



MANAGEMENT BOARD REPORT ON THE ACTIVITIES OF
ZUE CAPITAL GROUP

For the period 1 January 2024 - 30 June 2024

Cracow, 20 August 2024

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 Capital Group.</p>
Energopol	<p>Przedsiębiorstwo Budownictwa Inżynieryjnego ENERGOPOL 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 0000042724, share capital of PLN 2,200,000 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 3,000,000 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 627,500 paid up in full.</p> <p>Subsidiary of ZUE.</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 until 10 August 2023.</p>
ZUE Group, Group, Capital Group	<p>ZUE Capital Group including at the end of the reporting period: ZUE, BPK Poznań, Railway gft, RTI, Energopol.</p>
PLN	<p>Polish złoty.</p>
RON	<p>Romanian leu.</p>
EUR	<p>Euro.</p>
Act	<p>Polish Companies Act (Consolidated text, Journal of Laws of 2024, item 18).</p>

Share capital details as at 30 June 2024.

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INTRODUCTION

This Management Board Report on the Activities of ZUE Capital Group (the Group) in the period 1 January 2024 - 30 June 2024 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.

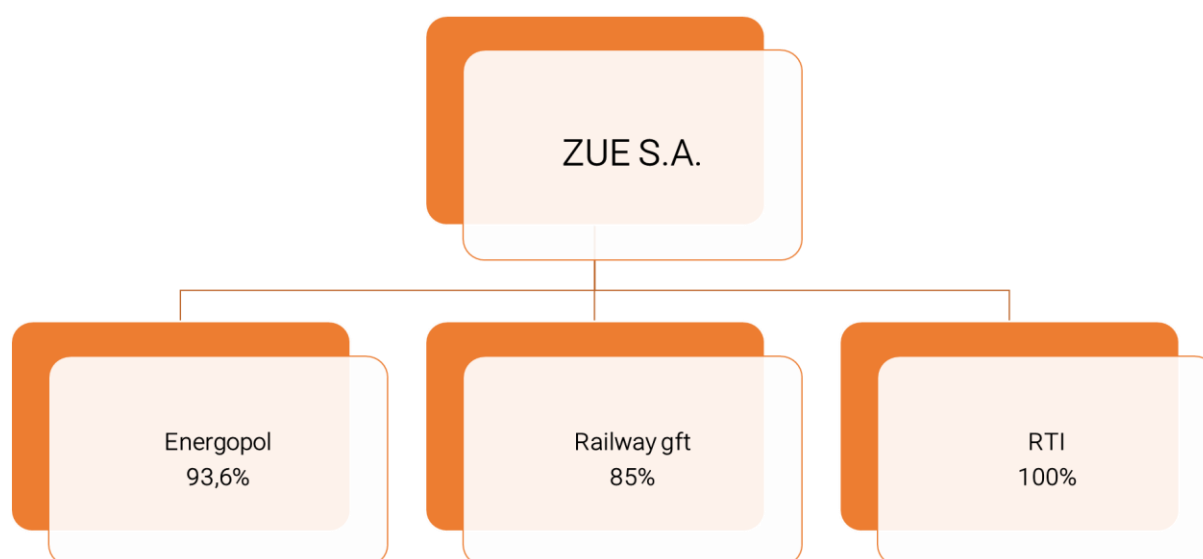
The condensed financial statements of the Group and ZUE S.A., respectively, which constitute the elements of the complete consolidated report for the first half of 2024, have been prepared in accordance with regulations set out in the IAS/IFRS, especially IAS 34 "Interim Financial Reporting."

OPERATIONAL INFORMATION

1. Organisation of the Capital Group

1.1. Structure of the Capital Group

Structure of the Capital Group as at 30 June 2024:



ZUE Spółka Akcyjna with registered office in Cracow (the Kazimierza Czapińskiego 3 Street No. 3) is the Parent Company of the Capital Group.

The Company was established 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 of the National Court Register under entry no. KRS 0000135388.

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

On 28 October 2022, ZUE's branch in Romania was entered into the Register of Entrepreneurs maintained by the Court in Cluj Napoca. The branch was established to enable the coordination of the Company's operations on the Romanian market.

The Group is in the process of incorporating a subsidiary in Germany. At present, the subsidiary is being registered

with the competent registry court.

Companies consolidated with full method in the first half of 2024:

- | Railway gft Polska sp. z o.o.
- | Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o.

In the reporting period, ZUE had the power to govern the financial and operating policies of Railway gft and Energopol because as at 30 June 2023, it held a 85% and 93.6% interest, respectively, in the companies.

As at 30 June 2024, ZUE held 100% of shares in Railway Technology International Sp. z o.o. (RTI). Due to insignificant impact of the subsidiary's financial information on the Group's economic and financial condition, RTI was not consolidated.

1.2. Changes in the Group's structure and the effects thereof

No major changes to the Group's structure occurred between the beginning of 2024 and the date of approval of this report.

2. Activities of the Capital Group

The Group had the two reportable segments in the reporting period:

- | Construction activities carried out by ZUE and Energopol; and
- | Sales activities carried out by Railway gft.

Construction activities mainly include:

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



In 2024, the Group focused on the provision of rail, urban and road 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.

As regards sales activities, the Group offers materials and accessories necessary to build tracks.

The financial information of the operating segments is presented in the consolidated financial statements for 6 months ended 30 June 2024.

3. Sales markets

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

ZUE's construction activities are conducted mainly on the urban and rail infrastructure markets. The table below

sets out major construction contracts in progress.

Contract	Contracting authority	Status	Contract net value (PLNm) attributable to ZUE on 30.06.2024
Completion of construction works as well as preparation of detailed design and completion of construction works in connection with the development of railway traffic control equipment, railway telecommunications network equipment and a dynamic passenger information system on the Będzin - Katowice Szopienice Południowe lines as part of the project: "Works to be carried out on primary passenger services (E 30 and E 65) in Silesia, Stage I: line E 65 on the Będzin - Katowice Szopienice Płd. – Katowice – Katowice Piotrowice lines."	PKP PLK S.A.	In progress	785
Preparation of design documentation and completion of construction works as part of "design-build" project in connection with the project named: LOT D – Works on the railway lines no. 131, 542 and 739 of the Rusiec Łódzki (km 137.500) – Zduńska Wola Karsznice (km 170.212) section as part of the Infrastructure and Environment Operational Programme (IEOP) 5.1-14 "Works on the railway line C-E 65 of the Chorzów Batory – Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Maksymilianowo section."	PKP PLK S.A.	In progress	608
Design and construction services in connection with the project no. 1: "Works on the Chabówka - Zakopane railway line no. 99" and the project no. 2: "Construction of railway link in Chabówka along the Sucha Beskidzka – Chabówka railway line no. 98 and the Chabówka – Zakopane railway line no. 99."	PKP PLK S.A.	In progress	532
Design services and construction works in connection with the following project: "Works on the railway line no. 25 of the Skarżysko Kamienna – Sandomierz section" to be executed as part of the Eastern Poland Operational Programme.	PKP PLK S.A.	In progress	470
Design and construction services in connection with the project named: "Construction of the Annopol depot."	Tramwaje Warszawskie sp. z o.o.	In progress	437
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 Warsaw-Poznań section – other works, the Sochaczew-Swarzędz section" executed as part of the Connecting Europe Facility (CEF).	PKP PLK S.A.	In progress	333

Reconstruction of the tramway track and traction in the Nabrzeże Wieleckie, Nowa, Dworcowa, Kolumba, Chmielewskiego and Smolańska Streets and the Powstańców Wlkp. Avenue and the extension of the Pomorzany terminus in Szczecin.	City of Szczecin, Szczecińska Energetyka Ciepła Sp. z o.o., Zakład Wodociągów i Kanalizacji Sp. z o.o.	In progress	278
"Construction of the fast tramway from the Kasprzaka Street to Wilanów on the Dworzec Zachodni – the Grójecka hub section."	Tramwaje Warszawskie sp. z o.o.	In progress	147
Maintenance and repair of tram infrastructure in Cracow in 2022-2025.	City of Cracow	In progress	123
Reconstruction of the tramway along the Zwierzyniecka Street (district road) and the Kościuszki Street (county road) in Cracow and reconstruction of the adjacent intersections and OCL network, dehydration and lightening, reconstruction of the colliding technical infrastructure, repair of the <i>Salwator</i> tram terminus as well as construction of the heat distribution network with connections and construction and reconstruction of the water supply system.	City of Cracow; Wodociągi Miasta Krakowa S.A. Miejskie Przedsiębiorstwo Energetyki Ciepłej S.A.	In progress	93
Provision of bicycle lanes and reconstruction of road infrastructure along the Królowej Jadwigi and Piłsudskiego Streets (county road) in Dąbrowa Górnicza as part of the following project: "Promotion of green transport in Dąbrowa Górnicza – Stage III." Construction works for the project named: "Reconstruction of the separate tramway track along the Królowej Jadwigi Street and Piłsudskiego Street in Dąbrowa Górnicza, the Róż Avenue – the Kasprzaka Street section."	Dąbrowa Górnicza / Tramwaje Śląskie	In progress	92
Reconstruction of the separate tramway track along the Sobieskiego Street and the Królowej Jadwigi Street in Dąbrowa Górnicza from the KWK Paryż Terminus to the Róż Avenue" and "Provision of bicycle lanes and reconstruction of road infrastructure along the Sobieskiego and Królowej Jadwigi Streets (DW 910) in Dąbrowa Górnicza."	Dąbrowa Górnicza/Tramwaje Śląskie	In progress	69
Works on the E59 railway line, the Dobiegniew – Słonice section – OCL network.	Strabag Sp. z o.o.	In progress	50
Restoration of railway infrastructure on the Dorota - Sosnowiec Dańdówka section, line no. 171, as part of the following investment project: "Works on the south-eastern part of the Upper Silesian Industrial Region ring road and adjacent sections."	PKP PLK S.A.	In progress	40

Construction of a railroad siding with a handling yard and power connection in the south-western part of Jawor WSSE „INVEST-PARK” subzone near the line 137 railway stop.	Wałbrzyska Specjalna Strefa Ekonomiczna "Invest-Park" Sp. z o.o.	In progress	40
Construction of railway link in Kalwaria Zebrzydowska along the Skawina – Żywiec railway line no. 97 and the Kalwaria Zebrzydowska Lanckorona – Bielsko Biała Główna railway line no. 117” executed as part of the following project: “Works on the railway lines no. 97, 98, 99 of the Skawina –Sucha Beskidzka – Chabówka – Zakopane sections.	PKP PLK S.A.	In progress	24
Maintenance and ongoing repairs of systems and equipment required to light roads, streets, parks, squares, bridges, flyovers, tunnels, underpasses and to illuminate selected facilities in Cracow.	City of Cracow	In progress	23
“Reconstruction of the road and reconstruction of the track in the Dworcowa Street” and “Development of a Dynamic Passenger Information System as well as extension and reconstruction of a City Surveillance System” for the following project: “The system of sustainable urban transport in Gorzów Wlkp.” and “Reconstruction of roads and public transport infrastructure in the area of the railway station.”	City of Gorzów Wlkp. – the Municipal Council of Gorzów Wielkopolski and Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o.	In progress	20
ROMANIA			
"Quick Wins" – works carried out in C.F. Braşov area (17 Lot)	"C.F.R." S.A. – C.F. Braşov Regional Branch (Romania)	In progress	130
"Quick Wins" – works carried out in C.F. Cluj area (47 Lot)	"C.F.R." S.A. – C.F. Cluj Regional Branch (Romania)	In progress	314

* Contracts whose net value exceeds PLN 15m.

As regards sales activities, Railway gft sold rails, track accessories, sleepers, rail fastening systems and aggregate. In the first half of 2024, the major customers of Railway gft outside the Group were: Track Tec KolTram Sp. z o.o., Spaw-Tor Sp. z o.o. Sp. k.

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 total net value of the Group’s backlog is PLN 1,467m, including the contracted construction and assembly works performed by ZUE and Energopol worth PLN 1,455m. The backlog relating to the supply of materials and equipment by Railway gft if PLN 12m (net).

The value of the new construction contracts signed by ZUE by the date of approval of this report is PLN 154m. The companies within the Group participate in new tender procedures.

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

The Company’s revenue increased over the year by 16%. The gross margin was 4.2% and was higher than the margin reported at the end of the last quarter and the entire 2023.

The Group's gross margin was 4.5% and its revenue increased by 14%.

Financial results are discussed in detail in the Financial Information section.

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

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

The war in Ukraine did not have a material influence on the financial results at the date of approval of this report. However, the effects of the war such as limited supply and rising prices of building materials or restrictions on the employment market may have a negative influence on the contracts performed by the Group. The Company keeps monitoring the potential risks and cooperates with contracting authorities to minimize them.

The Company has cooperated with its suppliers for many years. The cooperation with transparent partners as well as internal control of transactions reduce the risk of getting involved in transactions exposed to sanctions imposed by the EU on Russia and Belarus. The Company has no assets in Russia, Belarus or Ukraine and does not conduct any activities in those countries.

The Company controls, on an ongoing basis, the safety of the Group's IT systems to prevent cyberattacks as well as the risks associated with foreign exchange rates and interest rate changes.

Ukraine's political and economic situation as well as changes on the raw and other materials markets are constantly monitored by the Group in terms of the actual and potential impact thereof on the Group's activities.

Factors which may occur and influence the markets in which the Issuer operates and the Group's activities:

- Increased prices of certain imported products and materials caused by the long-term weakening of PLN rate (as well as other currencies of the region);
- Disruptions in the chains of supply of certain imported products and materials;
- Long-term increase in the prices of fuels, natural gas and electricity;
- Limited access to fuels and natural gas;
- Greater financial risk of the countries of the region which may limit the access to financing and entail greater costs;
- Decreased supply of financial products as a result of increased spending on defence and security;
- Migration of Ukrainian employees from Poland to Ukraine; and
- Limited availability and higher prices of building materials caused by a long-term radical increase in demand for building materials in Ukraine.

7. Strategic objectives

The principal objective in 2024-2026 is to take maximum advantage of the current EU perspective.

The Group's strategic objectives are:

- | 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; and
- | Development of sales services on the track materials production and distribution market.

In the long-term perspective, the principal aim of the Group is to develop the services provided by the Group in connection with the service and maintenance of urban and rail infrastructure.

The Issuer predicts that the strategic objectives will be pursued mainly through the organic growth. In addition, the Company states that other companies may be acquired in the future.

In 2024, the Issuer's focus is on winning new construction contracts and proper performance of previously signed contracts. The Group also aims to achieve geographical diversification by offering its services in other European countries.

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. Development prospects

Polish rail infrastructure market

The national railway market continues to be the Group's most important market.

Poland is now witnessing the execution of railway modernisation programme; i.e. the National Railway Programme (NRP) until 2030 with the total value of approx. PLN 80 billion for the 2021-2027 perspective and PLN 11 billion for the National Recovery Plan - the continuation of the previous NRP until 2023. The National Railway Programme will be executed with considerable use of the European Union funds.

In June 2024, PKP PLK published the planned tenders¹ to be announced by the end of the year. The plan included:

- | 8 projects worth more than PLN 1bn;
- | 6 projects worth between PLN 0.1bn and PLN 1bn;
- | 22 projects worth less than PLN 0.1bn.

Out of the said 36 projects, 9 projects should be co-funded by the EU and depend on the availability of the funds. The remaining projects should receive national funding. The implementation of PKP PLK's objectives will have a positive and stabilising effect on the national railway infrastructure market. In the following years, PKP PLK intend to spend more than ten billions of złotys a year on railways. In addition, projects totalling around PLN 50 billion will be announced as part of the 2021-2027 perspective.

Another important railway programme is the governmental *Kolej plus* programme worth PLN 13.2 billion. The programme is scheduled for completion by 2029. The programme is being analysed in terms of efficiency and may be altered.

After they had finished the analyses in June 2024, the government decided to continue the Central Communication Port (CCP) project. The CCP rail component was changed. The main focus will be on building the *Igrek* High Speed Railway Lines connecting Warsaw, Łódź, Poznań and Wrocław where trains are expected to achieve speeds of 300-320 km/h. The project entails constructing 480 km of new railway lines. According to the schedule, the first 37 km-long Warsaw – CCP – Łódź section will be turned over for use in 2032. The entire *Igrek* route is scheduled for completion by the end of 2035.²

Urban infrastructure market

At the present time, 15 urban centres in Poland have functioning tram services. The total length of these tram routes is approx. 900 km. The largest tram networks are located in the Silesian Agglomeration, Warsaw, Łódź and Cracow. Virtually all urban centres have developed or are planning to develop light rail systems by modernizing routes and building new ones. Cracow, Warsaw, Wrocław, Poznań or the Upper Silesia cities also have specific and long-term plans regarding the construction or modernisation of tramways. These projects depend on the availability of the EU funds, especially the funds from the FENIKS 2021-2027 programme.

Rail infrastructure market in Romania

A strategy for 2021-2025 adopted by the Ministry of Transport and Infrastructure and CFR is being pursued by CFR Romanian railways (the Romanian counterpart of PKP PLK).

Objectives:

¹ <https://www.plk-sa.pl/przetargi-inwestycyjne-planowane-do-ogloszenia-w-2024-roku>

² <https://www.cpk.pl/pl/inwestycje-kolejowe-cpk>

- Increasing the share of the rail freight traffic by at least 25% by 2026 in comparison to 2020;
- Increasing the number of passengers by 25%;
- Conversion from bus commuting (as the first choice of travel) to train commuting; and
- Implementation of the ERTMS system.

Major expenditures on infrastructure are required to meet these objectives and the investments are already financed with, *inter alia*, the use of the EU funds. Romania effectively uses the EU funds to modernize its railways as a result of which a significant number of projects have been launched to upgrade the infrastructure. Romania is also planning major investments in tram infrastructure and subway. In 2022, the Company and the Romanian consortium member won the construction contracts for the upgrade of the Romanian railway lines with the total amount of approximately PLN 0.9 billion, out of which 50% is attributable to ZUE.

Road infrastructure market

The Group has operated on the local road market through its subsidiary, Energopol, since November 2022. This stable and prospective market will receive financial support from the Government Road Construction Fund. Funds will be allocated to implement nearly 2,700 local road construction and modernisation tasks. With the Fund's support, about 3,500 km of roads will be built or renovated.

9. Factors believed by the Issuer to have 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 portion of its working capital to perform contracts due to their relatively high value and a long time over which they are performed. 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 made 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 contracts with investors may be substantially postponed on the urban, railway and road 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 the prices of materials 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. A long time between the submission of a tender and the conclusion of a contract may also cause the expiry or non-extension of offers made by subcontractors or suppliers as a result of which the prices of their products and services may increase. For these reasons, a part of the Group's planned revenue may be transferred from the current to the next financial year. The growing costs of contract performance may contribute to the cancellation of tender procedures because the submitted tenders go over the cost estimates prepared by investors.

Unstable prices of raw materials and liquid fuels

The Group's construction activities involve the use of products and raw materials such as concrete, aggregates, asphalt, steel elements (including 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. Due to the fluctuating prices of these materials, the Group companies are exposed to price risk. The prices of raw materials and liquid fuels are also indirectly adversely affected by the war in Ukraine.

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 dynamic growth in the 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 foreign exchange rate

The Group purchases certain imported products in foreign currencies but also delivers construction projects on international markets, 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 influence on the Group's future results

Risk related to financial liquidity of the construction sector

A large number of performed contracts and common problems associated with 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 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 non-delivery of 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, staff and equipment of the Company or its subcontractors may have to be stopped, dates for the supply of materials by suppliers may no longer apply, the deadline for a project completion may become extended and the associated costs may increase. Consequently, the date of completion of construction works specified in a contract can be missed and the costs associated with a project may increase 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, for instance, 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. In addition, the terms of reference may be interpreted differently by contractors and contracting authorities as a result of which additional works may have to be performed. In such a case, contracting authorities may refuse to pay contractors and the dispute will have to be dealt with by courts. 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

According to the Polish Civil Code and the Polish Public Procurement Act (and provisions of public procurement contracts), 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. Thus, the Group may be obliged to pay remuneration for works, services or supplies to further subcontractors (including service providers and suppliers) 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 litigations

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. The 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, including the risk of contracting authorities' demand of payment under bonds issued by banks or insurance companies. 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 or the signing of contracts may be delayed. If a company within the Group 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, urban and road 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 2030 (the "NRP") sets out the financial terms and the Poland's objectives concerning the execution of railway projects until 2030. PKP PLK SA finances NRP with considerable use of the European Union funds. However, political changes in the European Union as well as disputes between Poland and the EU and the related delays in the awarding of funds may influence the initial level of the funding of railway projects in Poland.

Risk related to accumulation of tender procedures

Following a period of stagnation on the Polish railway market, a considerable number of tender processes may take place at the same time. Likewise, many projects can be launched after the award of the EU funds. This may lead to increased demand for building materials, subcontract and logistic services as a result of which the prices of building materials, labour, energy or fuels may rise.

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

If the economic situation gets worse, 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 construction works carried out by the Group on the urban, road and rail infrastructure market 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 always provide for real indexation of signed contracts as a result of which margins may become unstable.

Risk related to activities abroad

The Company carries out construction contracts in Romania. Therefore, the Issuer takes into account such factors as variable exchange rate (contracts should be accounted for in the local currency or euro), different legal and institutional framework and specificity of the local infrastructure construction market. These factors may influence the Group's performance.

Risk related to the impact of pandemic 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 global pandemic (e.g. COVID-19 pandemic) 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. During the COVID-19 pandemic, the Issuer took preventive measures to reduce the risk of infection among its employees and associates including remote work where possible, a different form of business meetings, comprehensive information about the activities whose aim was to reduce the risk of infection as well as the activities to be taken in case of infection and limited contacts with the employees who stayed in high risk areas.

Risk related to the war in Ukraine

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

- | Increased prices of certain imported products and materials caused by the long-term weakening of PLN rate (as well as other currencies of the region);
- | Disruptions in the chains of supply of certain imported products and materials;
- | Long-term increase in the prices of fuels, natural gas and electricity;
- | Greater financial risk of the countries of the region which may limit the access to financing and entail greater costs;
- | Possible migration of Ukrainian employees from Poland to Ukraine; and
- | Limited availability and higher prices of building materials caused by a long-term radical increase in demand for building materials in Ukraine.

11. Major events in the reporting period

Construction works:

On 20 February 2024, the contract was entered into between the consortium of ZUE (Leader), FABE Polska sp. z o.o. (Partner) and Tramwaje Warszawskie sp. z o.o. for the following project: "Construction of the fast tramway from the Kasprzaka Street to Wilanów on the Dworzec Zachodni – the Grójecka hub section." The Company informed about the selection of the Company's bid as the most economically advantageous tender in the current report 22/2023. Contract net value: PLN 294.8m (ZUE – 50%). Contract gross value: PLN 362.6m. Expected project completion date: 26 months. **(Current report 2/2024)**

Financial issues:

On 4 March 2024, the Company published the preliminary financial results for 2023. **(Current report 3/2024)**

On 28 March 2024, the Company received an annex to the multicurrency credit limit agreement signed by the Company and Alior Bank S.A. Under the annex, the limit granted to the Company was raised from PLN 30m to PLN 50m. **(Current report 4/2024)**

On 22 April 2024, the Company and CaixaBank S.A. Polish Branch signed an annex to the bank bond limit agreement. Under the annex, the limit granted to the Company was raised from PLN 50m to PLN 75m. **(Current report 6/2024)**

On 27 June 2024, the Company and Alior Bank S.A. signed an annex to the multicurrency credit limit agreement. Under the annex, the limit granted to the Company was raised from PLN 50m to PLN 75m. **(Current report 14/2024)**

Corporate issues:

On 6 May 2024, the Management Board of ZUE passed the resolution on recommendations to the Company's Ordinary General Meeting for allocating the net profit for the financial year 2023 of PLN 22,028 thousand in the following manner: 1) The portion of the net profit for the financial year 2023 of PLN 4,781 thousand should be paid as dividend (PLN 0.21 per share); 2) The residual net profit for the financial year 2023 of PLN 17,247 thousand should be allocated to reserve funds. The Company's Supervisory Board gave positive opinion on the Management Board's proposal on 8 May 2024. **(Current report 7/2024 and 8/2024)**

On 7 June 2024, the Company informed that pursuant to the resolution of the Ordinary General Meeting of ZUE S.A. on the distribution of the Company's profit for the financial year 2023 passed on 7 June 2024, the dividend for 2023 of PLN 4,780,740.51; i.e. PLN 0.21 per share, should be paid to the Company's shareholders. Shareholders' right to dividend was set as at 12 September 2024. The dividend payment date was set as 27 September 2024. **(Current report 13/2024)**

12. Major events after the end of the reporting period

On 14 August 2024, the Company published the preliminary financial results for the first half of 2024. **(Current report 15/2024)**

13. Related party transactions

Related party transactions within the Group were the typical sales transactions entered into on arm's length terms.

Detailed information about the related party transactions is contained in the consolidated financial statements for the six months ended 30 June 2024.

14. Bonds, guarantees, lines of credit and loans

The activity conducted by the Group requires the provision of 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 2024:

- | The amount of available bond lines is PLN 450,439 thousand and EUR 20,000 thousand at the Group and PLN 439,929 thousand and EUR 20,000 thousand at ZUE; and
- | The amount of available credit lines is PLN 63,060 thousand at the Group and PLN 60,010 thousand at ZUE.

No loans or bonds of significant total value were granted or provided in the first half of 2024 by the Parent Company or any subsidiary to any single entity outside the Capital Group (or any subsidiary thereof).

CORPORATE INFORMATION

15. Governing bodies of ZUE

Composition of the Parent Company's Management and Supervisory Boards at the date of approval of this report:

Management Board:

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

Supervisory Board:

Piotr Korzeniowski	Supervisory Board Chairperson
Barbara Nowak	Supervisory Board Vice-Chairperson
Irena Piekarska-Konieczna	Supervisory Board Member
Agnieszka Klimas	Supervisory Board Member
Maciej Szubra	Supervisory Board Member

Audit Committee:

Irena Piekarska-Konieczna	Audit Committee Chairperson
Barbara Nowak	Audit Committee Member
Maciej Szubra	Audit Committee Member

Irena Piekarska-Konieczna, Agnieszka Klimas and Maciej Szubra meet the independence criteria referred to in the Act on Auditors, Audit Firms and Public Supervision (Journal of Laws of 2023, item 1015).

The Supervisory Board of ZUE resolved on 12 April 2024 to appoint Magdalena Nowak to the Management Board of ZUE from 10 June 2024.

No other changes to the composition of the Parent Company's Management or Supervisory Board occurred until the date of preparation of this report.

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 21 August 2024	% of the share capital/total number of votes	Number of shares/votes at the date of publication of the last interim report ⁽¹⁾	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53%	14,400,320	62.53%
Generali OFE	1,461,659 ⁽²⁾	6.35%	1,461,659	6.35%
PKO Bankowy OFE	1,812,038 ⁽³⁾	7.87%	1,812,038	7.87%
Other	5,356,066 ⁽⁴⁾	23.26%	5,356,066	23.26%
Total	23,030,083	100	23,030,083	100

(1) Publication of the last interim report (Consolidated Report of the Group for the first quarter of 2024): 15 May 2024.

(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 7 June 2024. According to the Company's best knowledge, the information is valid at 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 7 June 2023. According to the Company's best knowledge, the information is valid at the date of publication of this report.

(4) Contains 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 at ZUE	Number of shares/votes at 21 August 2024	Nominal value (PLN)	% of share capital / total number of votes	Changes in shareholding since the publication of the last interim report ⁽¹⁾
Wiesław Nowak	Management Board President	14,400,320	3,600,080	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	575	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	34	< 0.01	None
Maciej Nowak	Management Board Vice-President	7,806	1,951.50	0.03	None
Magdalena Nowak	Management Board Vice-President	7,688	1,922	0.03	None

(1) Publication of the last interim report (Consolidated Report of the Group for the first quarter of 2024): 15 May 2024.

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.

No members of the Management Board or the Supervisory Board had any shares in companies within the Capital Group at the date of publication of the last interim report or at the date of preparation of this report.

18. Employment at the Capital Group

As at 30 June 2024, the Capital Group employed 847 people, including 772 people employed by ZUE, 13 people employed by Railway gft and 62 people employed by Energopol.

19. Court and administrative proceedings

The pending court proceedings are related to the companies' operating activities.

Below please find the information about major proceedings before the court or another authority concerning the Group's claims and liabilities.

Major pending court proceedings concerning liabilities:

There are no pending court proceedings concerning liabilities.

Major pending court proceedings concerning claims:

Court case concerning the following project: "Modernisation of the railway line no. 8, construction of the Okęcie airport siding" – conclusion of the proceedings:

On 4 April 2024, the Parties reached the settlement and the Defendant agreed to pay the amount of approximately PLN 3.3m (including PLN 1.9m of the principal amount) to ZUE S.A. A detailed description of the case is contained in the note 7.16. of the consolidated financial statements for the year ended 31 December 2023. Consequently, the Court decided to discontinue the proceedings. The settlement influences the gross profit on sales of approximately PLN 1.5m and the profit before tax of approximately PLN 3m.

Court case 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; and
- 3) ZUE (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 arising from 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 value in litigation (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 PLK 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 the 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. On 27 February 2020, the appeals were dismissed by the Court of Appeals and the partial judgment became final and binding.

On 6 June 2023, the Court delivered the judgment whereby PKP Polskie Linie Kolejowe S.A. was ordered to pay the Company PLN 8.4m plus statutory default interest from 21 December 2016 to the date of payment and the remaining claims were dismissed. The case is pending.

Second court case 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 5 June 2023, the consortium of:

- 1) OHL ŽS, a.s. (Leader);
- 2) Swietelsky Baugesellschaft m.b.H; and
- 3) ZUE (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 arising from the performance of the following construction 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 value in litigation (the "Amount") was PLN 44.9m and included:

- 1) approx. PLN 2.2m – costs relating to the requirement to extend the performance bond and insurance provided by the Contractor; and
- 2) PLN 42.7m – fixed costs relating to the performance of works over the extended period.

The Company's total share in the Amount was approx. PLN 7m.

Court case concerning the contract claim

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 relating to the performance of the following contract: "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." The case is pending.

Other court cases concerning inflation claims in respect of railway contracts

The Group had previously declared its intention to make contractual claims relating to railway projects in order to increase the amount of remuneration payable to the contractor for the performance of the railway contracts in case of any risks beyond the contractor's control. Accordingly, the Issuer and consortium members lodged the four claims in December 2021 in the total amount (attributable to ZUE S.A.) of approx. PLN 19m. The claims concern the following projects:

- Provision of design services and completion of construction works in connection with the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia – Warszawa Gdańska section);"
- "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section;"
- "Preparation of building and detailed designs and the completion of LOT B works as part of "design-build" project in connection with the Infrastructure and Environment Operational Programme (IEOP) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II;"
- "Works on the railway lines no. 140, 148, 157, 159, 173, 689, 691 of the Chybie – Żory – Rybnik – Nędza / Turze section."

The Defendant replied to all of the claims and applied for the dismissal thereof. The Petitioner replied to the Defendant's statements and the exchange of pleadings between the parties came to an end. The date of the trial concerning the project named: "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" was set by the Court to hear witnesses and then the parties. For the project named: "Works on the railway lines no. 140, 148, 157, 159, 173, 689, 691 of the Chybie – Żory – Rybnik – Nędza / Turze section," the judgment was delivered on 25 September 2023 by the I Instance Court whereby the Petitioners' claim was dismissed in full. The date of the trials concerning the project named: "Works on the railway line E20 of the Warszawa-Poznań section – other works, the Sochaczew-Swarzędz section" was set by the Court to hear witnesses and the parties. The judgment was delivered by the I Instance Court for the project named: "Works on the railway lines no. 140, 148, 157,

159, 173, 689, 691 of the Chybie – Żory – Rybnik – Nędza / Turze section” whereby the claim was dismissed in full. The judgment was appealed against. The hearings of evidence are carried out by the courts for other cases.

Two inflation claims in the total amount of approximately PLN 8m were made by the Issuer in December 2022. The claims concerned the following projects:

- 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 on the railway line no. 7,” and
- 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.”

The abovementioned cases are pending. The proceedings concerning the E 20 railway line of the Warszawa – Kutno section were partly discontinued by the Court after the claim had been withdrawn by the Issuer.

In December 2023, the Issuer sued PKP Polskie Linie Kolejowe S.A. of Warsaw in connection with the following project: “Preparation of design documentation and completion of construction and assembly works as part of the project named: Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section.” The value of the claim is approx. PLN 23.6m. The case is pending.

Other court cases concerning inflation claims in respect of urban contracts

In November 2022, the Issuer and the consortium members, namely Energopol and Przedsiębiorstwo Inżynieryjne “IMB-Podbeskidzie” Sp. z o.o., made an inflation claim relating to the urban project named: “Extension of the Igołomska Street, the national road no. 79 – Stage 2 together with the infrastructure in Cracow” managed by the City of Cracow, the Defendant. ZUE’s claim amounts to approximately PLN 6.7m and Energopol’s claim amounts to approximately PLN 6.5m. The case is pending.

Court case concerning inflation claim

In December 2023, the Issuer sued PKP CARGO Terminale sp. z o.o. in connection with the project named: “Construction of multimodal terminal in Zduńska Wola – Karsznice.” The claim concerned non-payment under the inflation clause contained in the contract. The value of the dispute is approx. PLN 12.3m. The case is pending.

FINANCIAL INFORMATION

Current situation of the Issuer’s markets and obtaining of new contracts

The Company signed the construction contracts totalling around PLN 154m since the beginning of 2024. Both the railway and urban market saw a smaller number of new contracts and expected the EU funds under the new perspective and the National Recovery Plan. A slowdown was also influenced by audits carried out by government institutions and contracting authorities in order to effect the planned investments and make them more efficient (the *Kolej plus* programme is under analysis). The market expects the new contracts to show in the second half of 2024. PKP PLK published the planned tenders until the end of 2024 (36 tenders). The implementation of the plan could reassure the market and lead to its recovery.

20. Profit and loss account

The Group’s revenue grew 14% year on year in the first half of 2024. Gross margin reported by the Group was 4.5% (ZUE reported gross margin of 4.2% and year-on-year increase in revenue by 16%).

Comparison of results reported by the Group and ZUE:

	Group		ZUE	
	30.06.2024	30.06.2023	30.06.2024	30.06.2023
Sales revenue	617,213	540,785	570,025	490,973

Cost of sales	589,741	522,004	545,873	476,852
Gross profit (loss) on sales	27,472	18,781	24,152	14,121
Gross margin	4.5%	3.5%	4.2%	2.9%
General and administrative expenses	15,976	14,274	13,494	11,211
Other operating income	1,670	1,859	1,648	1,852
Other operating expenses	891	393	817	274
Operating profit (loss) (EBIT**)	12,275	5,973	11,489	4,488
EBIT margin	2%	1.1%	2%	0.9%
EBITDA***	19,789	13,312	18,447	11,323
EBITDA margin	3.2%	2.5%	3.2%	2.3%
Finance income	2,100	1,526	2,595	3,701
Finance costs	5,113	1,761	4,681	1,917
Pre-tax profit (loss)	9,262	5,738	9,403	6,272
Income tax	2,157	1,439	2,163	1,763
Net profit (loss) from continuing operations	7,105	4,299	7,240	4,509
Net profit (loss)	7,105	4,299	7,240	4,509
Net margin	1.2%	0.8%	1.3%	0.9%

* Operating profit + depreciation / amortisation.

** EBIT, EBITDA measures unspecified by the IFRS.

The increase in finance costs was a result of greater use of borrowed capital to finance the Group's operations. The Group's finance cost ratio was at the optimum level of 0.8%.

21. Balance sheet items

The following table sets out the items of the consolidated and separate statement of financial position as at 30 June 2024 compared to the figures reported as at 31 December 2023.

Item	Group		ZUE	
	30.06.2024	31.12.2023	30.06.2024	31.12.2023
PLN '000				
ASSETS				
Non-current assets				
Property, plant and equipment	68,985	70,774	64,723	66,100
Investment property	15,601	15,911	8,918	9,132
Intangible assets	2,165	2,466	2,165	2,466
Right-of-use assets	68,305	39,689	66,954	38,622
Goodwill	31,172	31,172	31,172	31,172
Investments in subordinates	328	328	6,140	6,140
Retentions on construction contracts	7,859	7,129	7,692	6,949
Deferred tax assets	19,603	21,704	19,509	21,692
Loans advanced	3,294	4,117	3,294	4,117
Other financial assets	135	92	0	0
Total non-current assets	217,447	193,382	210,567	186,390
Current assets				
Inventories	52,350	70,361	39,964	60,562
Trade and other receivables	225,489	172,387	214,741	166,890
Valuation of long-term construction contracts	231,094	214,254	226,487	213,792
Retentions on construction contracts	26,577	20,013	26,546	20,012
Advance payments	4,980	10,650	4,980	10,650
Current tax assets	0	190	0	0
Loans advanced	823	0	7,713	8,140
Other assets	1,790	1,022	1,645	910
Cash and cash equivalents	34,194	223,555	30,930	212,159
Current assets	577,297	712,432	553,006	693,115

Total current assets	577,297	712,432	553,006	693,115
Total assets	794,744	905,814	763,573	879,505

Item PLN '000	Group		ZUE	
	30.06.2024	31.12.2023	30.06.2024	31.12.2023
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	104,237	101,758	98,685	96,081
Total equity attributable to shareholders of the parent company	201,142	198,663	-	-
Equity attributable to non-controlling interests	1,402	1,412	-	-
Total equity	202,544	200,075	195,590	192,986
Non-current liabilities				
Long-term loans and bank credits	2,500	47,015	2,500	47,015
Long-term lease liabilities	46,545	24,997	43,272	21,687
Retentions on construction contracts	21,940	17,777	21,628	17,499
Liabilities under employee benefits	1,916	2,056	1,752	1,867
Deferred tax liabilities	725	667	0	0
Long-term provisions	24,484	20,607	23,704	19,900
Total non-current liabilities	98,110	113,119	92,856	107,968
Current liabilities				
Trade and other payables	114,938	208,557	102,133	202,567
Accruals	138,689	169,167	135,943	167,066
Valuation of long-term construction contracts	5,435	48,154	5,435	47,062
Retentions on construction contracts	31,523	33,103	31,503	33,024
Advances	81,337	43,330	81,213	43,330
Short-term loans and bank credits	47,015	10,550	47,015	7,500
Short-term lease liabilities	9,082	6,743	8,687	6,468
Other financial liabilities	4,817	36	4,817	36
Liabilities under employee benefits	52,792	53,092	51,256	51,619
Current tax liabilities	15	4,290	15	4,290
Short-term provisions	8,447	15,598	7,110	15,589
Total current liabilities	494,090	592,620	475,127	578,551
Total liabilities	592,200	705,739	567,983	686,519
Total equity and liabilities	794,744	905,814	763,573	879,505

Major changes to ZUE's total assets and liabilities:

Item	PLN '000		
	Change compared to 31.12.2023	Balance at 30.06.2024	Description
Assets			
Right-of-use assets	+28,332	66,954	Conclusion of new leases: mainly operating lease – purchase of construction equipment.
Trade and other receivables	+47,851	214,741	Invoices for construction works.
Cash and cash equivalents	-181,229	30,930	Use of own resources to conduct operating activities.
Liabilities			

Long-term loans and bank credits	-44,515	2,500	Reclassification from long-term to short-term loans and bank credits.
Trade and other payables	-100,434	102,133	Payment for works carried out by subcontractors, supplied materials and performed services.
Valuation of long-term construction contracts	-41,627	5,435	Accounting for completed construction works.

22. Statement of cash flows

Negative cash flows from operating activities mainly resulted from excessive cash and trade payables at the end of 2023 (settled at the beginning of 2024) and change in the valuation of construction contracts related to discrepancy in the progress of works and invoices issued for the works.

Item (PLN '000)	Group		ZUE	
	30.06.2024	30.06.2023	30.06.2024	30.06.2023
Cash flows from operating activities	-171,653	-25,388	-168,668	-22,617
Cash flows from investing activities	-167	-2,869	1,293	-4,056
Cash flows from financing activities	-17,271	-4,880	-13,584	-4,625
Total net cash flows	-189,091	-33,137	-180,959	-31,298
Exchange differences	-270	-18	-270	-18
Total net cash flows, net of exchange differences	-189,361	-33,155	-181,229	-31,316
Cash and cash equivalents at the beginning of the period	223,555	63,251	212,159	60,256
Cash and cash equivalents at the end of the period	34,194	30,096	30,930	28,940

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.

The Group uses bank credits, loans, leases, trade credit and prepaid deliveries.

Class of capital	30.06.2024	31.12.2023
Long- and short-term loans and bank credits	49,515	57,565
Long- and short-term lease liabilities	55,627	31,740
Long- and short-term other financial liabilities	4,817	36
Total financial liabilities	109,959	89,341
Cash and cash equivalents	34,194	223,555
Net debt	75,765	-134,214
Equity	202,544	200,052
Net debt to equity ratio	37%	-67%

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 contained on the Issuer's website.

24.1. Debt ratios

Item	Group		ZUE		Calculation rules
	30.06.2024	31.12.2023	30.06.2024	31.12.2023	
Net debt	75,765	-134,214	75,361	-129,453	(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	0.8	0.7	0.8	(non-current and current liabilities + provisions for liabilities) / total assets
Debt to equity ratio	2.9	3.7	2.9	3.7	(non-current and current liabilities) / equity
Fixed capital to non-current assets ratio	1.4	1.6	1.4	1.6	(equity + non-current liabilities) / non-current assets
Short-term debt ratio	0.6	0.7	0.6	0.7	current liabilities / total assets
Long-term debt ratio	0.5	0.6	0.5	0.6	non-current liabilities / equity
Interest coverage ratio	5.2	10.2	6.1	11.1	EBIT / interest paid

24.2. Liquidity ratios

Item	Group		ZUE		Calculation rules
	30.06.2024	31.12.2023	30.06.2024	31.12.2023	
Working capital	83,207	119,812	77,879	114,564	<i>current assets – current liabilities</i>
Current ratio	1.2	1.2	1.2	1.2	<i>current assets / current liabilities</i>
Quick ratio	1.1	1.1	1.1	1.1	<i>(current assets – inventory) / current liabilities</i>
Cash ratio	0.07	0.38	0.07	0.37	<i>cash and cash equivalents / current liabilities</i>

24.3. Financing structure ratios

Item	Group		ZUE		Calculation rules
	30.06.2024	31.12.2023	30.06.2024	31.12.2023	
Equity to assets	0.3	0.2	0.3	0.2	<i>equity / total assets</i>
Equity to non-current assets	0.9	1.0	0.9	1.0	<i>equity / non-current assets</i>
Debt ratio	0.7	0.8	0.7	0.8	<i>(total assets - equity) / total assets</i>
Debt to equity ratio	2.9	3.5	2.9	3.6	<i>(total assets - equity) / equity</i>

24.4. Profitability ratios

Item	Group		ZUE		Calculation rules
	30.06.2024	30.06.2023	30.06.2024	30.06.2023	
Gross profit margin	4.5%	3.5%	4.2%	2.9%	<i>gross profit / revenue</i>
EBITDA margin	3.2%	2.5%	3.2%	2.3%	<i>EBITDA / revenue</i>
EBIT margin	2.0%	1.1%	2.0%	0.9%	<i>EBIT / revenue</i>
Gross margin	1.5%	1.1%	1.6%	1.3%	<i>gross profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
Net margin	1.1%	0.8%	1.3%	0.9%	<i>net profit / (revenue + other operating income + other financial income + extraordinary gains)</i>
ROA	0.9%	0.7%	0.9%	0.7%	<i>net income / total assets</i>
ROE	3.64%	2.41%	3.84%	2.65%	<i>net income / equity</i>

25. Discussion of results reported by segments

The total amount of revenue generated by the Group was PLN 617,213 thousand. 96% of revenue was derived from construction activity.

	Construction	Sales	Exclusions	Total
Sales revenue	587,934	31,885	-2,606	617,213
Gross profit on sales	25,425	2,124	-77	27,472
Net profit	7,107	-85	83	7,105

More information about the results of the segments is contained in the consolidated financial statements for the six months ended 30 June 2024.

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

No financial projections for the financial year 2024 were published by the Company.

27. Factors and events, including unusual factors and events, with significant influence on the Group's results

No unusual factors or events with significant bearing on the Group's results other than specified in this report occurred in the reporting period.

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 or economic 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 2024.

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 the first half of 2024 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

Magdalena Nowak – Management Board Vice-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, 20 August 2024