



GRUPA ZUE

MANAGEMENT BOARD REPORT

For the Period 1 January 2013 to 30 June 2013

Cracow, 26 August 2013

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Abbreviations and definitions:

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 with registered office in Hamburg, 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 Poznań	<p>Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register, under entry number KRS 0000160302, share capital of PLN 1,747,500 paid up in full.</p> <p>Subsidiary of ZUE S.A.</p>
BPK Gdańsk	<p>Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji with registered office in Gdańsk, entered into the National Court Register maintained by the District Court Gdańsk-Północ, VII Commercial Division of the National Court Register, under entry no. KRS 0000273363, share capital of PLN 1,000,000 paid up in full.</p> <p>Subsidiary of BPK Poznań.</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., Railway Technology International Germany GmbH and Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji.</p>
PLN	<p>Polish złoty.</p>
EUR	<p>Euro.</p>
Act	<p>Polish Companies Act (Dz.U. 2000, no. 94, item 1037, as amended).</p>

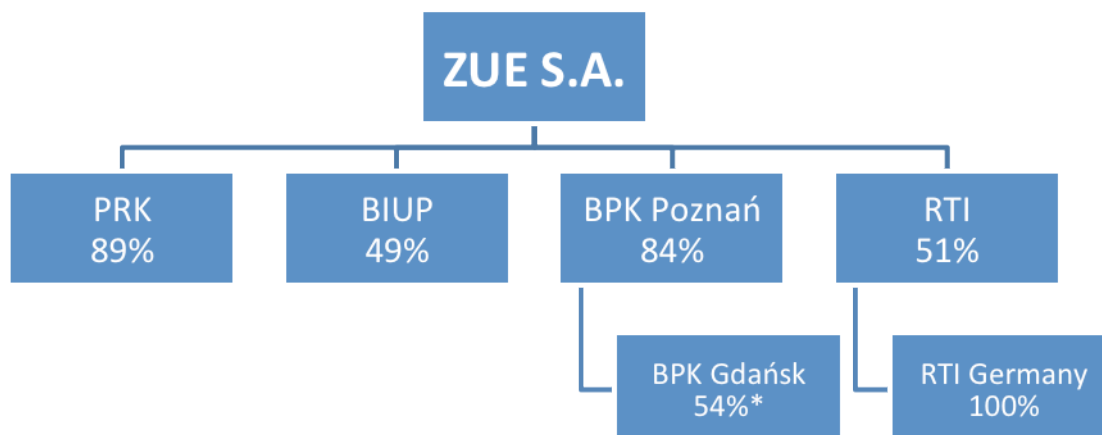
1. ORGANISATION OF THE ZUE GROUP

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 tram lines and associated infrastructure;
- Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. (subsidiary – 89% 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 projects;
- Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. (subsidiary – 84% 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;
- Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. w likwidacji (subsidiary of BPK Poznań – 54% of shares) whose core business is the provision of comprehensive services for investments in different areas of communications, transport, industry, construction, urban planning and architecture including, in particular, design and supervision, technical research and analyses and research and development;
- Railway Technology International Sp. z o.o. (subsidiary – 51% of shares). Right now the company is not operating;
- Railway Technology International Germany GmbH (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 customers.

Structure of the ZUE Group as at 30 June 2013:



*Direct interest of BPK Poznań in the share capital of BPK Gdańsk, ZUE's indirect interest is 45.71%.

In the first six months of 2013, ZUE purchased the employee shares of PRK. On 12 June 2013, the Company purchased 8,608 shares in Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. from the State Treasury of Poland. The State Treasury of Poland no longer holds any PRK's shares. As at the date of signing this report, ZUE held 841,586 shares of PRK; i.e. 88.59% of the subsidiary's share capital.

In the first six months ended 30 June 2013, the Group expanded to include BPK Gdańsk, a direct subsidiary of BPK Poznań and indirect subsidiary of ZUE. On 16 January 2013, BPK Poznań signed the agreement to purchase further 533 shares in BPK Gdańsk for PLN 45,000.00. At that time, the company held a 54.25% interest in the share capital of Biuro Projektów Kolejowych w Gdańsku Sp. z o.o. On 19 July 2013, BPK Poznań acquired further 533 shares of BPK Gdańsk and at the date of signing this report, the company held 81.37% of the share capital of BPK Gdańsk.

On 20 June 2013, the District Court Poznań – Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, issued the decision about the increase of the share capital of BPK Poznań from PLN 747,500 to PLN 1,747,500.

The entities subject to consolidation include PRK, BIUP, BPK Poznań and BPK Gdańsk. Given an insignificant impact of the subsidiary's financial data on the assets and financial situation, RTI was not consolidated as at 30 June 2013.

2. SCOPE OF THE ZUE GROUP OPERATION

The ZUE Group operates throughout the country. 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; and
- services related to power networks and power electronics.

The Group uses 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 OCL networks, tram tracks, OCL substations 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:

- classic tracks on wooden and prestressed concrete sleepers;
- tracks on grass (green), gravel or asphalt/concrete subgrade, embedded in the roadway;
- tracks with a reduced noise level - damping by means of vibration isolation padding or appropriately selected track fasteners.

All the projects, including delivery and assembly at the site, are executed by a team of competent employees and the cooperation with recognised suppliers combined with the specialty equipment and machinery owned by ZUE guarantee the timely delivery and high quality of the service.

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

- tram point switches;
- crossings;
- safe-locking of point mechanisms;
- state-of-the-art point mechanisms;
- track drainage systems; and
- rail lubrication systems.

As part of OCL development and upgrade, ZUE offers:

- comprehensive development and maintenance of tram OCL;

- development, upgrade and maintenance of OCL substations; and
- related design services.

The ZUE Group delivers complete solutions, including the delivery of all necessary elements, relying on Polish and world technologies. It should be emphasised that ZUE has been the first company on the Polish market to develop, implement and construct an OCL section based on technology imported from Western Europe. Today, the Group constructs OCL networks harnessing, depending on the Client's expectations, advanced world-class technologies and initiating state-of-the-art solutions.

The ZUE Group also constructs, upgrades and maintains OCL substations, developed with components manufactured by Polish and international manufacturers, harnessing advanced world-class technologies. The expertise and experience of the Company's personnel coupled with an efficient substation support system make the Company perfectly positioned to respond speedily to emergencies and remove them in an efficient manner.

The Group has operated on the rail infrastructure construction market since 2006. In 2010, ZUE purchased 85% of shares in PRK from the State Treasury. 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 and 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, BPK Poznań and BPK Gdańsk complement the Group's comprehensive activities by developing the following rail transport engineering projects:

- **tram infrastructure** – design of new OCL networks and tram depots, upgrade of existing tracks;
- **rail infrastructure** – preparation of upgrade documentation – repair of railway lines, stations and sidings (with drainage), OCL 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 signing this report, the Management Board of ZUE comprised:

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 signing this report, the Supervisory Board of ZUE comprised:

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

4. MAJOR EVENTS IN THE REPORTING PERIOD

4.1. Contracts

8 January 2013	<p>ZUE and the city of Lublin concluded the contract for the construction works as part of the following project: "Construction of trolleybus traction and power supply system, and reconstruction of street lighting system in the following streets: Jana Pawła II (from Armii Krajowej to Nadbystrzycka), Krochmalna (from Nadbystrzycka to Młyńska), Młyńska (from Krochmalna to Dworcowa) and the following intersections: Młyńska / Krochmalna / Gazowa and Młyńska / Dworcowa in Lublin" as part of the following project: Integrated Urban Public Transport System in Lublin.</p> <p>Contract net value: PLN 10,050,240.25.</p> <p>Completion date: 15 December 2014.</p>
8 January 2013	<p>PRK and PKP Polskie Linie Kolejowe S.A. of Warsaw signed the contract for the construction works as part of the following project: "Upgrade of the Tunel station on the railway line no. 8 Warszawa Zachodnia – Kraków Główny Osobowy."</p> <p>Contract net value: PLN 41,953,990.41.</p> <p>Completion date: 30 November 2013.</p>
25 January 2013	<p>ZUE and Tramwaje Śląskie S.A. of Chorzów concluded the contract for the construction works as part of the following projects: "Upgrade of the tramway track along the Wolności street from the Kondratowicza street up to the border with Gliwice" (project no. 50) in Zabrze" and "Upgrade of the tramway track along the 3 Maja street in Zabrze" (project no. 51) and "Upgrade of tram and trolleybus infrastructure in the Upper Silesia with associated infrastructure."</p> <p>Contract net value: PLN 16,647,267.92.</p> <p>Completion date: 25 January 2014.</p>
25 January 2013	<p>ZUE and Tramwaje Śląskie S.A. of Chorzów concluded the contract for the construction works as part of the following projects:</p> <ul style="list-style-type: none">• "Upgrade of a separate tramway track at lines no. 15, 21, 24 and 27 along the 3-go Maja street, an interchange in Sosnowiec, with platforms,"• "Upgrade of crossings in Sosnowiec: 3-go Maja street, the intersection of Parkowa and Mościckiego streets" (project no. 28), "Upgrade of a tramway in the 3-go Maja street in Sosnowiec – from the interchange to the Zagórze terminus" (project no. 29),• "Upgrade of tram and trolleybus infrastructure in the Upper Silesia with associated infrastructure." <p>Contract net value: PLN 26,293,505.13.</p> <p>Completion date: 25 September 2014.</p>

11 February 2013	<p>ZUE and Miejskie Przedsiębiorstwo Komunikacyjne we Wrocławiu Sp. z o.o. of Wrocław signed the contract for the following project: "Reconstruction of the tramway track and OCL network at Zakład Tramwajowy Nr II in the Słowiańska 16 street in Wrocław."</p> <p>Contract net value: PLN 7,440,000.00.</p> <p>Completion date: 30 September 2013.</p>
22 February 2013	<p>ZUE and the city of Lublin concluded the construction contract for the following project: "Construction of trolleybus traction with power supply system and <i>Poręba</i> substation, and reconstruction of street lighting system in the following streets: Jana Pawła II (from Armii Krajowej to Granitowa), Armii Krajowej (from Jana Pawła II to Orkana) and Granitowa in Lublin" as part of the following project: Integrated Urban Public Transport System in Lublin.</p> <p>Contract net value: PLN 5,563,567.94.</p> <p>Completion date: 15 December 2014.</p>
12 March 2013	<p>ZUE and Tramwaje Warszawskie Sp. z o.o. of Warsaw signed the contract for the design and reconstruction (upgrade) of the tramway track along Al. Jerozolimskie in Warsaw.</p> <p>Contract net value: PLN 998,000.00.</p> <p>Completion date: 31 May 2013.</p>
25 March 2013	<p>PRK and PKP Polskie Linie Kolejowe S.A. signed the design and construction contract for the following project: "Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie – Dąbrowa Górnicza Ząbkowice – Jaworzno Szczakowo section."</p> <p>Contract net value: PLN 357,147,465.00.</p> <p>Completion date: 23 March 2015.</p>

4.2. Insurance Agreements

21 March 2013	<p>PRK signed the guarantee line with BNP Paribas Bank Polska S.A. Under the agreement, the bank guarantee was given to PKP Polskie Linie Kolejowe S.A. to secure the obligations under the contract no. 563/13/WAR. The security included a blank bill of exchange with declaration and the assignment of claims under the following design and construction contract: "Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie – Dąbrowa Górnicza Ząbkowice – Jaworzno Szczakowa section." The performance bond of PLN 43,929,138.20 is valid and effective from 25 March 2013 to 22 April 2015 and the warranty of PLN 13,178,741.46 is valid and effective from 23 April 2015 to 7 April 2018.</p>
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17 April 2013	ZUE and PRK signed an annex to the agreement of 29 April 2010 (as amended) for the provision of project-related bonding products concluded with Powszechny Zakład Ubezpieczeń S.A. with registered office in Warsaw. Under the annex, the maximum limit was set at PLN 80,000,000 and applied until 16 April 2014 .
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4.3. Credit Facility Agreements

31 January 2013	End of the credit facility agreement no. 07/044/09/Z/0B concluded by and between ZUE and BRE Bank S.A. – the facility repayment.
14 May 2013	ZUE and BRE Bank S.A. of Warsaw signed an annex no. 10 to the overdraft facility agreement no. 07/183/04/Z/VV. Under the annex, the repayment date for the facility of PLN 10,000,000 was extended to 15 May 2014.
21 May 2013	Expiry of the overdraft facility agreement no. 07/120/11/Z/VV of PLN 10,000,000 between Przedsiębiorstwo Robót Komunikacyjnych and BRE Bank of Warsaw.
28 May 2013	Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. and Bank Millennium S.A. signed the overdraft facility agreement no. 5700/13/400/04 of PLN 10,000,000. The term of the agreement was from 28 May 2013 to 22 May 2014.

4.4. Corporate Events

16 January 2013	BPK Poznań signed the agreement for the purchase of 533 shares in BPK Gdańsk as a result of which the Company acquired a 54.25% interest in the share capital of BPK Gdańsk.
14 May 2013	The Supervisory Board of ZUE of Cracow resolved to appoint Rödl Audit Sp. z o.o. of Warsaw to review the separate and consolidated interim financial statements and to audit the separate and consolidated annual financial statements of the Company for the financial year 2013.
12 June 2013	ZUE and the State Treasury of Poland concluded the agreement no. MSP/SPA/00081/00/2013 for the sale of shares in Przedsiębiorstwo Robót Komunikacyjnych Krakowie Spółka Akcyjna of Cracow. Under the agreement, ZUE acquired 8,608 PRK's shares.
20 June 2013	The District Court Poznań – Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register issued a decision on the increase of the share capital of BPK Poznań from PLN 747,500 to PLN 1,747,500.
28 June 2013	The Ordinary General Shareholders Meeting of Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A. of Cracow passed the Resolution no.

6/06/2013 whereby a part of 2012 net profit of PLN 5,529,000 would be paid as dividend to the Company's shareholders. A list of shareholders entitled to dividends was prepared on 15 July 2013. The dividend payment date was set at 1 August 2013.

5. EVENTS AFTER THE BALANCE SHEET DATE

2 July 2013	<p>ZUE and Infrastruktura Euro Poznań 2012 Sp. z o.o. (substitute investor for Zarząd Transportu Miejskiego w Poznaniu) signed the contract for "Construction works as part of the following investment: Extension of the tram route of the Poznań High-Speed Tram (PST) to Dworzec Zachodni railway station in Poznań" – supplement no. 2 to the main order.</p> <p>Contract net value: PLN 3,100,000.</p> <p>Completion date: 31 August 2013.</p>
15 July 2013	<p>A decision to merge ZUE with Przedsiębiorstwo Robót Komunikacyjnych w Krakowie S.A., ZUE's subsidiary.</p>
14 August 2013	<p>Agreement of the plan of merger of ZUE and PRK. The intended merger would take place pursuant to Art. 492 § 1.1 of the Polish Companies Act of 15 September 2000 (Dz.U. of 2000, no. 94, item 1037, as amended – the "Act"); i.e. by a transfer of all the assets of the Acquired Company to ZUE in exchange for ZUE's shares to be given to the shareholders of the Acquired Company taking account of Art. 514 of the Act whereby ZUE, a shareholder of the Acquired Company, would not acquire own shares in exchange for the shares of the Acquired Company (the "Merger"). ZUE would acquire all rights and obligations of the Acquired Company on the Merger registration date. According to the Plan of Merger, merger shares would be received by entities acting as the shareholders of the Acquired Company on the Merger registration date (taking account of Art. 514 of the Act) using the following exchange ratio: 1:9.55.</p>
21 August 2013	<p>ZUE and Bank Millennium S.A. of Warsaw signed the Annex no. A4/2749/11/475/07 to the revolving loan agreement no. 2749/11/475/07 whereby the term of the loan was extended until 21 September 2013.</p>

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

List of shareholders holding at least 5% of the total vote at the Company's General Meeting as at the date of signing this report according to the information provided 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 signing this report according to the information provided 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	% of votes at the GM	Changes in shareholding 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	0.05	7,706	0.05	None
Marcin Wiśniewski	Management Board Vice-President	969	0.00	969	0.00	None
Jerzy Czeremuga	Management Board Vice-President	136	0.00	136	0.00	None
Magdalena Lis	Supervisory Board Member	6,155	0.03	6,155	0.03	Purchase of 387 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 2013 - 30 JUNE 2013

8.1. Consolidated statement of financial position

Item (PLN '000)	30.06.2013	31.12.2012	Change	% change
FIXED ASSETS				
Tangible fixed assets	69,625	66,142	3,483	5.3%
Investment real property	8,838	9,009	-171	-1.9%
Intangible assets	11,263	11,381	-118	-1.0%
Goodwill	32,646	32,646	0	0.0%
Investments in non-consolidated subsidiaries	29	29	0	0.0%
Advance payments for investments in subsidiaries	0	0	0	0.0%
Long-term receivables	0	37,957	-37,957	-100.0%
Retentions on construction contracts	1,082	1,392	-310	-22.3%
Deferred tax assets	22,016	21,963	53	0.2%
Other assets	1,733	239	1,494	625.1%
Total fixed assets	147,232	180,758	-33,526	-18.5%
CURRENT ASSETS				
Inventories	25,993	20,328	5,665	27.9%
Trade and other receivables	177,910	190,328	-12,418	-6.5%
Retentions on construction contracts	4,060	3,677	383	10.4%
Current tax assets	179	585	-406	-69.4%
Other financial receivables	0	0	0	0.0%
Other current assets	2,855	2,711	144	5.3%
Loans advanced	113	104	9	8.7%
Cash and cash equivalents	41,084	69,760	-28,676	-41.1%
Current assets	252,194	287,493	-35,299	-12.3%
Assets held for sale	0	0	0	
Total current assets	252,194	287,493	-35,299	-12.3%
TOTAL ASSETS	399,426	468,251	-68,825	-14.7%

Item (PLN '000)	30.06.2013	31.12.2012	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	94,365	87,803	6,562	7.5%
Equity attributable to shareholders of ZUE	185,226	178,664	6,562	3.7%
Revaluation capital	0	0	0	
Equity attributable to non-controlling interests	7,071	9,162	-2,091	-22.8%
Total equity	192,297	187,826	4,471	2.4%
LONG-TERM LIABILITIES				
Long-term bank borrowings and other debt instruments and other financing sources	11,255	25,090.00	-13,835	-55.1%
Retentions on construction contracts	3,456	4,465	-1,009	-22.6%
Other financial liabilities	3,182	1,750	1,432	81.8%
Liabilities under employee benefits	2,684	2,324	360	15.5%
Deferred tax provision	24,743	23,276	1,467	6.3%
Long-term provisions	13,161	5,352	7,809	145.9%
Deferred income	0	0	0	0.0%,
Other liabilities	0	0	0	0.0%,
Total long-term liabilities	58,480	62,257	-3,777	-6.1%
SHORT-TERM LIABILITIES				
Trade and other payables	82,463	151,652	-69,189	-45.6%
Retentions on construction contracts	5,357	8,201	-2,844	-34.7%
Short-term bank borrowings and other debt instruments and other financing sources	44,859	41,185	3,674	8.9%
Other financial liabilities	210	280	-70	-25.0%
Liabilities under employee benefits	11,009	8,500	2,509	29.5%
Current tax liabilities	0	124	-124	-100.0%
Short-term provisions	4,751	8,226	-3,475	-42.2%
Total short-term liabilities	148,649	218,168	-69,519	-31.9%
Total liabilities	207,129	280,425	-73,296	-26.1%
TOTAL EQUITY AND LIABILITIES	399,426	468,251	-68,825	-14.7%

Debt ratio

Ratio	30.06.2013	31.12.2012
Debt ratio	0.5	0.6
Debt to equity ratio	1.1	1.5
Equity ratio	0.5	0.4
Equity to fixed assets ratio	1.7	1.4
Short-term debt ratio	0.4	0.5
Long-term debt ratio	0.1	0.1
Interest coverage ratio	9.7	1.2

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

Interest coverage ratio = EBIT / interest expense

Liquidity ratios

Item	30.06.2013	31.12.2012
Working capital	103,545	69,325
Current ratio	1.7	1.3
Quick ratio	1.5	1.2
Cash ratio	0.3	0.3

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

Compared to the end of 2012, total assets dropped in the period under analysis by 15%. The greatest change was recorded in long-term receivables which dropped by 100 % (PLN 37,957 thousand) compared to the figure disclosed as at 31 December 2012. Long-term receivables occurred as a result of contractual provisions concerning the remuneration for construction and assembly services. At present, the Group companies do not have any contracts whose payment provisions would have to be recognised under long-term receivables. Tangible fixed assets saw the greatest growth and increased by 5.3% over the figure as at 31 December 2012.

A drop in cash and cash equivalents by 41% and a drop in trade receivables by 6.5% when compared with 2012 had the greatest impact on the decrease in current assets. The decrease in cash and the increase in inventories (by 28% compared to the result as at 31.12.2012) were related to the intensity of work in the summer. The Group's liabilities in the reporting period stood at PLN 207,129

thousand and decreased by PLN 73,296 thousand (by 26%) when compared with the end of 2012. The decrease was driven by a drop in the value of short-term liabilities by 32% and a drop in the value of long-term liabilities by 6%. Trade payables, which decreased by 46% compared to the figure as at 31 December 2012, had the greatest influence on the value of short-term liabilities.

8.2. Consolidated statement of comprehensive income

Item (PLN '000)	30.06.2013	30.06.2012	Change	% change
Sales revenue	157,058	233,903	-76,845	-32.9%
Cost of sales	136,473	219,880	-83,407	-37.9%
Gross profit (loss) on sales	20,585	14,023	6,562	46.8%
General and administrative expenses	9,326	8,753	573	6.5%
Other operating income	1,587	1,135	452	39.8%
Other operating expenses	3,526	2,581	945	36.6%
EBITDA	13,075	7,326	5,749	78.5%
Profit (loss) on operating activities	9,320	3,824	5,496	143.7%
Financial income	2,695	3,506	-811	-23.1%
Financial expenses	1,366	1,998	-632	-31.6%
Pre-tax profit (loss)	10,649	5,332	5,317	99.7%
Corporate income tax	2,772	1,183	1,589	134.3%
Consolidated net profit (loss)	7,877	4,149	3,728	89.9%
<i>Attributable to shareholders of the Parent</i>	6,999	4,122	2,877	69.8%
<i>Attributable to minority shareholders</i>	878	27	851	3,151.9%
<i>Consolidated net profit (loss) per share (PLN)</i>	0.3	0.2	0.1	50.0%

Profitability indices

Item	30.06.2013	30.06.2012
Gross margin	13.1%	6.0%
EBITDA margin	8.3%	3.1%
EBIT margin	5.9%	1.6%
Gross margin	6.6%	2.2%
Net margin	5.0%	1.8%
ROA	2.0%	0.9%
ROE	4.1%	2.2%

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 / total assets

ROE = net profit / equity

In the period 1 January 2013 – 30 June 2013, sales revenue generated by the ZUE Group stood at PLN 157,058 thousand; i.e. it decreased by 33% when compared with the analogous period of 2012. Cost of sales decreased by 38% and amounted as at 30 June 2013 to PLN 136,473 thousand. Gross profit on sales was PLN 20,585 thousand and increased by 47% compared to the first six months of 2012. General and administrative expenses in the reporting period stood at PLN 9,326 thousand compared to PLN 8,753 thousand in the first half of 2012 (growth by 6.5%). Other operating income for the first half of 2013 was PLN 1,587 thousand and grew by 40% compared to the first half of 2012. Other operating expenses for the first half of 2013 amounted to PLN 3,526 thousand and grew by PLN 945 thousand over the analogous figure for the first half of 2012. The ZUE Group's EBITDA in the first half of 2013 was PLN 13,075 thousand and increased by 78.5% compared to the analogous period of 2012. The Group's consolidated net profit (loss) in the first half of 2013 stood at PLN 7,877 thousand and was higher by 90% compared to the first half of 2012.

8.3. Consolidated statement of cash flows

Item (PLN '000)	30.06.2013	30.06.2012	Change
Cash flows from operating activities	-13,454	-29,012	15,558
Cash flows from investment activities	-4,086	3,896	-7,982
Cash flows from financial activities	-11,150	20,506	-31,656
Total net cash flows	-28,690	-4,610	-24,080
Foreign exchange gains / (losses)	14	-30	44
Cash and cash equivalents at beginning of period	69,761	48,392	21,369
Cash and cash equivalents at end of period	41,084	43,751	-2,667
Depreciation and amortisation	3,755	3,502	253

The Group's cash and cash equivalents at the beginning of the period stood at PLN 69,761 thousand compared to PLN 41,084 thousand as at 30 June 2013. Total net cash flows were negative and stood at PLN -28,690.42 thousand.

The Group recorded cash flows from operating activities of PLN -13,454 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 a year, the Group uses the cash to finance its current operating activities.

The Group reported negative cash flows from investment activities of PLN -4 086 thousand and negative cash flows from financial activities of PLN -11,150 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. No new infrastructure contracts and, consequently, lower number of orders is the main contributor to the expected drops in the construction industry in 2013. The new funds from the European Union will be available only in 2014 with a new budget for 2014-2020. 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, the Code of Administrative Procedure or the 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 contracting authority**

The Group engages 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 contracting authority for the proper performance of their obligations under public procurement contracts.

- **Risk related to bonding products, contractual penalties and related court 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. 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 the completion of warranty 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. If they occur, the factors may 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 contracting authorities) up to the amount of remuneration payable under a contract and 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 may 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 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 standing.

- **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. 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 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 court may decide that 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. If they occur, such events may have a negative impact on the Group's financial results.

- **Risk related to obtaining funds for construction contracts**

Given the difficult situation in the construction industry, both banks (credit facilities and bonding products) and insurance companies (bonding products) may limit the availability of the sources of finance and other financial instruments, which may reduce the number and scope of operations.

- **Interest rate risk**

Interest rate risk occurs in connection with the Group's use of bank borrowings and leases. Interest rate on these financial instruments is variable and, consequently, exposes the Group to financial risk.

- **Credit risk**

The ZUE Group cooperates, as part of both financial and capital transactions, with highly credible financial institutions to reduce the concentration of credit risk.

The Group's financial assets exposed to increased credit risk include trade receivables (excluding the trade receivables from contracting authorities (investors) as part of investments executed pursuant to the Public Procurement Act). A credit risk for the contracts whose value exceeds PLN 16m 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 the contracts with investors provide for the right to stop the works if the payment for the services already performed is delayed. If possible, the contracts also provide for the Group's ability to pay its subcontractors after the Group has been paid by an investor.

The credit risk has increased recently for the Group because public sector units more and more frequently expect the contractor to finance the entire project. Under the Public Procurement Act, contracting authorities are entitled to determine the terms of transaction, which provide for postponed dates of payment.

- **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.

The Management Board of ZUE believe that other entities operating on the construction market experience the same situation. Thus, competitive entities do not gain advantage over the Group.

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

The factors believed to have a bearing on the Group's financial results in the remaining months of 2013 include:

- **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, a failure of the Group's customers to timely settle their liabilities to the Group directly influences the Group's financial results.

- **Delays or unfavourable outcome of tenders the Group participates in**

A risk related to the terms and procedures of public tenders is specific to the industry the Group operates in. Tender participants have the right to appeal against illegal appointment of a contractor by a contracting authority or to appeal to the court against the decision issued by the authority hearing the appeal made in public procurement proceedings. Consequently, the date of signing a contract with an investor may be substantially postponed both on the urban and rail transport market.

Not only do the lengthy procurement procedures produce additional costs of the appeal but they also entail a risk of growth in prices of goods and services. 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. For these reasons, a part of the Group's planned 2012 revenue may be transferred to 2013.

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

The Group's construction activities involve the use of products and raw materials such as concrete, aggregates, 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).

- **Higher fees charged 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.

- **Unstable EUR/PLN exchange rate**

The Group purchases certain imported products in EUR, 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 a foreign exchange risk given the transfer of the risk from a supplier-importer to the ZUE Group entities.

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

The Company did not publish any projected 2013 financial results.

12. COURT PROCEEDINGS

Neither company comprising the ZUE Group is a party to any proceedings concerning claims or liabilities whose total value exceeds 10% of ZUE's equity as at 30 June 2013.

13. OFF-BALANCE SHEET ITEMS OF THE ZUE GROUP

13.1. Contingent liabilities

Item (PLN '000)	30.06.2013	31.12.2012
Guarantees	198,642	195,838
Sureties	5,888	10,120
Bills of exchange	166,206	157,754
Mortgages	38,150	38,151
Pledges	12,264	15,485
Contingent liabilities	421,150	417,348

The contingent liabilities resulting from sureties and guarantees include, in particular, the guarantees provided by insurance companies and banks to the Group's counterparties to secure their claims against the Group, mainly under construction contracts. Insurance companies and banks have recourse against the Group.

Contingent liabilities secured by the bills of exchange, mortgages and pledges are mainly the credit facility and lease agreements.

13.2. Contingent assets

Item (PLN '000)	30.06.2013	31.12.2012
Guarantees	31,262	27,799
Bills of exchange	690	53
Total contingent assets	31,952	27,852

The contingent assets are used by the ZUE Group to secure the construction contracts concluded between the ZUE Group and subcontractors.

14. TRANSACTIONS WITH RELATED ENTITIES

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 related entities.

Wiesław Nowak – Management Board President

Marcin Wiśniewski – Management Board Vice-
President

Maciej Nowak – Management Board Vice-
President

Jerzy Czeremuga – Management Board Vice-
President

Cracow, 26 August 2013