in the reporting period stood at PLN 8,753 thousand compared with PLN 8,640 thousand in the first half of 2011 (growth by 1.3%). Other operating income for the first half of 2012 was PLN 1,135 thousand and declined by 19.8% compared to the first half of 2011. Other operating expenses for the first half of 2012 amounted to PLN 2,581 thousand and grew by PLN 1,326 thousand compared with the analogous figure for the first half of 2011. The ZUE Group's EBITDA in the first half of 2012 was PLN 7,326 thousand and decreased by 22.7% compared to the analogous period of 2011. Finally, the Group's consolidated net profit (loss) in the first half of 2012 stood at PLN 4,149 thousand and was lower by PLN 421 thousand when compared to the first half of 2011.

8.3. Consolidated Statement of Cash Flows

Items (PLN '000)	30.06.2012	30.06.2011	Change
Cash flows from operating activities	-29,012	-21,063	-7,949
Cash flows from investing activities	3,896	-6,260	10,156
Cash flows from financing activities	20,506	-26,120	46,626
Total net cash flows	-4,610	-53,443	48,833
Foreign exchange gains / (losses)	-30	1	-31
Cash and cash equivalents at beginning of period	48,392	53,675	-5,283
Cash and cash equivalents at end of period	43,751	232	43,519
Depreciation and amortisation	3,502	3,858	-356

The Group's cash and cash equivalents at the beginning of period stood at PLN 48,392 thousand compared to PLN 43,751 thousand as at 30 June 2012. Total net cash flows were negative and stood at PLN -4,610 thousand.

The Group recorded cash flows from operating activities of PLN -29,012 thousand. This negative figure is a result of the Group's construction and assembly activities in the case of which a positive result is usually reported only in the last two quarters of a financial year. In the first half of 2012, the Group uses the cash to finance current operating activities.

The Group reported positive cash flows from investing activities of PLN 3,896 thousand and positive cash flows from financing activities of PLN 20,506 thousand.

9. FUNDAMENTAL RISKS AND THREATS RELATED TO THE REMAINING MONTHS OF THE FINANCIAL YEAR

- **Risk Related to Social and Economic Situation in Poland**

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

- **Risk Related to Inaccurate Estimate of Costs of Planned and Executed Contracts**

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

- **Risk Related to Financial Liquidity in Construction Sector**

Another risk has recently occurred and is related to a loss of financial liquidity by other entities operating in the same sector as the Group. This may have a negative influence 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 Tasks**

The Group sometimes needs to obtain administrative decisions required to execute certain projects. Such decisions are specified, *inter alia*, in the Construction Law 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 to begin its projects may also occur. These factors could lead to the failure to execute or timely execute the construction projects and, consequently, have a considerable impact on the Group's financial results.

- **Risk Related to Joint and Several Liability to Subcontractors and Clients**

The Group engages construction subcontractors to execute its construction projects. Under the Polish Civil Code and the Polish Public Procurement Act, a contractor has a joint and several liability to pay to an engaged subcontractor the remuneration for the subcontractor's services. In addition, consortium members are liable on a joint and several basis to a client for the proper performance of their obligations under public procurement contracts.

- **Risk Related to Bonds, Contractual Penalties and Related Disputes**

Construction contracts concluded by the Group companies provide for the obligation to provide performance bonds and defects liability bonds in the form of deposits, or bank or insurance guarantees. 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 the completion of guarantee works connected with the removal of defects. Thus, an investor may exercise its right to use the bonds or demand contractual penalties. 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 Guarantee of Payment for Construction Works**

According to the Polish Civil Code, a contractor commissioned by the Group companies to execute a construction project may at any time demand the payment guarantee from individual companies (the contractor's clients) up to the amount of remuneration payable under a contract or other agreements. The failure to provide a satisfactory guarantee creates an obstacle to the completion of construction works through the fault of the Group. A contractor is then entitled to demand its remuneration under Art. 639 of the Polish Civil Code. Consequently, costs may grow and the execution of construction projects may be delayed or even made impossible. This could have a negative impact on the Group's financial standing.

- **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 transaction 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 standing.

- **Risk Related to Winning New Contracts**

The Group companies participate in public tenders and include target contracts in their financial plans. A risk that the decision will be unfavourable or the tender will be cancelled by a client cannot be excluded. Such circumstances could have a negative impact on the Group's financial results.

- **Risk Related to Awarding Contracts and Exclusion From Public Tenders**

Pursuant to the Public Procurement Act, tender participants are able to appeal against illegal appointment of a contractor by a client 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 court may decide that a damage has been done by a company comprising the Group as a result of the company's failure to perform or duly perform a contract. If the decision becomes legally valid, the participation in public tenders is not possible. Such events could have a negative impact on the Group's financial results.

- **Risk Related to Atmospheric Conditions**

The Group's construction tasks related to both urban 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 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.

10. FACTORS WITH A BEARING ON THE GROUP'S RESULTS IN THE REMAINING MONTHS OF THE FINANCIAL YEAR

The main factors with a bearing on 2012 results include:

- **Growth in Prices of Raw Materials and Liquid Fuels**

The Group's construction activities involve the use of products and raw materials such as concrete, aggregates, steel elements (including traction posts, lamp posts, tracks 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).

- **Growth in Prices of Services Provided by Subcontractors**

When executing its contracts, the Group subcontracts certain construction and assembly tasks. Growing prices of raw materials and liquid fuels contribute to the growth of operating costs incurred by construction companies and directly influence the price of services provided by subcontractors. This has a negative impact on the Group's financial results.

- **Untimely Settlement of Liabilities to the Group**

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

- **Unstable EUR/PLN Exchange Rate**

The Group purchases certain imported products and sells products and services in EUR, which entails a foreign exchange risk. This may have a positive or negative impact on the Group's financial results.

- **Stronger Competition Among Bidders**

The Group companies participate in tenders for the contracts concerning tram and rail infrastructure. The competition among bidders is getting stronger and stronger. It becomes more difficult to obtain new tasks with satisfactory margins and to win new contracts. Consequently, the situation influences the Group's financial results.

11. STATEMENT OF THE MANAGEMENT BOARD OF ZUE ON PREVIOUSLY PUBLISHED FORECASTED FINANCIAL RESULTS

The Company did not publish any forecasted financial results for the financial year 2012.

12. COURT PROCEEDINGS

Neither company comprising the ZUE Group is a party to any proceedings whose total value exceeds 10% of ZUE's equity as at 30 June 2012.

13. OFF-BALANCE SHEET ITEMS OF THE ZUE GROUP

13.1. Contingent Liabilities

Items (PLN '000)	30.06.2012	31.12.2011
Guarantees	199,331	178,897
Sureties	4,461	761
Bills of exchange	173,868	174,358
Mortgages	38,151	38,421
Pledges	16,832	3,690
Total contingent liabilities	432,643	396,126

The contingent liabilities resulting from guarantees and bill of exchange guarantees include, in particular, the guarantees provided by insurance companies to the ZUE Capital Group's clients to secure their claims against the Group under construction contracts. This is an alternative to retained deposits used to secure any claims clients may have in connection with the performance of construction contracts.

13.2. Contingent Assets

Items (PLN '000)	30.06.2012	31.12.2011
Guarantees	28,848	29,750
Bills of exchange	106	106
Total contingent assets	28,954	29,856

The contingent assets are used by the ZUE Group to secure the construction contracts concluded between the companies comprising the ZUE Capital Group and subcontractors. The ZUE Group contingent assets do not include the mortgage securing the loan granted by ZUE S.A. to BPK.

14. TRANSACTIONS WITH AFFILIATES

During the reporting period, neither company comprising the ZUE Group concluded any major contracts or any contracts other than at arm's length with its affiliates.

Wiesław Nowak – Management Board President

Marcin Wiśniewski – Management Board Vice-
President

Maciej Nowak – Management Board Vice-
President

Jerzy Czeremuga – Management Board Vice-
President

Cracow, 24 August 2012

The above report is a translation from the original polish version. In case of any discrepancies between the polish and english version, the polish version shall prevail.