



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

between 1 January 2021 and 30 June 2021

Cracow, 18 August 2021

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. The company was removed from the register after the end of the reporting period on 14 July 2021.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
ZUE Group, Group, Capital Group	ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.
PLN	Polish złoty.
EUR	Euro.
Act	Polish Companies Act (Uniform Text, Journal of Laws of 2020, item 1526, as amended).

Share capital details as at 30 June 2021.

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INTRODUCTION

This Management Board Report on the Activities of ZUE Capital Group (the Group) between 1 January 2021 and 30 June 2021 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, which constitute the elements of the extended consolidated report for the first half of 2021, 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

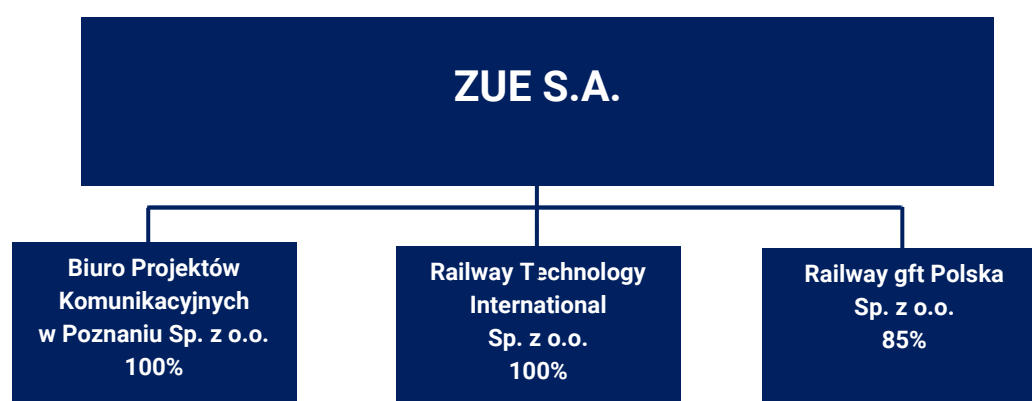
At the end of the reporting period, the Group was composed of ZUE S.A. (the Parent Company), Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o., Railway Technology International Sp. z o.o., Railway gft Polska Sp. z o.o. and Railway Technology International Germany GmbH in liquidation (indirect subsidiary).

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

ZUE S.A. is the company was incorporated on 20 May 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.

Structure of the Capital Group at this report preparation date:



Subsidiary – Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o. has been established on 15 June 2009. Poznań is the company's registered office. The company has been registered with the District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, under entry no. KRS 0000332405.

Subsidiary – Railway gft Polska Sp. z o.o. has been established on 21 October 2014. Cracow is the company's registered office. The company has been entered into the National Court Register maintained by the District Court

for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000532311.

Subsidiary – Railway Technology International Sp. z o.o. has been established on 20 July 2011. Cracow is the company's registered office. The company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division of the National Court Register, under entry no. KRS 0000397032.

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

1.2. Changes to the Group's structure and their consequences

No changes to the Group's structure occurred between the beginning of 2021 and the date of approval of this report, except for the following changes.

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

On 14 July 2021, RTI Germany was removed from the register maintained by the District Court in Dresden.

2. Activities of the Capital Group

The Group operates in the three aggregate operating segments:

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

Construction activities include:

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

In 2021, the Group focused on the provision of rail and urban infrastructure construction services.

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 supplement the abovementioned construction activities.

As part of its **sales activities**, the Group offers materials and accessories necessary to build tracks, including:

- Rails for railways, tramways and cranes; special profiles, light rails and narrow-gauge railway;
- Steel, wooden and pre-stressed concrete sleepers;
- Crossovers and crossover components;
- Accessories required to build tram and railway tracks;
- Aggregate;
- Special technologies: RHEDA 2000® slab tracks, RHEDA CITY C, RHEDA CITY GREEN tram systems, "Ypsylon" steel sleepers.

The financial data of operating segments is presented in the consolidated financial statements for the six months ended 30 June 2021.

3. Sales markets

The Group's sales markets reflect the scope of activities conducted by the Group.

Construction activities are carried out by ZUE mainly on the railway and urban infrastructure market. The table below sets out major construction contracts in progress.

Contract*	Contracting authority	Contract net value [PLNm] attributable to ZUE S.A.
Preparation of design documentation and completion of construction works in connection with the project named: LOT D – Works on the railway lines no. 131, 542 and 739 of the Rusiec Łódzki (km 137.500) – Zduńska Wola Karsznice (km 170.212) section as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-14 "Works on the railway line C-E 65 of the Chorzów Batory – Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Maksymilianowo section."	PKP PLK S.A.	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.	385
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.	381
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.	362
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.	295
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	PKP PLK S.A.	205

Wyczerpy – Chorzew Siemkowice section.”		
Reconstruction of the tramway track together with OCL network from the Żołnierza Polskiego Square – the Matejki Street – the Piłsudskiego Street (to the Rodła Square).	City of Szczecin	142
Provision of design services and completion of construction works in connection with the following project: “Works on the railway lines no. 140, 148, 157, 159, 173, 689, 691 of the Chybie – Żory – Rybnik – Nędza / Turze section” as part of the Infrastructure and Environment Operational Programme (IEOP) 2014.	PKP PLK S.A.	96
Preparation of design documentation and completion of construction works in connection with a “design-build” contract as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-16 “Improvement of capacity of E 20 railway line of the Warszawa – Kutno section, Stage I: Works on the railway line no. 3 of the Warszawa – the Łowicz Local Traffic Control Centre (LCS) section.”	PKP 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.	77
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	76
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.	58
Maintenance and repair of tramway tracks in Cracow in 2019-2022.	City of Cracow	56
Reconstruction of the road and the tram line in the Chrobrego Street and the Mieszka I Street as part of the task named: “The system of sustainable urban transport in Gorzów Wlkp.”	City of Gorzów Wielkopolski – Municipal Council	53
Reconstruction of the tramway track from the Wiejska Street to the OM Rządź tram terminus as part of the following project: “Reconstruction of tram infrastructure to improve public transport in Grudziądz.”	City of Grudziądz	48
Works on the E59 railway line, the Dobiegniew – Słonice section – traction network.	Strabag Sp. z o.o.	45
Provision of design services and completion of construction works in connection with the following project: “Construction of the Czarncza - Włoszczowa Płn. railway line no. 582.”	PKP PLK S.A.	42
Construction of a transport hub – the Zawodzie hub as part of the following project: “Katowice System of Integrated	Tramwaje Śląskie S.A.	41

Transport Hubs – the Zawodzie hub.”		
Maintenance and repair of tram infrastructure (traction electrical power engineering services) in Cracow in 2019-2022.	City of Cracow	41
Reconstruction of track and overhead contact system in the Wyszyńskiego hub and the Szarych Szeregów Square.	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.	35
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.	35
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 tram lines and switches in Wrocław.	City of Wrocław represented by Miejskie Przedsiębiorstwo Komunikacyjne Sp. z o.o.	19
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. and MGGP.

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

4. Backlog

The construction contracts performed by ZUE are the biggest item of the Group’s backlog.

At the date of preparation of this report, the value of the Group’s backlog for the contracted construction and assembly services is PLN 1,196m and provides the Group with an ability to carry out the works in the period 2021-2023. As for design services, the value of the signed contracts is 5.2m. The backlog relating to the supply of materials and equipment is worth PLN 25m. ZUE has signed a number of master agreements for the supply of strategic materials to secure the performance of contracts.

The companies within the Group take part in tenders. The Group intends to win new contract mainly on the domestic market.

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

Revenue generated by the Group and the Company in the first half of 2021 amounted to PLN 362,415 thousand and PLN 332,237 thousand, respectively. Gross margin reported by the Group was 2.8% and gross margin reported by the Company was 2.3%. By the date of publication of this report, the Company won the new contracts in 2021 with the total net value of approx. PLN 68m and submitted the most economically advantageous tenders with the total net value of approx. PLN 371m.

Financial results are discussed in detail in the “Financial information” section.

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

6. Impact of the coronavirus pandemic on the Group's operations

Measures taken by the Group

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

The Company reacts on an ongoing basis to the pandemic situation in Poland. After the new restrictions had been announced by the Polish government on 10 October 2020 and 20 March 2021 in response to growing Covid-19 cases, the Company considered the recommendations and extended the ability of its employees to work remotely or on a rotational basis where remote work is impossible. The Company also employed additional measures to keep its employees informed, monitor their health and provide them with protective equipment. The situation is constantly monitored.

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

Impact of the coronavirus pandemic on the Group's activity and financial standing in the first half of 2021

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

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

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

Possible impact of the COVID-19 pandemic the Group's activity and financial standing

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

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

Factors which may have a negative influence:

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

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

Factors which may have a positive influence:

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

7. Strategic objectives

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

In 2021, the Issuer's focus is on winning new construction contracts and proper performance of previously signed contracts.

In the long-term perspective, the Company's aim 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

Rail infrastructure market

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

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

In the 2021-2027 EU perspective, particular emphasis will be placed on the development of rail transport. It is a great opportunity for the Polish railway system which currently undergoes modernization and expansion. Apart from the main EU budget, rail projects will be financed, *inter alia*, under the new EU post-pandemic Recovery Fund. Another funding instrument is the Connecting Europe Facility dedicated mainly to railway projects.²

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

² <https://www.rynekinfrastruktury.pl/wiadomosci/drogi/nowy-cef-bez-drog-i-lotnisk-unia-stawia-na-kolej-77436.html>

Poland is now witnessing the execution of the biggest ever railway modernisation programme; i.e. the National Railway Programme until 2023 (the "NRP") with the total value of approx. PLN 76 billion. This long-term programme is designed to implement the strategies adopted by the Council of Ministers, including the "National Development Strategy 2020" and "Transport Development Strategy until 2020 with the perspective until 2030." The National Railway Programme ensures funding and effective project management with considerable use of the European Union funds. The National Railway Programme aims to implement 300 railway projects, divided into primary and secondary tasks, by 2023.

New projects are planned following the completion of the NRP. The total estimated value of major railway projects still at the stage of concept or tender process but planned for completion in the next few years is about PLN 80bn.³

PKP PLK said it planned to announce by the end of 2021 the tenders (mainly for "build" contracts) worth approximately PLN 10bn to enable the completion of the final projects under the NRP and the projects under the new 2021-2027 EU perspective. The infrastructure manager also informs about its plans to announce tenders in the following years with annual value between ten and twenty billion złoty.⁴

One major project is the completion of the Central Communication Port (CPK). This concept envisages a transport hub based on integrated elements - air and rail connections. The central port (airport) itself will form the nucleus of an enhanced national railway system. One of the assumptions behind the project is to ensure that CPK can be reached by train from major Polish urban centres within 2-2.5 hours at a target speed of 250 km/h along key sections. Turning this vision into reality will entail constructing approximately 1,800 km of brand new railway lines and revamping of existing routes.⁵ The new sections under construction will serve as essential additions to the existing national network, which will be more capable of satisfying the nation's transport needs.

Urban infrastructure market

Urban rail transport is considered environmentally friendly. Accordingly, from the perspective of the 2021-2027 EU perspective, investments in such projects offer excellent potential in terms of financing. About EUR 1.3bn will be spent out of the EU Funds on Climate, Infrastructure and Environment for 2021-2027 to support clean urban transport infrastructure. The two major projects include the construction of 49 km of new tramways and the upgrade of 63 km of existing tramways. Cracow, Warsaw, Gdańsk, Bydgoszcz, Szczecin, Poznań or the Upper Silesia cities are planning the construction or modernisation of tramways. There is a considerable number of tram infrastructure tenders on the market. Moreover, cities' long-term plans to expand this type of infrastructure have not been considerably frustrated by the pandemic.

The urban market is the Company's main path to diversify its backlog. ZUE intends to increase the share of the urban backlog by getting "build" and "maintain" orders.

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. In extreme cases, the payment delays may lead to the termination of contracts.

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

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

³ <https://polskiprzemysl.com.pl/budownictwo/budownictwo-kolejowe-w-polsce/>

⁴ <https://forsal.pl/transport/kolej/artykuly/8193533,pkp-plk-chca-oglosic-przetargi-na-ponad-10-mld-zl-do-konca-tego-roku.html>

⁵ <https://www.cpk.pl/pl/inwestycja/kolej>

urban, rail and power infrastructure market. These events could have a negative influence on the Group's financial results.

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

The growing costs of contract performance may contribute to the cancellation of tender procedures because the submitted tenders exceed the investors' budgets.

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

The Group's construction activities involve the use of products and raw materials such as concrete, aggregates, asphalt, steel elements (including HV tram and rail traction network posts, lamp posts, rails or crossovers) and copper and aluminium elements (including power cables, lines and contact wires) and, given a big number of machines, liquid fuels (including diesel oil and petrol). Different fees levied on materials, for instance duty, may also contribute to the increase in prices. Given the fluctuating prices of these materials, the Group companies are exposed to price risk.

- **Higher fees charged by subcontractors**

When performing its contracts, the Group subcontracts certain construction and assembly tasks to specialised companies. The increase in remuneration relating, *inter alia*, to the increase in minimum pay entails a risk relating to the estimation of costs incurred by subcontractors and, consequently, has a direct influence on the fees charged by subcontractors. This has a negative impact on the Group's financial results. A greater number of executed projects may have a negative influence on the Group's ability to engage certain subcontractors and may contribute to the increase in fees charged by them.

- **Unstable EUR/PLN rate**

The Group purchases certain imported products in foreign currencies, which entails a foreign exchange risk. This may have a positive or negative impact on the Group's financial results. In addition, although PLN-denominated, certain products purchased from entities operating in Poland are also indirectly exposed to foreign exchange risk as the risk is transferred from a supplier-importer to the Group companies.

- **Outcome of court proceedings**

The Group companies are the parties to the court proceedings concerning both their claims and liabilities. The outcome of these proceedings may have an impact on the financial results reported by the Group.

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 until 2023 (the "NRP") sets out the financial terms and the Poland's objectives concerning the execution of railway projects until 2023. PKP PLK SA finances NRP with considerable use of the European Union funds. However, political changes in the European Union may influence the initial level of the funding of railway projects in Poland.

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

Given the current economic situation, there is a risk that both banks (credit facilities and bonding products) and insurance companies (performance or bid bonds) will limit the availability of the sources of finance and other financial instruments, which may reduce the number and scope of operations.

- **Risk related to weather conditions**

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

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

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

- **Risk related to interest rates**

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

- **Risk related to unstable margins**

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

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

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

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

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

Difficulties may also be associated with the absence or temporary exclusion of employees. The Issuer has taken preventive measures to reduce the risk of infection with coronavirus among its employees and associates including remote work where possible, a different form of business meetings, comprehensive information about the activities whose aim is to reduce the risk of infection as well as the activities to be taken in case of infection and limited contacts with the employees who stayed in high risk areas. At the date of preparation of this report, the Issuer experienced no coronavirus-related disruptions of construction processes or supply chain likely to influence the schedule of the construction works carried out by the Company. However, the Company is aware of the fact that some or all of these risks may occur and continues to monitor the situation.

11. Major events in the reporting period

Construction works:

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

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

On 30 June 2021, the Company learnt about the selection of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: "Reconstruction of the separate tramway track along the Królowej Jadwigi Street and Piłsudskiego Street in Dąbrowa Górnicza, the Róż Avenue – the Kasprzaka Street section – task no. 2.6" as part of the following project: "Integrated tram infrastructure modernisation and development project in the Upper Silesia and Zagłębie region including the purchase of tram

vehicles – stage II.” The Company informed about the submission of the most economically advantageous tender in the current report 8/2021. Contracting Authority: Gmina Dąbrowa Górnicza, Tramwaje Śląskie S.A. Net value of the tender submitted by the Company: PLN 62m. Gross value of the tender submitted by the Company: PLN 76.2m. Project completion date 31 December 2022. **(Current report 16/2021)**

Financial agreements:

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

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

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

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

Corporate events:

On 10 May 2021, the Management Board of ZUE passed the resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2020 of PLN 4,362 thousand to reserve funds. The Company's Supervisory Board gave a favourable opinion on the said recommendations on 25 May 2021. **(Current report 7/2021 and 10/2021)**

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

12. Major events after the end of the reporting period

On 3 August 2021, the Company learnt about the selection of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: “Reconstruction of the tram line along the Jana Pawła II Street, from the Plac Centralny to the Ptaszyckiego Street and from the Ptaszyckiego Street to the Bardosa Street, including the reconstruction of OCL network, dehydration and reconstruction of colliding technical infrastructure.” The Company informed about the submission of the lowest price tender in the current report 17/2021. Contracting Authority: Zarząd Dróg Miasta Krakowa. Net value of the tender submitted by the Company: PLN 27.2m. Gross value of the tender submitted by the Company: PLN 33.4m. Completion date: 10 months of the site delivery. **(Current report 20/2021)**

On 5 August 2021, the Company learnt about the selection of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the project named: “Reconstruction of the tramway track with traction in the Nabrzeże Wieleckie, Nowa, Dworcowa, Kolumba, Chmielewskiego and Smolańska Streets, and the Powstańców Wlkp. Avenue and extension of the Pomorzany terminus in Szczecin.” The Company informed about the tender in the current report 18/2021. Net value of the tender submitted by the Company: PLN 213m. Gross value of the tender submitted by the Company: PLN 262m. Completion date: 720 calendar days of the contract conclusion date. **(Current report 21/2021)**

On 11 August 2021, the Company learnt about ZUE's submission of the lowest price e-tender in the tender procedure for the project named: “Restoration of railway infrastructure on the Dorota - Sosnowiec Dańdówka section, line no. 171, as part of the following investment project: “Works on the south eastern part of the Upper Silesian Industrial Region ring road and adjacent sections.” Gross total value of the tender submitted by the Company: PLN 84.9m (the net value of PLN 69.0m). The tender is divided into the three sections: Main scope – the gross value of PLN 44.3m (the net value of PLN 36.0m), Option 1 – the gross value of PLN 24.9m (the net

value of PLN 20.2m), Option 2 – the gross value of PLN 15.8m (the net value of PLN 12.8m). Option 1 and Option 2 will be carried out depending on the Contracting Authority's decision. Completion date: Main scope: 15 months of the contract conclusion date; Option 1 and Option 2: 22 months of the date of the statement made by the Contracting Authority. **(Current report 22/2021)**

13. Transactions with related parties

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

The consolidated financial statements for the six months ended 30 June 2021 contain detailed information about transactions with related parties.

14. Bonds, guarantees, lines of credit and loans

The activity conducted by the Group requires 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. Banks and insurance companies have recourse against the Company.

As at 30 June 2021:

- The amount of bonds issued by the Group to third parties: PLN 527,669 thousand.
- The amount of bonds issued by the Company to third parties: PLN 517,960 thousand.
- The amount of unused bond lines at the Group: PLN 208,230 thousand (including PLN 29,000 thousand which can be allocated to working capital credit).
- The amount of unused bond lines at the Company: PLN 206,548 thousand (including PLN 29,000 thousand which can be allocated to working capital credit).
- The amount of unused credit lines at the Group: PLN 39,000 thousand (including PLN 10,000 thousand with no possibility of allocating to bonds).
- The amount of unused credit lines at the Company: PLN 39,000 thousand (including PLN 10,000 thousand with no possibility of allocating to bonds).

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 2021 is PLN 15,854 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:

- Master agreement for bond lines with mBank S.A. – the guarantee of PLN 8m in the period July 2015 – August 2024;
- Revolving credit agreement with mBank S.A. – the guarantee of PLN 5.5m in the period August 2015 – November 2023.

In the reporting period:

- On 26 January 2021, a subsidiary signed an annex to the working capital credit agreement whereby the repayment date was extended until 31 May 2021 and a new repayment schedule was prepared.
- On 26 January 2021, a subsidiary and mBank S.A. signed an annex to the Master Agreement whereby the term of the limit was extended until 31 May 2021.
- On 3 March 2021, the Company repaid the credit granted on 10 June 2020 before the deadline specified in the schedule.
- On 18 March 2021, the Company and UNIQA Towarzystwo Ubezpieczeń S.A. signed an annex to the master bond agreement whereby the limit granted to the Company was raised from PLN 10m to PLN 30m.
- On 22 March 2021, the Company received the signed annex to the premium multi-purpose credit line agreement between the Company and BNP Paribas S.A. whereby the credit limit granted to the Company was increased to PLN 65m and the security was changed accordingly. The tenor remained unchanged.
- On 22 March 2021, the Company and BNP Paribas S.A. signed an annex to the multi-purpose credit line agreement whereby the limit could be used until 21 March 2022.

- On 27 May 2021, a subsidiary and mBank S.A. signed an annex to the Master Agreement whereby the granted limit was set as PLN 5.7m and could be used until 31 May 2022.
- On 31 May 2021, the Company and mBank S.A. signed an annex to the Master Agreement of 29 July 2014 whereby the maturity date was extended by one year.
- On 31 May 2021, the Company and mBank S.A. signed an annex to the Master Agreement of 29 June 2016 whereby the limit was set as PLN 80m and could be used until 31 May 2022.
- On 31 May 2021, a subsidiary signed an annex whereby the credit repayment date was extended by one year and a new repayment schedule was prepared.

After the end of the reporting period:

- On 6 July 2021, the Company and mBank S.A. signed an annex to the overdraft agreement whereby the repayment date was extended by one year.
- On 22 July 2021, the Company and Towarzystwo Ubezpieczeń Wzajemnych „TUW” signed the master agreement for bonds with the bond limit of PLN 11m.

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 these consolidated 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 (Uniform Text, Journal of Laws of 2020, item 1415).

16. Shares and shareholding structure

The Company's share capital amounts to PLN 5,757,520.75 and is divided into 23,030,083 shares with the nominal 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 thousand. 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 buy-back was effected 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 is discussed in detail in the note no. 25 of the consolidated financial statements for the financial year ended 31 December 2015.

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

Shareholder	Number of shares/votes as at 18 August 2021		Number of shares/votes 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	1,460,000 ⁽²⁾	6.34%	1,460,000	6.34%
PKO Bankowy OFE	1,780,786 ⁽³⁾	7.73%	1,778,681	7.72%
Other	5,388,977 ⁽⁴⁾	23.40%	5,391,082 ⁽⁴⁾	23.41%
Total	23,030,083	100	23,030,083	100

(1) Publication of the last interim report (Consolidated Report of the Group for Q1 2021): 25 May 2021.
(2) Shareholding on the basis of information provided by the Central Securities Depository of Poland for the purposes of the Ordinary General Meeting of ZUE held on 22 June 2021. According to the Company's best knowledge, the information is valid as the date of publication of this report.
(3) Shareholding on the basis of information provided by the Central Securities Depository of Poland for the purposes of the Ordinary General Meeting of ZUE held on 22 June 2021. According to the Company's best knowledge, the information is valid as the date of publication of this report.
(4) Including 264,652 ZUE shares repurchased by the Company as part of the buy-back of own shares.

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 2021	% of the share capital/total number of votes	Changes in shareholding since the preparation of the last interim report; i.e. 25 May 2021
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 Boards 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 interim report or this report.

18. Employment at the Capital Group

As at 30 June 2021, the Capital Group employed 893 people. 821 people were employed by ZUE, 60 people were employed by BPK Poznań and 12 people were employed by Railway gft.

19. Court and administrative proceedings

The pending court proceedings relate to the companies' operating activities. Below please find the information about major proceedings before the court or another authority concerning the Group's claims and liabilities.

Major pending court proceedings concerning liabilities:

There are no pending court proceedings concerning liabilities.

Major pending court proceedings concerning claims:

Cases concerning the following project: "Modernisation of the railway line no. 8, construction of the Okęcie airport siding."

On 29 September 2016, the Petitioner (PORR Polska Infrastructure; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) sued the Defendant (PKP Polskie Linie Kolejowe S.A.) for PLN 11.5m (out of which PLN 2.9m plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POLiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

An expert opinion was prepared according to which the petitioner's claims are to a considerable extent well-grounded. The Parties made reservations and the Court ordered that another opinion be prepared. The date of the next trial was not set.

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

On 30 December 2016, the consortium of:

- 1) OHL ŽS, a.s. (Leader);
- 2) Swietelsky Baugesellschaft m.b.H;

3) ZUE S.A. (hereinafter referred to as the "Consortium" or the "Contractor")

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

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

1) PLN 1.2m – costs relating to the requirement to extend the performance bond and insurance provided by the Contractor; and

2) PLN 38.1m – fixed costs relating to the performance of works over the extended period.

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

On 11 March 2019, the Court delivered the partial judgment whereby it ordered that PKP Polskie Linie Kolejowe S.A. pay ZUE PLN 347 thousand plus statutory default interest from 21 December 2016 to the date of payment and dismissed ZUE's claim concerning the payment of PLN 283 thousand plus statutory interest from 21 December 2016. The Parties appealed against this judgment. The Petitioner appealed against the dismissal of the claim of PLN 283 thousand plus statutory interest and the Defendant appealed against the order to pay PLN 347 thousand plus statutory interest. The appeal hearing referring to the partial judgment was held on 13 February 2020. On 27 February 2020, the appeals were dismissed by the Court of Appeals and the partial judgment became final and binding. After the trial of 8 April 2021, the Court admitted the expert opinion and the expert was appointed. The date of the next trial, however, was not set.

Court case relating to contractual claims

The Group previously declared its intention to make contractual claims relating to railway projects in order to increase the amount of remuneration payable to the contractor for the performance of the railway contracts in case of any risks beyond the contractor's control. On 28 April 2020, the claim of approx. PLN 34.8m was lodged against PKP PLK S.A. with the District Court in Warsaw to increase/pay the remuneration for the performance of the following contract: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." The case is pending. The Parties exchange the pleadings. The Defendant (PKP PLK S.A.), represented by the General Counsel to the Republic of Poland, responded to the claim and applied for the dismissal thereof and the Plaintiff upheld the claim. The proceedings are pending and witnesses provide their written testimony. The date of the next trial was not set.

FINANCIAL INFORMATION

The Group's revenue is generated mainly from construction activities carried out by ZUE (90% of the Group's revenue in the first half of 2021). The Company delivers construction projects on the railway and urban market. At present, the railway industry is between the projects financed under the previous EU perspective and the projects intended under the current perspective. Like other entities operating in the same industry, the Company is waiting for the key tenders to be announced while performing the contracts in progress. The market will see most of the new contracts not before the last quarter of 2021. They will mainly include the "build" contracts. There is a considerable number of projects on the urban market and the Company takes advantage of this fact by winning new contracts. ZUE S.A. has submitted the four most advantageous tenders with the total value of approx. PLN 371m. Since the beginning of 2021, the Company has entered into the contracts worth approx. PLN 68m.

20. Discussion of major items of the profit and loss account

Sales revenue generated by the Group in the period under analysis amounted to PLN 362,415 thousand and decreased by 5% when compared with revenue in the first half of 2020. ZUE's sales revenue amounted to PLN

332,237 thousand. A decrease in revenue and the related drop in gross margin result from unfavourable weather conditions in the first quarter of 2021 and the settlement of contracts won in the difficult times of 2016-2017.

In the first half of 2021, both the Group and the Company recorded positive results at all levels of the profit and loss account.

Comparison of the results reported by ZUE and the Group:

	Group		ZUE	
	30.06.2021	31.06.2020	30.06.2021	31.06.2020
Sales revenue	362,415	382,419	332,237	357,787
Cost of sales	352,371	367,660	324,580	344,741
Gross profit (loss) on sales	10,044	14,759	7,657	13,046
Gross margin	2.8%	3.9%	2.3%	3.6%
General and administrative expenses	11,680	11,540	9,360	9,426
Other operating income	3,918	633	3,896	299
Other operating expenses	411	1,467	363	1,387
Operating profit (loss) (EBIT**)	1,871	2,385	1,830	2,532
EBIT margin	0.5%	0.6%	0.6%	0.7%
EBITDA***	8,014	9,076	7,884	9,138
EBITDA margin	2.2%	2.4%	2.4%	2.6%
Financial income	284	315	420	496
Financial expenses	611	1,080	478	808
Pre-tax profit (loss)	1,544	1,620	1,772	2,220
Income tax	812	701	665	726
Net profit (loss) from continuing operations	732	919	1,107	1,494
Net profit (loss)	732	919	1,107	1,494
net margin	0.2%	0.2%	0.3%	0.4%

* Operating profit + depreciation / amortisation.

** EBIT, EBITDA measures unspecified by the IFRS.

General and administrative expenses of the Group and ZUE were similar in the reporting period of 2020 and 2021.

The Group's financial expenses decreased by 43% when compared with the analogous period of 2020. ZUE's financial expenses also decreased over the year by 41%).

21. Discussion of major balance sheet items

The following table sets out the items of the consolidated and separate statement of financial position as at 30 June 2021 compared to the figures reported as at 31 December 2020.

Item	Group		ZUE	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
PLN '000				
ASSETS				
Non-current assets				
Property, plant and equipment	62,502	63,601	62,316	63,380
Investment property	6,311	6,497	6,311	6,497
Intangible assets	2,944	2,073	2,921	2,047
Right-of-use assets	44,071	41,900	43,857	41,675
Goodwill	31,172	31,712	31,172	31,172
Investments in subordinates	0	0	0	221
Long-term receivables	0	0	0	0
Retentions on construction contracts	9,133	8,515	9,090	8,472

Deferred tax assets	14,764	14,557	14,507	14,296
Advanced loans	0	0	0	22
Other assets	227	224	0	0
Total non-current assets	171,124	168,539	170,395	167,782
Current assets				
Inventories	43,881	25,306	39,339	22,110
Trade and other receivables	137,122	149,222	127,245	141,335
Measurement of long-term construction contracts	143,101	146,929	134,149	138,371
Retentions on construction contracts	2,831	4,371	2,504	4,042
Advance payments	3,574	3,123	4,143	3,692
Current tax assets	0	0	0	0
Other financial assets	0	0	0	0
Advanced loans	10	10	3,692	1,702
Other assets	1,383	646	1,154	462
Cash and cash equivalents	24,892	23,487	22,794	20,230
Current assets	356,792	353,094	335,020	331,944
Assets held for sale	3,340	3,340	3,544	3,544
Total current assets	360,134	356,434	338,564	335,488
Total assets	531,258	524,973	508,959	503,270

Item PLN '000	Group		ZUE	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
EQUITY AND LIABILITIES				
Equity				
Share capital	5,758	5,758	5,758	5,758
Share premium account	93,837	93,837	93,837	93,837
Treasury shares	-2,690	-2,690	-2,690	-2,690
Retained earnings	58,378	57,589	57,859	56,691
Total equity attributable to shareholders of the parent	155,283	154,494		
Equity attributable to non-controlling interests	159	155		
Total equity	155,442	154,649	154,764	153,596
Non-current liabilities				
Long-term loans and bank credits		4,443	0	4,443
Long-term lease liabilities	12,559	12,020	12,472	11,925
Retentions on construction contracts	19,758	18,821	19,059	17,841
Other liabilities	0	0	0	0
Liabilities under employee benefits	1,770	1,411	1,698	1,358
Deferred tax liabilities	272	129	0	0
Long-term provisions	16,413	15,086	15,961	14,670
Other liabilities	0	0	0	0
Total non-current liabilities	50,772	51,910	49,190	50,237
Current liabilities				
Trade and other payables	78,973	135,073	70,092	127,583
Accruals	98,022	65,617	94,169	61,490
Measurement of long-term construction contracts	31,933	3,659	31,834	3,310
Retentions on construction contracts	18,147	19,393	17,288	18,911
Advance payments	31,719	28,841	31,619	28,741
Short-term loans and bank credits	12,708	13,108	8,888	8,890
Short-term lease liabilities	8,257	9,130	8,188	9,051
Other financial liabilities	36	36	36	36
Liabilities under employee benefits	34,766	33,313	32,256	31,188
Current tax liabilities	802	5	802	0
Short-term provisions	9,326	9,873	9,478	9,871
Total current liabilities	324,689	318,048	304,650	299,071

Lease liabilities relating to assets held for sale	355	366	355	366
Total liabilities	375,816	370,324	354,195	349,674
Total equity and liabilities	531,258	524,973	508,959	503,270

At 30 June 2021, the Group's total assets and liabilities stood at PLN 531,258 thousand. ZUE's total assets and liabilities amounted to PLN 508,959 thousand.

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

Item	PLN '000		
	Change compared to 31.12.2020	Balance as at 06.2021	Description
Assets			
Trade and other receivables	-12,100,	137,122,	Accounting for certain completed construction works.
Inventories	+18,575	43,881	Increase in inventories in connection with the performance of contracts and sales activities of Railway gft.
Liabilities			
Trade and other payables	-56,100	78,973	Accounting for certain completed construction works.
Accruals	+32,405	98,022	Greater provisions for subcontractors in connection with performed contracts.
Measurement of long-term construction contracts	+28,274	31,933	Temporary differences in recognition of revenue and provisions.

22. Discussion of items of the statement of cash flows

Both the Group and the Company generate positive cash flows despite investments in non-current assets and decrease in lease liabilities.

Item (PLN '000)	Group		ZUE	
	30.06.2021	30.06.2020	30.06.2021	30.06.2020
Cash flows from operating activities	14,702	7,394	17,276	4,790
Cash flows from investing activities	-2,808	-3,755	-4,742	-4,383
Cash flows from financing activities	-10,575	-13,247	-10,055	-9,301
Total net cash flows	1,319	-9,608	2,479	-8,894
Foreign exchange gains / losses	85	9	85	9
Cash and cash equivalents at the beginning of the period	23,487	30,378	20,230	27,979
Cash and cash equivalents at the end of the period	24,892	20,779	22,794	19,094

23. Management of capital

The Group reviews the capital structure each time for the purpose of the financing of major contracts/orders.

During the review, the Group considers own resources, the schedule of contract financing, the cost of capital and the risks associated with each class of the capital.

Credits, loans and leases used by the Group.

Class of capital	30.06.2021	31.12.2020
Long- and short-term loans and bank credits	12,708	17,551
Long- and short-term lease liabilities	20,816	21,150
Lease liabilities relating to assets held for sale	355	366
Long- and short-term other financial liabilities	36	36
Total financial liabilities	33,915	39,103
Cash and cash equivalents	24,892	23,487
Net debt	9,023	15,616
Equity	155,442	154,649
Net debt to equity ratio	5.8%	10.1%

24. 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.

24.1. Debt ratios

Ratio	Group		ZUE		Calculation rules
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	
Net debt	8,668	15,615	6,790	14,481	(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	0.7	(non-current and current liabilities + provisions for liabilities) / total assets
Debt to equity ratio	2.4	2.4	2.3	2.3	(non-current and current liabilities) / equity
Equity to assets ratio	0.3	0.3	0.3	0.3	equity / total assets
Fixed capital to non-current assets ratio	1.2	1.2	1.2	1.2	(equity + non-current liabilities) / non-current assets

Short-term debt ratio	0.6	0.6	0.6	0.6	<i>current liabilities / total assets</i>
Long-term debt ratio	0.3	0.3	0.3	0.3	<i>non-current liabilities / equity</i>
Interest coverage ratio	2.7	7.4	2.9	7.7	<i>EBIT / interest paid</i>

24.2. Liquidity ratios

Item	Group		ZUE		Calculation rules
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	
Working capital	35,443	38,386	33,914	36,417	<i>current assets – current liabilities</i>
Current ratio	1.1	1.1	1.1	1.1	<i>aktywa obrotowe / zobowiązania krótkoterminowe</i>
Quick ratio	1.0	1.0	1.0	1.0	<i>current assets / current liabilities</i>
Cash ratio	0.08	0.07	0.07	0.07	<i>cash and cash equivalents / current liabilities</i>

24.3. Financing structure ratios

Item	Group		ZUE		Calculation rules
	30.06.2021	31.12.2020	30.06.2020	31.12.2020	
Equity to assets	0.3	0.3	0.3	0.3	<i>equity / total assets</i>
Equity to non-current assets	0.9	0.9	0.9	0.9	<i>equity / non-current assets</i>
Debt ratio	0.7	0.7	0.7	0.7	<i>(total assets - equity) / total assets</i>
Debt to equity ratio	2.4	2.4	2.3	2.3	<i>(total assets - equity) / equity</i>

24.4. Profitability ratios

Item	Group		ZUE		Calculation rules
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	
Gross profit margin	2.8%	3.5%	2.3%	3.3%	<i>gross profit / revenue</i>
EBITDA margin	2.2%	2.7%	2.4%	2.7%	<i>EBITDA / revenue</i>
EBIT margin	0.5%	1.2%	0.6%	1.2%	<i>EBIT / revenue</i>
Gross margin	0.4%	1.1%	0.5%	1.2%	<i>net profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
Net margin	0.2%	0.5%	0.3%	0.5%	<i>net profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
ROA	0.1%	0.81%	0.2%	0.87%	<i>net profit / total assets</i>
ROE	0.47%	2.84%	0.72%	2.92%	<i>net profit / equity</i>

25. Discussion of results reported by segments

The total amount of revenue generated by the Group is PLN 362,415 thousand. 90% of the revenue is derived from construction activity.

	Construction	Sales	Design	Exclusions	Total
Sales revenue	332,237	30,530	4,911	-5,263	362,415
Gross profit on sales	7,657	1,502	994	-109	10,044
Net profit	1,107	86	-411	-50	732

More information about results reported by the segments is contained in the consolidated financial statements for the six months ended 30 June 2021.

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

The Company did not publish any financial projections for the financial year 2021.

27. 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 in this report.

28. 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 the staff, economic or 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 2021.

STATEMENT BY THE MANAGEMENT BOARD OF ZUE S.A.

29. Statement of compliance

The Management Board of ZUE state that according to their best knowledge, the half-yearly condensed financial statements for H1 2021 and the comparative information have been prepared in accordance with applicable accounting principles and give a true and fair view of the economic and financial position of 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 2021