



**MANAGEMENT BOARD REPORT ON THE ACTIVITIES OF
ZUE CAPITAL GROUP**

between 1 January 2020 and 30 June 2020

Cracow, 18 August 2020

Abbreviations and definitions:

ZUE, Company, Issuer, Parent Company	<p>ZUE S.A. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000135388, share capital of PLN 5,757,520.75 paid up in full.</p> <p>Parent company of the ZUE Capital Group.</p>
BPK Poznań	<p>Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. with registered office in Poznań, entered into the National Court Register maintained by the District Court Poznań Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, under entry number KRS 0000332405, share capital of PLN 5,866,600 paid up in full.</p> <p>Subsidiary of ZUE.</p>
Railway gft	<p>Railway gft Polska Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000532311, share capital of PLN 300,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI	<p>Railway Technology International Sp. z o.o. with registered office in Cracow, entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry number KRS 0000397032, share capital of PLN 260,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>Railway Technology International Germany GmbH in liquidation with registered office in Görlitz, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Dresden (<i>Amtsgericht Dresden</i>) under entry number HRB 36690. Share capital of EUR 25,000 paid up in full.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
ZUE Group, Group, Capital Group	<p>ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.</p>
PLN	<p>Polish złoty.</p>
EUR	<p>Euro.</p>
Act	<p>Polish Companies Act (Journal of Laws of 2017, item 1577, as amended).</p>

Share capital details as at 30 June 2020.

Contents

INTRODUCTION	4
OPERATIONAL INFORMATION	4
1. Organisation of the Capital Group	4
1.1. Structure of the Capital Group	4
1.2. Consolidated companies	5
1.3. Changes in the Group's structure and their consequences.....	5
2. Activities of the Capital Group	6
3. Sales markets	7
4. Backlog	9
5. Issuer's major achievements or failures in the reporting period	10
6. Influence of the coronavirus pandemic on the Group's activities	10
7. Strategic objectives	11
8. Market growth prospects	11
Urban infrastructure construction market	12
9. Factors believed by the Issuer to have an influence on the Issuer's and the Group's development	12
10. Risks believed by the Group to have an influence on the Group's future results	13
11. Major events in the reporting period.....	16
12. Major events after the end of the reporting period	18
13. Transactions with related parties	18
14. Bonds, guarantees, loans and credit lines	18
CORPORATE INFORMATION	20
15. Governing Bodies of ZUE	20
16. Shares and shareholding	20
17. ZUE shares held by members of the Issuer's management and supervisory bodies	21
18. Employment at the Group	22
19. Court and administrative proceedings	22
FINANCIAL INFORMATION	23
20. Discussion of major items of the statement of profit or loss	24
21. Discussion of major balance sheet items	25
22. Discussion of items of the statement of cash flows	27
23. Analysis of ratios	27
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 provided on the Issuer's website.	27
23.1. Debt ratio	27
23.2. Liquidity ratio	28
23.3. Financing structure ratios	28
23.4. Profitability ratios	29
24. Discussion of results reported by segments	29
25. Statement by the Management Board of ZUE on financial projections.....	29
26. Unusual factors and events with significant influence on the Group's results	29
27. Other information significant for the assessment of the Issuer's position	29
STATEMENT BY THE MANAGEMENT BOARD OF ZUE S.A.	30
28. Statement of compliance	30

INTRODUCTION

This Management Board Report on the Activities of ZUE Capital Group (the Group) between 1 January 2020 and 30 June 2020 contains the information whose scope has been set out in § 69.1.3 in connection with § 66.8.2-12 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by the issuers of securities and the conditions for recognizing information required under the law of a non-member state as equivalent.

The condensed financial statements of the Group and ZUE S.A., respectively, the elements of the extended consolidated report for the first half of 2020, have been prepared in accordance with regulations set out in the IAS/IFRS, especially IAS 34 "Interim Financial Reporting."

OPERATIONAL INFORMATION

1. Organisation of the Capital Group

1.1. Structure of the Capital Group

At the end of the reporting period, the Group is composed of ZUE S.A. (the Parent Company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o. and Railway Technology International Germany GmbH (indirect subsidiary).

ZUE Spółka Akcyjna with registered office in Cracow (the Kazimierza Czapińskiego Street no. 3) is the parent company of the Capital Group.

The Company has been incorporated under the notarial deed of 20 May 2002 in the Notary's Office in Cracow, Rynek Główny 30 (Rep. A no. 9592/2002). 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, under entry no. KRS 0000135388.

Apart from being the provider of construction services, ZUE is the parent company responsible for coordinating the operation of the subsidiaries and optimising the Capital Group's operating expenses through, *inter alia*, the coordination of investment and borrowing policy as well as the management of finances and human resources and the supply of materials. In addition, ZUE's task is to create a uniform trade and marketing policy of the Group and to promote the Group's potential among its customers.

Subsidiary – Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. has been established under the deed of 15 June 2009 signed in the Notary's Office in Cracow, Rynek Główny 30 (Rep. A no. 5322/2009). Poznań is the company's registered office. The company has been registered with the District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, under entry no. KRS 0000332405.

Subsidiary – Railway gft Polska Sp. z o.o. has been established under the deed of 21 October 2014 in the Notary's Office in Cracow, the Lubicz Street no. 3 (Rep. A no. 3715/2014). Cracow is the company's registered office. The company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000532311.

Subsidiary – Railway Technology International Sp. z o.o. has been established under the deed of 20 July 2011 in the Notary's Office in Warsaw, al. Jerozolimskie 29/26 (Rep. A no. 2582/2011). Cracow is the company's registered office. The company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000397032.

Subsidiary (indirectly through RTI) – Railway Technology International Germany GmbH in liquidation has been established under the deed of 8 May 2012 in the Notary's Office in Radebeul, Rathenaustrasse 6, Germany (no. 1090/2012). Görlitz (Germany) is the company's registered office.

The companies within the Capital Group have been incorporated for indefinite period. The financial statements of all the subordinates have been prepared for the same reporting period as the financial statements of the Parent Company using consistent accounting policies. The Parent Company and the companies within the Group use a calendar year as their financial year.

Structure of the Capital Group at this report preparation date:



1.2. Consolidated companies

Consolidated companies as at 30 June 2020:

Company name	Registered office	Interests as at			Consolidation method
		30 June 2020	31 December 2019	30 June 2019	
ZUE S.A.	Cracow	Parent Company			
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	85%	85%	85%	Full

ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because it holds a 100% and an 85% interest, respectively, in these companies.

ZUE holds 100% of shares in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. is not consolidated as at 30 June 2020.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH in liquidation. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Germany GmbH in liquidation is not consolidated as at 30 June 2020.

1.3. Changes in the Group's structure and their consequences

No changes in the Group's structure occurred between the beginning of 2020 and the date of this report approval.

On 13 February 2020, an entry about the start of liquidation proceedings regarding RTI Germany was made in the District Court of Dresden.

2. Activities of the Capital Group

The Group reports the three aggregate reportable segments:

- Construction activities conducted by ZUE;
- Design activities conducted by BPK Poznań; and
- Sales activities conducted by Railway gft.

Construction activities include:

- **Urban infrastructure**, including:
 - Construction and upgrade of tram tracks, tram and trolleybus traction networks, traction substations, street lighting, cable lines, street traffic signalling, road systems, buildings and telecommunications technology;
 - Maintenance of tram and street lighting infrastructure.
- **Rail infrastructure**, including:
 - Construction and upgrade of railway tracks, railway traction, railway traffic control devices and telecommunications technology, traction substations, stations and civil structures.

The Group 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 relating to urban and rail transport systems and commercial power industry complement the abovementioned construction activities.

As part of **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; and
- Special technologies: RHEDA 2000® slab tracks, RHEDA CITY C, RHEDA CITY GREEN tram systems, "Ypsylon" steel sleepers.

The operating segments' financial information is presented in the note 4.3.8 of the consolidated half-yearly report for the six months ended 30 June 2020.

3. Sales markets

The Group's sales markets reflect the type of the activity conducted by the Group.

Construction activities are conducted by ZUE mainly on the rail and urban infrastructure market. The table below presents the major construction contracts in progress.

Contract*	Contracting authority	Contract net value PLN [m] attributable to ZUE S.A.
Preparation of design documentation and completion of construction works in connection with the "design-build" 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.	583
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.	379
Preparation of design documentation and completion of construction works in connection with a "design-build" contract as part of the following project: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section."	PKP PLK S.A.	372
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.	355
Provision of design services and completion of works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź Kaliska – Zduńska Wola."	PKP PLK S.A.	340
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.	303
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.	286
Design and construction services in connection with the Infrastructure and Environment Operational Programme (IEOP) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section."	PKP PLK S.A.	208
Provision of design services and completion of construction works in connection with the following project: "Works on the	PKP PLK S.A.	96

railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section” as part of 2014 Infrastructure and Environment Operational Programme (IEOP).”		
Preparation of design documentation and completion of construction works in connection with a “design-build” contract as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-16 “Improvement of the 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.	92
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.	72
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	72
Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: “Investment project at the Medyka - Mościska II border crossing.”	PKP PLK S.A.	64
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.	59
Reconstruction of the road and the track in the Chrobrego Street and the Mieszka I Street as part of the project named: “The system of sustainable urban transport in Gorzów Wlkp.”	Gorzów Wielkopolski - the Municipal Council	56
Maintenance and repair of tram tracks in Cracow in 2019-2022.	The City of Cracow	56
Modernisation of E30 railway line Kraków Medyka, the Biadoliny – Tarnów section.	OHL ZS, a.s. S.A. Polish Branch	45
Works on the E59 railway line, the Dobiegniew – Słonice section – traction network.	Strabag Sp. z o.o.	45
Design services and construction works in connection with the following project: “Construction of the Czarnca - Włoszczowa Płn. railway line no. 582.”	PKP PLK S.A.	41
Maintenance and repair of tram infrastructure (traction electrical power engineering services) in Cracow in 2019-		

2022.	The City of Cracow	41
Construction of the transport hub – the Zawodzie hub as part of the following project: “Katowice System of Integrated Transport Hubs – the Zawodzie hub.”	Tramwaje Śląskie S.A.	38
Reconstruction of track and overhead contact system in the Wyszyńskiego hub and the Szarych Szeregów Square.	The City of Szczecin	37
Protection of civil structures on the Dęblin – Lublin section as part of the project named: “Works on the Warszawa Wschodnia Osobowa – Dorohusk railway line no. 7 of the Warszawa – Otwock – Dęblin – Lublin section, stage I.”	PKP PLK S.A.	34
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.	34
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.	24
Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	Zarząd Dróg Miasta Krakowa	16

* Contracts whose net value exceeds PLN 10m.

Design services relating to urban and rail transport systems are provided by BPK Poznań to both investors and companies which execute “design-build” projects. The biggest customers of BPK Poznań in the reporting period included PKP Polskie Linie Kolejowe S.A., Thales Polska sp. z o.o., PGE Dystrybucja S.A. Rzeszów and BALZOLA sp. z o.o.

Sales activities conducted by Railway gft included the sale of rails, track accessories, sleepers, rail fastening systems and aggregate.

4. Backlog

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

At the date of preparation of this report, the net value of the contracted construction and assembly services is PLN 1,740m. This provides the Group with an ability to carry out the works in the period 2020-2023. As for design services, the net value of the signed contracts is PLN 8.8m. The backlog relating to the supply of materials and equipment is worth PLN 14m (net). The Company signed a number of master agreements for the supply of key materials to secure the performance of contracts.

At the date of preparation of this report, ZUE submitted the most economically advantageous tenders in the tender procedures with a net value of approx. PLN 500m.

The companies within the Group participate in tenders. The Group's focus is chiefly on the domestic market.

5. Issuer's major achievements or failures in the reporting period

In the first half of 2020, both the Group and the Company reported a year-on-year decrease in sales revenue by 20% and 21%, respectively. Gross margin increased over the year for both ZUE (from 2.5% to 3.9%) and the Group (from 2.8% to 3.9%).

By the date of publication of this report, the Company won the new contracts in 2020 with the total net value of approx. PLN 134m. In addition, the Company submitted the most economically advantageous tenders in tender procedures with the total net value of approx. PLN 500m.

Financial results are discussed in detail below under the heading "Financial information."

No major events other than the operating events discussed in detail in the sections 11 and 12 below occurred by this report preparation date.

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

a) Measures taken by the Group

The Issuer has taken preventive measures to reduce the risk of infection among the Group's employees and associates by letting the staff work remotely, giving instructions on hygiene and precautions to its employees and subcontractors' employees, providing employees with protective equipment such as face masks, shield visors 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.

b) Impact of the coronavirus pandemic on the Group's activity and financial standing in the first half of 2020

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

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

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

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

The impact of the coronavirus pandemic on the Group's future situation or results cannot be estimated at the date of preparation of this report. Below please find the factors which may influence the Group's activity and the markets in which the Issuer operates in the next quarters.

Factors which may have a negative influence:

- Limited supply of certain building materials caused by disruptions in the chains of supply;
- Increased prices of certain imported building materials caused by the weakening of PLN to EUR and USD rates;
- Temporary suspension of competitive tenders for new urban infrastructure contracts as a result of poorer financial condition of the cities caused by the imposed restrictions;
- Possible problems associated with the liquidity of certain enterprises (e.g. subcontractors);

- Possible extensions of deadlines for certain construction contracts caused by delays in the issue of certain administrative consents or approvals;
- Impediments relating to the absence or temporary exclusion of employees; and
- Possible suspension of works under construction contracts.

Factors which may have a positive influence:

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

7. Strategic objectives

The main strategic objective in 2020-2022 is to take a maximum advantage of the current EU perspective.

The strategic objectives include:

- Maintenance of the position of the Group as one of the leaders of the rail transport infrastructure construction market;
- Maintenance of the position of the Group as one of the leaders of the urban transport infrastructure construction market;
- Strengthening of the Group's position on the transport system design market;
- Development of sales services on the track materials manufacture and distribution market.

In 2020, the Issuer's focus was on winning new construction contracts and proper performance of the contracts concluded in prior years.

In the long-term perspective, the principal aim of the Company is to develop its offer of the service and maintenance of urban and rail infrastructure.

The strategic objectives are pursued taking into consideration non-financial issues such as human rights, employees' rights, the impact on local environment or environmental protection.

8. Market growth prospects

In July 2020, 27 Member States agreed on the EU budget for 2021-2027. Different UE programmes give Poland approx. PLN 750bn in grants and low-interest loans. According to the information provided, Poland will be the biggest beneficiary of the Cohesion Policy funds and will receive about EUR 66.8bn including the funds to be spent on the development of infrastructure¹.

According to the information provided, *inter alia*, by the Ministry of Infrastructure, investments in railway infrastructure projects will continue in accordance with the long-term planning despite the economic downturn caused by the coronavirus pandemic².

Rail infrastructure construction market

The Polish rail infrastructure construction market is witnessing the execution of the biggest ever railway modernisation project – the National Railway Programme (the "NRP"). In September 2019, the amount of the NRP was raised by PLN 5.7bn to the total amount of more than PLN 75bn³. The pending projects are worth approx. PLN 46bn⁴. The entire programme is scheduled for completion by 2023. Project design documents are also prepared for contracts funded under the next financial perspective. In August 2020, PKP PLK revealed that it expected the design documents worth approx. PLN 36-40bn to be ready in 2021 and the design documents worth

¹ <https://www.gov.pl/web/fundusze-regiony/750-ml-d-zl-w-latach-2021-2027-jest-sukces-na-szczycie-rady-europejskiej>

² <https://www.rynekinfrastruktury.pl/wiadomosci/drogi/adamczyk-inwestycje-drogowe-i-kolejowe-nadal-beda-realizowane-71197.html>

³ <https://www.rynek-kolejowy.pl/wiadomosci/krajowy-program-kolejowy-zwiekszony-o-kolejne-57-ml-d-zl-93578.html>

⁴ <https://forsal.pl/artykuly/1426335,pkp-plk-zapowiada-90-proc-realizacji-programu-kolejowego-do-konca-2020-r.html>

between ten and twenty billions of PLN to be ready in 2022⁵. This is to ensure the continuity of operations and prevent the occurrence of so-called peaks and decays between EU perspectives, which exerted a negative impact on the industry in the past. Apart from modernization projects, the next perspective (from 2021) will also cover the construction of new railway lines, including under the Central Communication Port project with a railway component (construction of the new lines of approx. 1,800 km).

Urban infrastructure construction market

The intensity of the start and execution of new urban infrastructure projects in subsequent years will depend on the financial condition of individual cities influenced by the coronavirus-related restrictions.

In the current EU perspective for the years 2014-2020, tram infrastructure is the preferred direction in the field of the transport system development in the cities with tram lines. The plans of the Polish cities provide for the construction of more than 100 km of new and upgrading of 200 km of the existing tram lines. Investments in environmentally friendly urban rail transport will have excellent potential in terms of financing under the 2021-2027 EU perspective.

Cracow, Warsaw, Olsztyn, Gdańsk, Bydgoszcz, Szczecin, Poznań or the Upper Silesia cities are planning the construction or modernisation of the new lines. Warsaw intends to build the most modern tram depot in Poland.

The urban market is the Company's major path of backlog diversification. ZUE actively aims to increase the share of the urban backlog by winning "build" and "maintain" contracts.

9. 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.

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

A risk related to the terms and procedures of public tenders is specific to the industry the Group operates in. Tender participants have the right to appeal against illegal appointment of a contractor by a contracting authority or to appeal to the court against the decision issued by the authority hearing the appeal made in public procurement proceedings. The announcing of tenders or awarding contracts by contracting authorities may be delayed. Consequently, the date of signing a contract with an investor may be substantially postponed both on the urban, rail and power infrastructure market. These events could have a negative influence on the Group's financial results.

Lengthy procurement procedures result in additional costs, a risk of increase in prices of goods and services and uncertainty over the outcome or cancellation of the procedure. Signing a contract at a later date may make a project execution conditional on weather conditions because certain projects must not be executed in low temperatures or heavy snow or rain fall. Project execution may also be conditional on other factors such as the date of closing the tracks by the contracting authority or the dates on which trees and bushes can be cut down. For these reasons, a part of the Group's planned revenue may be transferred from the current to the next financial year.

The growing costs of contract performance more and more often contribute to the cancellation of tender procedures because the submitted tenders go over the investors' budgets. This was seen especially in 2018 and 2019 and concerned both rail and urban market.

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

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

⁵ <https://stooq.pl/n/?f=1367795>

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.

10. Risks believed by the Group to have an influence on the Group's future results

- **Risk related to financial liquidity in the construction sector**

A large number of performed contracts and common problems relating to the growth of costs have contributed to the increase in credit risk for construction companies. Banks and credit security institutions have tightened the terms of insurance and financing. Long acceptance procedures accompanied by the obligation to pay subcontractors within 30 days make companies use considerable resources to finance ongoing operations. The situation is made worse in 10% by unpaid materials waiting to be developed.

- **Risk related to logistics**

A risk of both rail and road contracts being performed at the same time and in the same area may limit transport capacity and result in higher fees for transport services.

- **Risk related to the failure to deliver construction sites by the dates specified in contracts**

The construction contracts entered into by the Group provide for the exact completion dates. If a contracting authority fails to deliver the site in a timely fashion, works may accumulate as a result of which tasks can fail to technologically match each other or deadlines specified in a contract can be missed through no fault of the Group. This may have a negative result on the Group's financial results.

- **Risk related to obtaining administrative decisions, ability to appeal against administrative decisions and third parties' activities influencing the Group's design or construction services**

The Group sometimes needs to obtain administrative decisions required to execute certain projects. Such decisions are specified, *inter alia*, in the Construction Law, Code of Administrative Procedure or Environmental Protection Law. One cannot exclude the possibility of a failure to obtain such decisions or to avoid lengthy procedures. A risk of third parties' failure to complete or timely complete the tasks necessary for the Group companies to begin their projects may also occur. These factors could lead to the failure to execute or timely execute the construction projects and, consequently, have a considerable impact on the Group's financial results.

- **Risk related to inaccurate estimate of costs of planned and performed contracts**

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

- **Risk related to joint and several liability to subcontractors and consortium members**

The Group engages subcontractors to execute its construction projects and concludes consortium agreements.

Under the Polish Civil Code and the Polish Public Procurement Act, a contractor that has entered into a contract with a subcontractor is liable on a joint and several basis for the payment for the construction services provided by further subcontractors. In addition, consortium members are liable on a joint and several basis to a contracting authority for the proper performance of their obligations under public procurement contracts. The Group may be obliged to pay the remuneration to further subcontractors and be liable for a consortium member's failure to perform or duly perform their obligations under public procurement contracts. These risks may have a negative impact on the Group's financial results.

- **Risk related to improper contract performance by key counterparties**

In order to carry out orders and construction contracts, the Group enters into the contracts with suppliers, subcontractors, consortium members and investors. The contracts may be improperly performed by counterparties. For instance, tasks performed by a subcontractor may be faulty or in breach of a contract, or a justified claim may be dismissed by an investor. The occurrence of these risks may have a negative influence on the Group's financial results.

- **Risk related to bonds, contractual penalties and the related court disputes**

Construction contracts and work-for-hire contracts concluded by the Group provide for the obligation to provide performance bonds and defects liability bonds in the form of deposits or bonds issued by banks or insurance companies. Moreover, contracting authorities expect longer warranty periods. These contracts also provide for contractual penalties if a deadline for the completion of the tasks specified therein is missed. The Group cannot exclude the risk of missing a deadline for the completion of construction contracts or work-for-hire contracts or the failure to meet the deadline for the completion of warranty works connected with the removal of defects. Thus, a contracting authority may exercise its right to use the bonds or demand contractual penalties or damages. In addition, the Group cannot exclude the risk of disputes related to the failure to duly or timely perform the contracts. The factors could have a negative impact on the Group's financial results

- **Risk related to bankruptcy of counterparties**

One cannot exclude the risk of bankruptcy of the Group's counterparties. The Group may not be able to perform a contract or remove defects in a timely fashion following the bankruptcy of its subcontractors, suppliers or construction members as a result of which it may be obliged to pay contractual penalty or damages. It could also be liable on a joint and several basis for the payment to further subcontractors or the failure to perform a contract by a consortium member. In addition, it would have to cover the cost of the tasks or supplies, which have not been completed by a bankrupt. If the Group's client/contracting authority go bankrupt, the Group may not receive remuneration for the performed services. These factors could have a negative influence on the financial results reported by the Group.

- **Risk related to guarantee of payment for construction works**

According to the Polish Civil Code, a contractor commissioned by a company within the Group to execute a construction project may at any time demand the payment guarantee from the company (its client) up to the amount of remuneration payable under a contract and other agreements. The failure to provide a satisfactory payment guarantee creates an obstacle to the completion of construction works through the fault of the Group. A contractor is then entitled to terminate a contract under Art. 649[4] §1 of the Polish Civil Code and demand its remuneration under Art. 639[4]§3 of the Polish Civil Code. Consequently, costs may increase and the execution of construction projects may be delayed or even made impossible. This could have a negative impact on the Group's financial position.

- **Risk related to change of law, including tax law**

Frequent amendments to and the lack of coherence or uniform interpretation of the law including, in particular, tax law entail a substantial risk related to the legal environment the Group operates in. In particular, tax authorities relying, for instance, on interpretations of the Minister of Finance may question the Group's tax settlements related to its transactions executed as part of its ordinary course of business or other transactions (for instance capital transactions). Consequently, changes of laws or their interpretation, which are disadvantageous to the Group, may have a negative impact on the Group's financial position.

- **Risk related to winning of new contracts**

The Group participates in public tenders and includes target contracts in its financial plans. A risk that a decision

will be unfavourable or the tender will be cancelled by a contracting authority cannot be excluded. In addition, the announcing of tenders or awarding contracts by contracting authorities may be delayed. If the Group company participates in a tender together with a consortium member, it faces additional risk of the consortium member's withdrawal.

- **Risk related to growing competition**

The Group operates on the competitive market among companies from the rail and urban infrastructure construction and general infrastructure construction sector. These entities may strengthen their market position in the future when they acquire other construction and repair companies and gain new sources of finance. The Group's activity may also be influenced by the emergence of new competitors attracted by positive growth prospects for the Polish infrastructure construction industry. Growing competition on the markets where the Group operates may have a negative impact on the Group's revenue and margins and, consequently, adversely influence its financial results.

- **Risk related to awarding of contracts and exclusion from public tenders**

Pursuant to the Public Procurement Act, tender participants are able to appeal against illegal appointment of a contractor by a contracting authority or to appeal to the court against the decision issued by the authority hearing the appeal made in public procurement proceedings. Consequently, the date of signing a contract with an investor may be substantially postponed. Moreover, the circumstances may occur in which the Group could be excluded from tender procedure on the terms specified in the Public Procurement Act. Such events could have a negative impact on the Group's financial results.

- **Risk related to the EU funding of railway projects**

The long-term National Railway Programme (the "NRP") adopted in 2015 sets out the financial terms and the state's objectives concerning the execution of railway projects until 2023. The Programme is the extension of the Long-Term Railway Investment Programme until 2015 with the perspective until 2020. PKP PLK SA is expected to finance NRP with considerable use of the European Union funds. However, political changes in the European Union may influence the initial level of the funding of railway investments in Poland.

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

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

- **Risk related to weather conditions**

The Group's construction tasks related to urban, power and rail infrastructure cannot be done in unfavourable weather conditions. Due to low temperatures in autumn and winter, many tasks have to be slowed down or even stopped to meet technological regimes. If unfavourable weather conditions continue for too long, the situation may have a negative impact on the Group's financial results.

- **Risk related to social and economic situation in Poland**

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

- **Risk related to interest rates**

The Group is exposed to interest rate risk mainly because it uses such instruments as bank credits, loans and leases. These instruments are based on variable interest rates and expose the Group to financial risk.

- **Risk related to unstable margins**

Growing prices of materials, higher fees charged by subcontractors or higher salaries and wages for employees may be felt by entities delivering railway projects and influence original margins. The current system does not provide for the indexation of signed contracts as a result of which margins may become unstable.

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

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

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

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

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

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

The Issuer also identifies the risks related to social and employee issues, natural environment, respect of human rights and counteracting corruption discussed in detail in the Management Board Report on the Activities of ZUE S.A. and ZUE Capital Group for 2019. No significant changes have been identified when comparing these risks with the information contained in the annual report.

11. Major events in the reporting period

Construction contracts:

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

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

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

On 17 March 2020, the Company submitted the termination notice relating to the contract for the provision of design services and the completion of construction works in connection with the following project: "Works on the railway lines no. 14 and 811 of the Łódź Kaliska - Zduńska Wola - Ostrów Wielkopolski section, stage I: Łódź

Kaliska – Zduńska Wola” performed by the Company for PKP Polskie Linie Kolejowe S.A. (the “Contract”) for PKP Polskie Linie Kolejowe S.A. (the “Contracting Authority”). The Company declared its intention to terminate the services provided by the Company (the remaining part of the construction works which had not been performed) under the Contract between the Company and the Contracting Authority due to the circumstances blamed on the Contracting Authority. On 5 May 2020, the Issuer and the Contracting Authority defined the rules on which ZUE would continue the works relating to the completion of the Contract. **(Current reports 9/2020 and 14/2020)**

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

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

On 14 May 2020, the Company learnt about the submission by ZUE of the most economically advantageous tender in the tender procedure for the project named: “Reconstruction of the track together with OCL network from the Żołnierza Square to the Niebuszewo terminus and along the Żołnierza Polskiego Square – the Matejki Street – the Piłsudskiego Street (to the Rodła Square).” Contracting Authority: The City of Szczecin. Net value of the tender submitted by the Company: PLN 141.8m. Gross value of the tender submitted by the Company: PLN 174.4m. Project completion date: 720 days of the contract conclusion date. **(Current report 15/2020)**

Financial agreements:

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

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

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

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

Corporate events:

On 22 April 2020, the Management Board of ZUE passed the resolution on recommendations to the Company’s Ordinary General Meeting for allocating the entire net profit for the financial year 2019 of PLN 3,135 thousand to reserve funds. The Company’s Supervisory Board gave a favourable opinion on the said recommendations on 18 June 2020. **(Current report 12/2020 and 18/2020)**

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

12. Major events after the end of the reporting period

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

On 17 July 2020, the Company learnt about the submission by ZUE of the lowest price tender in the tender procedure for the project named: "Expansion of a tram line in Olsztyn." Contracting Authority: City of Olsztyn. Net value of the tender submitted by the Company: PLN 310.7m. Gross value of the tender submitted by the Company: PLN 382.2m. Project completion date: 791 days of the contract conclusion date. On 17 August 2020, the Company learnt about the selection by the Contracting Authority of the Company's tender as the most economically advantageous offer in the said tender procedure. **(Current report 23/2020 and 28/2020)**

On 21 July 2020, the Company learnt about the submission by ZUE of the lowest price tender in the tender procedure for the completion of the second part of the project named: "Reconstruction of the tramway track from the Toruńska Street to the OM Rządź tram terminus" and "Reconstruction of the Chełmińska Street between the Laskowicka Street and the Wiejska Street" as part of the following projects: "Reconstruction of tram infrastructure to improve public transport in Grudziądz" and "Reconstruction of a part of the provincial road no. 498 (the Chełmińska Street) in Grudziądz." The Contracting Authority: Zarząd Dróg Miejskich w Grudziądz. Net value of the tender submitted by the Company: PLN 47.7m. Gross value of the tender submitted by the Company: PLN 58.6m. Project completion date: 31 October 2021. **(Current report 24/2020)**

On 30 July 2020, the Company and BNP Paribas Bank Polska S.A. signed the premium multi-purpose credit line agreement whereby the Company was granted the credit limit of up to PLN 30m. The credit limit would be provided to the Company for the period until 30 July 2022. The tenor was set until 30 July 2030. **(Current report 25/2020)**

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

13. Transactions with related parties

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

Section 4.7.11 "Transactions with related parties" of the Consolidated Half-Yearly Report for 6 Months Ended 30 June 2020 contains detailed information about the transactions with related parties.

14. Bonds, guarantees, loans and credit lines

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.

As at 30 June 2020:

- The amount of the bonds issued by the Group to third parties: PLN 522,174 thousand;
- The amount of the bonds issued by the Company to third parties: PLN 511,270 thousand;

- The amount of unused guarantee lines at the Group: PLN 157,023 thousand (including PLN 21,300 thousand which may be allocated to working capital credit);
- The amount of unused guarantee lines at the Company: PLN 155,250 thousand (including PLN 21,300 thousand which may be allocated to working capital credit);
- The amount of unused credit lines at the Group: PLN 31,300 thousand (no ability to allocate them to bonds);
- The amount of unused credit lines at ZUE: PLN 31,300 thousand (no ability to allocate them to bonds).

In the first half of 2020, ZUE and mBank S.A. signed the annex to the Master Agreement whereby the sublimit for working capital credits was reduced to PLN 21,300 thousand. The Company was granted the non-revolving working capital credit facility to be repaid by April 2021. Credit agreements and the use thereof are discussed in the note 4.6.1 of the Consolidated Half-Yearly Report for 6 Months Ended 30 June 2020.

At the end of the reporting period, the loans granted by ZUE (net of write-downs) amounted to PLN 749 thousand. At the end of the reporting period, the loans granted by the Group (net of write-downs) amounted to PLN 0.

ZUE is the parent company of the Group and, if needed, it guarantees the subsidiaries' liabilities. Guarantees are additional security for credit agreements and bonds provided to subsidiaries. The total amount of the guarantees as at 30 June 2020 is PLN 17,446 thousand, including PLN 13,500 thousand to guarantee the liabilities of Railway gft.

The liabilities of Railway gft are guaranteed in connection with the following bank agreements:

- Guarantee master agreement with mBank S.A. – the guarantee of PLN 8m in the period July 2015 – August 2023;
- Revolving credit agreement with mBank S.A. – the guarantee of PLN 5.5m in the period August 2015 – November 2020.

No loans or bonds of significant total value were granted or provided in the first half of 2020 by the Parent Company or the subsidiaries to any single entity outside the Capital Group (or any subsidiary thereof).

Events in the reporting period:

- On 15 January 2020, ZUE entered into the guarantee limit agreement for PLN 10m with Towarzystwo Ubezpieczeniowe InterRisk;
- On 28 January 2020, the Company and BNP Paribas signed an annex to the Multipurpose Credit Line Agreement whereby the line was extended for another year and the available limit was reduced from PLN 170m to PLN 100m to be used exclusively for bonds. As the credit cannot be taken under the Agreement, the Agreement is not disclosed by the Company in the table of credit agreements and the amount of the limit is disclosed exclusively in the list of guarantee limits.
- On 5 February 2020, the debt under the multipurpose credit line with BNP Paribas Bank (item 5) was repaid in full and the limit expired.
- On 4 May 2020, the Company signed the annex to the master agreement for project-related bonding products with Korporacja Ubezpieczeń Kredytów Eksportowych S.A. Under the annex, the limit provided to the Company was raised from PLN 30m to PLN 40m. The Company informed thereof in the current report 13/2020.
- On 26 May 2020, the Company signed the annex to the master agreement with mBank whereby the maturity date was extended by one year and the type of security was changed. The available limit was reduced from PLN 50m to PLN 25m.
- On 10 June 2020, the Company entered into the working capital credit agreement as part of the sublimit available under the abovementioned Master Agreement.

Events after the end of the reporting period:

- On 9 July 2020, the Company and mBank signed the annex to the overdraft agreement whereby the repayment date was extended by another year and the type of security was changed.
- On 30 July 2020, the Company entered into the new agreement with BNP Paribas whereby it was granted the credit limit of up to PLN 30,000 thousand. Pursuant to the agreement, the tenor is until 30 July 2030.

CORPORATE INFORMATION

15. Governing Bodies of ZUE

The composition of the Company's Management Board did not change during the reporting period or until the date of preparation of the consolidated financial statements.

Composition of ZUE's Management and Supervisory Boards at the date of approval of the financial statements:

Management Board:

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

Supervisory Board:

Mariusz Szubra	Supervisory Board Chairperson
Barbara Nowak	Supervisory Board Vice-Chairperson
Bogusław Lipiński	Supervisory Board Member
Piotr Korzeniowski	Supervisory Board Member
Michał Lis	Supervisory Board Member

Audit Committee:

Mariusz Szubra	Audit Committee Chairperson
Barbara Nowak	Audit Committee Member
Piotr Korzeniowski	Audit Committee Member

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

16. Shares and shareholding

The Company's share capital amounts to PLN 5,757,520.75 and is divided into 23,030,083 shares with a par value of PLN 0.25 each, including:

- 16,000,000 class A bearer shares;
- 6,000,000 class B bearer shares; and
- 1,030,083 class C bearer shares.

At this report preparation date, the Company holds 264,652 treasury shares whose purchase value is PLN 2,690,000. 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., as part of the buy-back effected in 2015.

The shares were bought back 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 transaction was described in detail in the note no. 25 of the Consolidated Financial Statements for the year ended 31 December 2015.

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

Shareholder	Number of shares / votes as at 18 August 2020		At the date of publication of the last interim report ⁽¹⁾	
	Number of shares/votes	% of the share capital/total number of votes	Number of shares/votes	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE	1,400,000 ⁽²⁾	6.08	1,400,000 ⁽²⁾	6.08
PKO Bankowy OFE	1,500,000 ⁽³⁾	6.51	1,500,000 ⁽³⁾	6.51
NN Investment Partners TFI	n/a ⁽⁴⁾	n/a ⁽⁴⁾	1,671,345 ⁽⁵⁾	7.26
Other	5,729,763 ⁽⁶⁾	24.88	4,058,418 ⁽⁶⁾	17.62
Total	23,030,083	100	23,030,083	100

- (1) Publication of the last interim report (Consolidated Report of the Group for 1Q 2020): 20 May 2020.
(2) Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of ZUE held on 8 December 2014 provided in the current report 41/2014 of 8 December 2014.
(3) Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 18 June 2014 provided in the current report 31/2014 of 18 June 2014.
(4) On 21 May 2020, the Issuer received the notice from NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. according to which all investment funds managed by NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. had dropped below 5% of votes at the Company's General Meeting. The Issuer informed thereof in the current report 16/2020.
(5) Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 6 June 2019 provided in the current report 20/2019 of 12 June 2019.
(6) Including 264,652 ZUE shares repurchased by the Company as part of the buy-back of own shares.

17. ZUE shares held by members of the Issuer's management and supervisory bodies

According to the information held by the Management Board of ZUE, at this report preparation date ZUE shares were held by the following members of the Issuer's management and supervisory bodies:

Shareholder	Position	Number of shares/votes as at 18 August 2020	% of the share capital/total number of votes	Changes in shareholding since the preparation of the last interim report; i.e. 20 May 2020
Wiesław Nowak	Management Board President	14,400,320	62.53	None
Marcin Wiśniewski	Management Board Vice- President	2,300	0.01	None

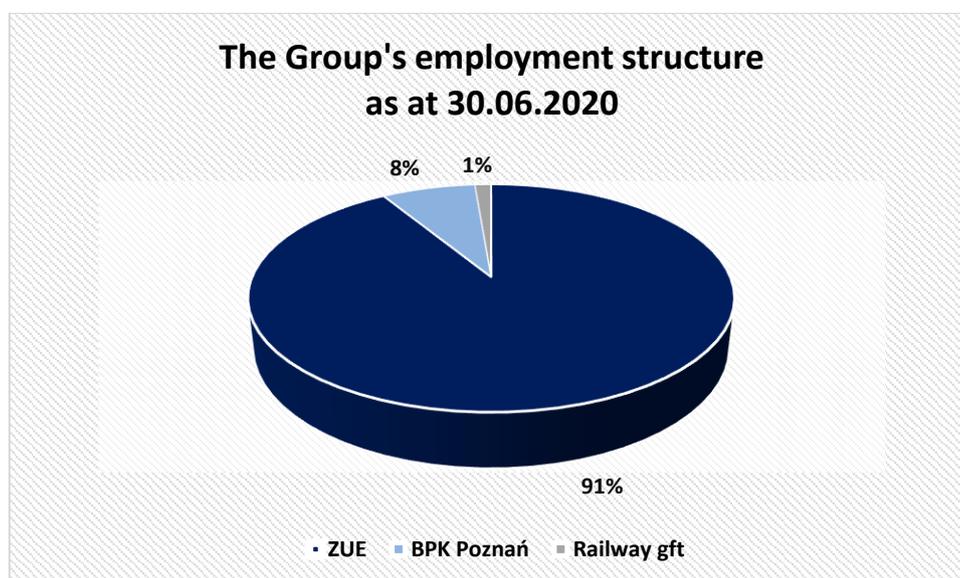
Jerzy Czeremuga	Management Board Vice-President	136	< 0.01	None
Maciej Nowak	Management Board Vice-President	7,806	0.03	None
Michał Lis	Supervisory Board Member	661	< 0.01	None

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 members of the Management Board or the Supervisory Board had any rights to acquire the Company shares at the date of preparation of the last quarterly report or this report.

18. Employment at the Group

As at 30 June 2020, the Capital Group employed 929 people.



19. Court and administrative proceedings

Below please find 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 11,506,921.00 (out of which PLN 2,926,209.77 plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended

completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POLiŚ 7.1-18: “Modernisation of the railway line no. 8, construction of the Okęcie Airport siding.”

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

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

On 30 December 2016, the consortium of:

- 1) OHL 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 S.A. PLN 347,126.79 plus statutory default interest from 21 December 2016 to the date of payment and dismissed ZUE’s claim concerning the payment of PLN 283,213.65 plus statutory interest from 21 December 2016.

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

No new activities have been undertaken in connection with the case.

Court case relating to contractual claims

The Group previously declared its intention to make contractual claims relating to railway projects in order to increase the amount of remuneration payable to the contractor for the performance of the railway contracts in case of any risks beyond the contractor’s control. On 28 April 2020, the claim of approx. PLN 34.8m was lodged against PKP PLK S.A. with the District Court in Warsaw to increase/pay the remuneration for the performance of the following contract: “Works on the railway line no. 1 of the Częstochowa – Zawiercie section.” The case is pending. The Defendant (PKP PLK S.A.), represented by the General Counsel to the Republic of Poland, was obliged on the basis of the order of 22 June 2020 and 8 July passed by the District Court in Warsaw, to respond to the claim by 28 August 2020. No response was made by the date of preparation of this report.

FINANCIAL INFORMATION

The largest portion of the Group's revenue is derived from the construction activity conducted by ZUE (92% of the Group's revenue). Construction works are carried out by the Company on the railway and urban markets. The Company performs the railway construction contracts as part of the biggest ever railway modernisation project – the National Railway Programme until 2023 (the "NRP"). The NRP provides for the completion of about 230 modernisation projects with the total value of approx. PLN 76bn. The Company's activity on the urban market mainly includes the construction and modernisation of tram lines in such cities as Szczecin, Cracow or Katowice. In addition, ZUE maintains tram and street lighting infrastructure in Cracow. The Group continues to perform the railway contracts won in 2016-2017. They are the low-margin contracts and the reasons for this include the excessively growing costs of project execution beyond the Company's control and no real price indexation. Accordingly, they have an adverse influence on the Group's results. The works under these contracts are scheduled for completion in 2020 and 2021. The construction backlog is expanded by winning the new railway contracts as part of the NRP but also urban contracts. At the date of preparation of this report, the Company submitted the best "build" tenders in urban tender procedures with the total net value of approx. PLN 0.5bn.

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

Sales revenue generated by the Group in the period under analysis amounted to PLN 382,419 thousand and decreased by 20% when compared with revenue in the first half of 2019. ZUE's sales revenue amounted to PLN 357,787 thousand (a year-on-year decrease by 21%).

In the first half of 2020, both the Group and the Company recorded positive results at all profit levels.

Comparison of the results reported by ZUE and the Group:

Item (PLN '000)	GROUP		ZUE	
	30.06.2020	30.06.2019	30.06.2020	30.06.2019
Sales revenue	382,419	479,807	357,787	455,740
Gross profit (loss) on sales	14,759	13,345	13,046	11,354
Operating profit (loss) (EBIT)**	2,385	2,613	2,532	2,709
EBITDA ***	9,076	8,965	9,138	8,988
Pre-tax profit (loss)	1,620	2,622	2,220	3,042
Net profit (loss)	919	1,143	1,494	1,669

* Operating profit + depreciation / amortisation.

** EBIT, EBITDA measures unspecified by IFRS.

The Group's gross profit on sales in the first half of 2020 grew over the year by PLN 1,414 thousand; i.e. by 11%. ZUE's gross profit on sales in the analogous period grew by PLN 1,692 thousand; i.e. by 15%.

The Group's general and administrative expenses in the reporting period increased over the year by 8% to PLN 11,540 thousand. The Company's general and administrative expenses in the reporting period increased over the year by 10% to PLN 9,426 thousand.

In the first half of 2020, the Group's other operating income stood at PLN 633 thousand and decreased year on year by 144% (ZUE: PLN 299 thousand – a year-on-year decrease by 94%). The results have been presented in detail in the note no. 4.3.3. of the financial statements for the first half of 2020.

The Group's other operating expenses amounted to PLN 1,467 thousand – up by 404% when compared with the figure reported in the analogous period of 2019 (ZUE: PLN 1,387 thousand – a year-on-year increase by 471%). The results have been presented in detail in the note no. 4.3.4. of the financial statements for the first half of 2020.

The Group's operating profit/loss decreased over the year by PLN 228 thousand (by 9%). The analogous item reported by ZUE decreased by PLN 177 thousand (by 7%).

The Group's financial income of PLN 315 thousand decreased over the year by 68%. The Company's financial income was PLN 496 thousand – a year-on-year decrease by 54%. The results have been presented in detail in the note no. 4.3.5. of the financial statements for the first half of 2020.

The Group's financial expenses amounted to PLN 1,080 thousand – up by 12% compared to the first half of 2019. (ZUE: PLN 808 thousand – a year-on-year increase by 10%). The results have been presented in detail in the note no. 4.3.6. of the financial statements for the first half of 2020.

The Group's net profit/loss in the period under analysis decreased over the year by PLN 224 thousand; i.e. by 20%. Compared to the first half of 2019, ZUE's net profit/loss decreased by PLN 175 thousand; i.e. by 10%.

21. Discussion of major balance sheet items

The table below sets out the items of the consolidated and separate statement of financial position as at 30 June 2020 and 31 December 2019.

Item PLN ('000)	Group		ZUE	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
ASSETS				
Non-current assets				
Property, plant and equipment	66,981	56,525	66,752	53,695
Investment property	5,687	5,877	5,687	9,487
Intangible assets	1,602	1,521	1,573	1,484
Right-of-use assets	41,498	57,092	41,231	56,059
Goodwill	31,172	31,172	31,172	31,172
Investments in subordinates	0	0	221	221
Long-term receivables	0	0	0	0
Retentions on construction contracts	10,605	9,758	10,346	9,455
Deferred tax assets	19,510	20,202	19,244	19,954
Advanced loans	0	0	65	107
Other assets	168	189	0	0
Total non-current assets	177,223	182,336	176,291	181,634
Current assets				
Inventories	36,398	30,353	31,739	25,114
Trade and other receivables	89,796	185,772	82,206	175,133
Measurement of long-term construction contracts	157,630	111,893	146,126	99,287
Retentions on construction contracts	2,790	3,057	2,676	2,984
Advance payments	9,368	9,722	9,937	10,291
Current tax assets	0	0	0	0
Other financial assets	0	0	0	0
Advanced loans	0	0	684	95
Other assets	1,229	1,126	960	814
Cash and cash equivalents	20,779	30,378	19,094	27,979
Current assets	317,990	372,301	293,422	341,697
Assets held for sale	3,989	0	4,193	0
Total current assets	321,979	372,301	297,615	341,697
Total assets	499,202	554,637	473,906	523,331

Item PLN ('000)	Group		ZUE	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
EQUITY AND LIABILITIES				
Equity				
Share capital	5,758	5,758	5,758	5,758
Share premium account	93,837	93,837	93,837	93,837
Treasury shares	-2,690	-2,690	-2,690	-2,690
Retained earnings	54,277	53,386	53,820	52,386
Total equity attributable to shareholders of the parent	151,182	150,291	150,725	149,291
Equity attributable to non-controlling interests	118	150	0	0
Total equity	151,300	150,441	150,725	149,291
Non-current liabilities	,	,	,	,

Long-term loans and bank credits	8,888	13,333	8,888	13,333
Long-term lease liabilities	9,216	12,450	9,084	12,385
Retentions on construction contracts	14,631	12,946	14,043	12,505
Other financial liabilities	0	0	0	0
Liabilities under employee benefits	2,220	2,092	1,306	1,200
Deferred tax liabilities	41	48	0	0
Long-term provisions	13,971	12,449	13,541	12,076
Other liabilities	0	0	0	0
Total non-current liabilities	48,967	53,318	46,862	51,499
Current liabilities	0	0	0	0
Trade and other payables	99,414	165,631	91,334	156,784
Accruals	84,836	61,422	79,464	54,041
Measurement of long-term construction contracts	2,613	4,584	2,280	4,247
Retentions on construction contracts	19,587	19,807	18,868	19,167
Advance payments	24,771	27,890	24,639	27,788
Short-term loans and bank credits	14,525	15,983	8,890	6,667
Short-term lease liabilities	7,459	10,016	7,363	9,931
Other financial liabilities	36	106	36	36
Liabilities under employee benefits	30,609	29,497	27,993	27,671
Current tax liabilities	0	0	0	0
Short-term provisions	15,085	15,942	15,452	16,209
Total current liabilities	298,935	350,878	276,319	322,541
Total liabilities	347,902	404,196	323,181	374,040
Total equity and liabilities	499,202	554,637	473,906	523,331

At 30 June 2020, the Group's total assets and liabilities stood at PLN 499,202 thousand. The Company's total assets and liabilities amounted to PLN 473,906 thousand.

Factors with the biggest influence on the said total assets and liabilities of the Group:

Item	Change compared to 31-12-2019	Balance as at 30-06-2020	Description
Assets			
Property, plant and equipment	10,456	66,981	End of leases and reclassification of right-of-use assets to property, plant and equipment.
Right-of-use assets	-15,594	41,498	End of leases and repayment.
Inventories	6,045	36,398	Increase in connection with the performance of construction contracts.
Trade and other receivables	-95,976	89,796	Accounting for certain completed construction works.
Measurement of long-term construction contracts	45,737	157,630	Greater progress of construction works in connection with performed contracts.
Cash and cash equivalents	-9,599	20,779	Use of funds to conduct operating activities.
Assets held for sale	3,989	3,989	Reclassification of real estate from property, plant and equipment and right-of-use assets.
Liabilities			

Long-term loans and bank credits	-4,445	8,888	Repayment of financial liabilities.
Long-term lease liabilities	-3,234	9,216	Repayment of financial liabilities.
Trade and other payables	-66,217	99,414	Accounting for certain completed construction works.
Accruals	23,414	84,836	Greater provisions for subcontractors in connection with performed contracts.
Advance payments	-3,119	24,771	Accounting for certain advance payments in connection with works progressing under construction contracts.

22. Discussion of items of the statement of cash flows

Cash flows from operating activities were mainly influenced by changes in receivables, payables, retentions on construction contracts, measurement of long-term construction contracts and accruals in connection with the performance of construction contracts.

Cash flows from investing activities were mainly influenced by the purchase of intangible assets and non-current assets. The transaction was financed by own resources.

Cash flows from financing activities were mainly influenced by the repayment of loans and credits and a decrease in lease liabilities.

Item (PLN '000)	Group		ZUE	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Cash flows from operating activities	7,394	-91,053	4,790	-86,501
Cash flows from investing activities	-3,755	1,603	-4,383	1,357
Cash flows from financing activities	-13,247	26,446	-9,301	23,089
Total net cash flows	-9,608	-63,004	-8,894	-62,055
Foreign exchange gains / (losses)	9	-1	9	-1
Cash and cash equivalents at the beginning of the	30,378	81,723	27,979	79,404
Cash and cash equivalents at the end of the period	20,779	18,718	19,094	17,348

23. 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 provided on the Issuer's website.

23.1. Debt ratio

Item	Group		ZUE		Calculation rules
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	

Net debt	19,345	21,510	15,167	14,373	(long- and short-term loans and bank credits and other financing sources + long- and short-term other financial liabilities) – cash and cash equivalents – other financial assets
Debt ratio	0.7	0.7	0.7	0.8	(non-current and current liabilities + provisions for liabilities) / total assets
Debt to equity ratio	2.3	2.7	2.1	2.5	(non-current and current liabilities) / equity
Equity to assets ratio	0.3	0.3	0.3	0.3	equity / total assets
Fixed capital to non-current assets ratio	1.1	1.1	1.1	1.1	(equity + non-current liabilities) / non-current assets
Short-term debt ratio	0.6	0.6	0.6	0.6	current liabilities / total assets
Long-term debt ratio	0.3	0.4	0.31	0.30	non-current liabilities / equity
Interest coverage ratio	2.3	5.9	2.8	6.4	EBIT / interest paid

23.2. Liquidity ratio

Item	Group		ZUE		Calculation rules
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	
Working capital	23,044	21,423	17,103	19,156	current assets – current liabilities
Current ratio	1.1	1.1	1.1	1.1	current assets / current liabilities
Quick ratio	0.96	1.00	0.9	1.0	(current assets – inventory) / current liabilities
Cash ratio	0.07	0.09	0.07	0.09	cash and cash equivalents / current liabilities

23.3. Financing structure ratios

Item	Group		ZUE		Calculation rules
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	

Equity to assets	0.3	0.3	0.3	0.3	equity /total assets
Equity to non-current assets	0.9	0.8	0.9	0.8	equity /non-current assets
Debt ratio	0.7	0.7	0.7	0.7	(total assets - equity) / total assets
Debt to equity ratio	2.3	2.7	2.1	2.5	(total assets - equity) /equity

23.4. Profitability ratios

Item	Group		ZUE		Calculation rules
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	
Gross profit margin	3.9%	2.8%	3.6%	2.5%	gross profit / revenue
EBITDA margin	2.4%	2.1%	2.6%	2.1%	EBITDA / revenue
EBIT margin	0.6%	0.8%	0.7%	0.7%	EBIT / revenue
Gross margin	0.4%	0.7%	0.6%	0.6%	gross profit / (revenue + other operating income + other financial income + extraordinary gains)
Net margin	0.2%	0.8%	0.3%	0.7%	net profit / (revenue + other operating income + other financial income + extraordinary gains)
ROA	0.2%	0.7%	0.3%	0.6%	net profit / total assets
ROE	0.61%	2.58%	1.00%	2.14%	net profit /equity

24. Discussion of results reported by segments

The total amount of revenue generated by the Group in the first half of 2020 is PLN 382,419 thousand. 92% of the said revenue is derived from construction activity.

Item (PLN '000)	Construction	Sales	Design	Exclusions	Total
Sales revenue	357,787	25,653	5,492	-6,513	382,419
Gross profit	13,046	1,130	824	-241	14,759
Net profit	1,494	-254	-152	-169	919

In the first half of 2020, both Railway gft (sales activities) and BPK Poznań (design activities) reported positive gross results and negative net results. Railway gft generated 7% of the Group's revenue and BPK Poznań generated 1% of the Group's revenue.

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

The Company did not publish any financial projections for the financial year 2020.

26. Unusual factors and events with significant influence on the Group's results

In the reporting period, there were no unusual factors or events with significant influence on the Group's results other than specified herein.

27. Other information significant for the assessment of the Issuer's position

The Management Board of ZUE believe that there is no information significant for the assessment of its staff, economic and financial position, profit or loss or any 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 or the financial statements for H1 2020.

STATEMENT BY THE MANAGEMENT BOARD OF ZUE S.A.

28. Statement of compliance

The Management Board of ZUE state that according to their best knowledge, the half-yearly condensed financial statements for H1 2020 and the comparative information have been prepared in accordance with applicable accounting principles and give a true and fair view of the economic and financial position of both the Company and the Group and their financial performance. The half-yearly report on the activities of the Capital Group contains a true view of the Group's development and achievements and the Group's standing, including the description of fundamental risks and threats.

Wiesław Nowak – Management Board President

Anna Mroczek – Management Board Vice-President

Jerzy Czeremuga – Management Board Vice-President

Maciej Nowak – Management Board Vice-President

Marcin Wiśniewski – Management Board Vice-President

Cracow, 18 August 2020