



ZUE CAPITAL GROUP

MANAGEMENT BOARD REPORT

For the Period 1 January 2017 - 30 June 2017

Cracow, 21 August 2017

Abbreviations and definitions:

ZUE, Company, Issuer	<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, 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 225,000 paid up in full.</p> <p>Subsidiary of ZUE.</p>
RTI Germany	<p>Railway Technology International Germany GmbH with registered office in Görlitz, Germany, entered into the German Register of Entrepreneurs (<i>Handelsregister B, HRB</i>) maintained by the District Court in Dresden (<i>Amtsgericht Dresden</i>) under entry number HRB 36690. Share capital of EUR 25,000 paid up in full.</p> <p>Subsidiary of Railway Technology International Sp. z o.o. with registered office in Cracow.</p>
ZUE Group, Group, Capital Group	<p>ZUE Capital Group including at the end of the reporting period ZUE, BPK Poznań, Railway gft, RTI and RTI Germany.</p>
PLN	<p>Polish złoty.</p>
EUR	<p>Euro.</p>
Act	<p>Polish Companies Act (Journal of Laws 2000, no. 94, item 1037, as amended).</p>

Share capital details as at 30 June 2017.

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INTRODUCTION

This Report on Activities of ZUE Capital Group (the Group) between 1 January 2017 and 30 June 2017 contains the information whose scope has been set out in § 90.1.3 in connection with § 87.7.2-11 of the Regulation of the Minister of Finance of 19 February 2009 (as amended) on current and periodic information published by 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. (ZUE, the Parent Company, the Issuer), respectively, the elements of the extended consolidated report for the first half of 2017, have been prepared in accordance with regulations set out in the IAS/IFRS including, in particular, IAS 34 "Interim Financial Reporting."

OPERATIONAL INFORMATION

1. Organisation of the Group

1.1. Structure of the Group

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

ZUE Spółka Akcyjna with registered office in Cracow (ul. Kazimierza Czapińskiego 3) is the parent company of the Capital Group.

The Company has been established under the notarial deed of 20 May 2002 in the Notary's Office in Cracow, Rynek Główny 30 (Rep. A no. 9592/2002). Cracow is the Company's registered office. The Company has been entered into the National Court Register maintained by the District Court for Cracow-Śródmieście in Cracow, XI Commercial Division, under entry no. KRS 0000135388.

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

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

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

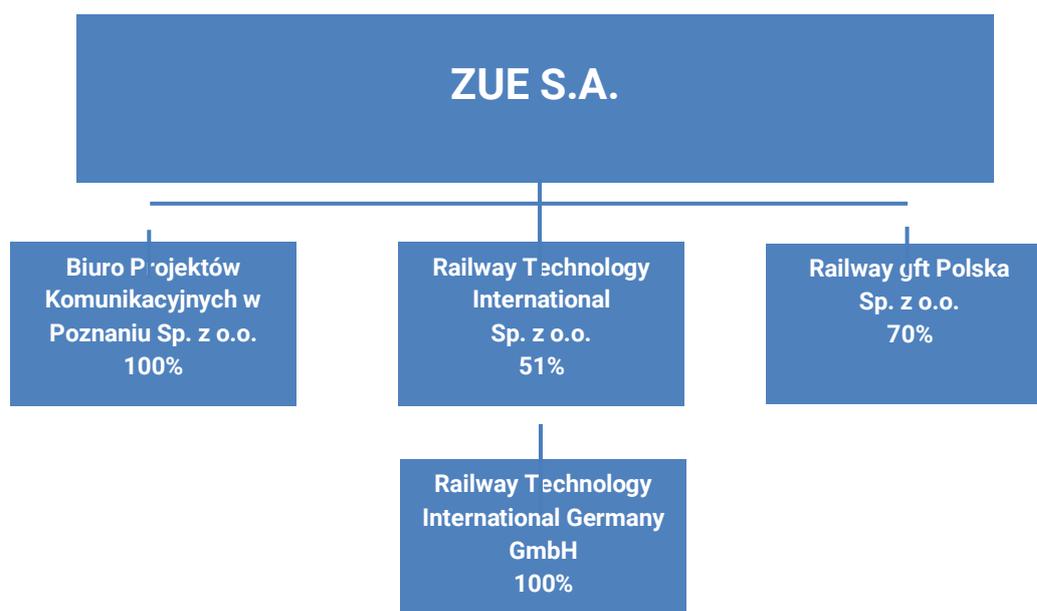
Subsidiary – Railway Technology International Sp. z o.o. has been established under the deed of 20 July 2011 in the Notary's Office in Warsaw, al. Jerozolimskie 29/26 (Rep. A no. 2582/2011). Cracow is the company's registered office. The company has been entered into the National Court Register maintained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

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

On 1 June 2017, RTI changed its registered office from Hamburg to Görlitz.

The companies comprising the Capital Group have been incorporated for indefinite period. The financial statements of all subsidiaries have been prepared for the same reporting period as the parent company using consistent accounting policies. The parent company and the subsidiaries use a calendar year as their financial year.

Structure of the Group at this report preparation date:



1.2. Consolidated companies

Consolidated companies at 30 June 2017:

Company	Registered office	Interests as at			Consolidation method
		30 Jun 2017	31 Dec 2016	30 Jun 2016	
ZUE S.A.	Cracow	Parent company			
Biuro Projektów Komunikacyjnych w Poznaniu Sp. z o.o.	Poznań	100%	100%	100%	Full
Railway gft Polska Sp. z o.o.	Cracow	70%	70%	70%	Full

ZUE is entitled to manage the financial and operating policy of BPK Poznań and Railway gft because it holds a 100% and 70% interest, respectively, in these companies.

ZUE holds a 51% interest in Railway Technology International Sp. z o.o. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Sp. z o.o. was not consolidated as at 30 June 2017.

Railway Technology International Sp. z o.o. holds 100% of shares in Railway Technology International Germany GmbH. Given an insignificant impact of the subsidiary's financial data on the Group's economic and financial condition, Railway Technology International Germany GmbH was not consolidated as at 30 June 2017.

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

No changes to the Group's structure occurred in the period 1 January 2017 - 30 June 2017.

2. Activities of the Capital Group

The Group identifies 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, stations and civil structures.
- **Distribution and transmission lines power infrastructure**, including:
 - Construction and upgrade of high and very high voltage cable and overhead lines, transformer stations, including telecommunications technology equipment and MV and LV cable lines.

Design activities concerning urban and rail transport systems and power industry 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.

3. Sales markets

In the reporting period, the Group continued its construction, design and sales activities. The Group's sales markets reflect the abovementioned segments and scope of activities.

In the reporting period, construction services were mainly provided to:

- PKP Polskie Linie Kolejowe S.A. – the following contracts were performed by ZUE:
 - 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;"
 - Upgrade of the railway line no. 273 on the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of tracks, platforms and viaduct in the Zielona Góra station;
 - Strengthening of the substructure on the line no. 139 Katowice – Zwardoń, tracks no. 1 and 2, section from 10,300 km to 25,360 km in the selected locations, and on the line no. 93 Trzebinia – Zebrzydowice, section from 62,260 km to 68,780 km in the selected locations, plus the accompanying works and services provided in connection with Substructure Repair Train with the use of AHM-800R formation rehabilitation machine, RM80 ballast cleaning machine and 20 hopper cars of type 426 Vb, representing the potential of the Contracting Authority - Zakład Maszyn Torowych w Krakowie;
 - Upgrade of the railway line no. 62 on the Dąbrowa Górnicza Strzemieszyce – Sosnowiec Dańdówka section as part of the following project: "Services in the railway lines no. 62 and 660 on the Tunel – Bukowno – Sosnowiec Płd section;"

- Design and construction services in connection with the following project: "Preparation of documentation and completion of construction works on the Skarżysko Kamienna – Suchedniów section, railway line no. 8" as part of the following project: "Upgrade of the Radom - Kielce railway line no. 8;"
- Design and construction services in connection with the following project: "Works on the line no. 7 of the Lublin - Dorohusk section – stage I" performed as part of the following project: "Works on the line no. 7 of the Lublin - Dorohusk section;"
- Design services and completion of power works in connection with the following project: "Works on the Poznań Wschód – Dziarnowo line no. 353, the Mogilno – Kołodziejewo – Janikowo section;"
- Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes as part of the following project: "Works on the line no. 353 of the Jabłonowo Pom - Iława - Olsztyn – Korsze section."
- Design and construction services 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."
- 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 (POIiŚ) 7.1-19.1.a: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II.
- Design and construction services in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section."
- Reconstruction of OCL network on the Idzikowice – Opoczno Południe and Opoczno Południe – Olszamowice routes, railway line no. 4 of the main railway line as part of the following project: Upgrade of the railway line no. 4 – Main Railway Line, stage II."
- Tramwaje Warszawskie Sp. z o.o. – the following contract was performed by ZUE: Construction of tram line to Tarchomin – stage II.
- Gmina Miejska Kraków [*the City of Cracow*] represented Zarząd Infrastruktury Komunalnej i Transportu w Krakowie:
 - Contracts performed as part of infrastructure maintenance agreements: "Maintenance and repair of tram infrastructure in Cracow in the period 2015 – 2018 and Maintenance of street lighting infrastructure in Cracow.
 - Reconstruction of the Basztowa Street in Cracow and reconstruction of tramway tracks, OCL network and dehydrating and lightening system as well as reconstruction of colliding technical infrastructure and reconstruction of tramway tracks in the intersection of the Basztowa -Długa and Westerplatte Streets.
 - Tramway tracks overhaul in the Grzegórzecka Street in Cracow.
- Tramwaje Szczecińskie Sp. z o.o. – performance of the following contract: Design and supply of equipment and performance of construction work consisting in the replacement of hand-operated drives for electrical drives for two switches built into tram lines at the intersection of the Piastów Avenue and the Jagiellońska Street in Szczecin.
- Miejskie Przedsiębiorstwo Komunikacyjne S.A. w Krakowie – performance of the following contracts: "Construction of a new depot for the underfloor wheel lathe and accessory equipment" and "Works to ensure the smooth and efficient functioning of tracks, switches, overhead contact lines in Podgórze Tram Maintenance Depot and the Nowa Huta Tram Depot of Miejskie Przedsiębiorstwo Komunikacyjne Spółka Akcyjna w Krakowie (Kraków City Public Transport Corporation) as well as managing the ongoing operation of the medium voltage power-supply system from (15 kV) branch stations OS-1, OS-2, OS-4 as well as the container transformer station in Nowa Huta Tram Depot."
- Municipal Council of Elbląg: "Reconstruction of the regional road no. 504, stage II – construction of tracks and tramway traction in the Gen. Grota Roweckiego and 12 Lutego Streets in Elbląg."
- Lublin City: "Construction of trolleybus overhead contact lines in the Jana Pawła II Street from the Granitowa Street up to Al. Kraśnicka, on Al. Kraśnickiej from the Jana Pawła II Street up to the trolleybus terminus at the intersection of the Jana Pawła II Street and the Granitowa Street, as well Węglin trolleybus substation, power supply connections for trolleybus stops in the Jana Pawła II Street, as well as trolleybus stop shelters

in the Muzyczna and the Jana Pawła II Streets in Lublin."

- Other contracts performed in the reporting period:
 - Modernisation of the *Bieńczyce* traction substation in Cracow;
 - Control and switch-point heating systems as well as installation of overhead contact lines - within the framework of the following task: "Modernisation of track system at the Kocmyrzowskie Roundabout hub together with auxiliary infrastructure;"
 - Park & Ride Biezanów.

Design services relating to urban and rail communication systems are provided both to investors and companies, which execute "design-build" projects. The biggest clients of BPK Poznań in the reporting period included: PKP Polskie Linie Kolejowe S.A., Poznańskie Inwestycje Miejskie, Tramwaje Warszawskie Sp. z o.o., MPK Poznań Sp. z o.o., Urząd Miasta Brwinów [*the Municipal Council of Brwinów*], Euroconsult sp. z o.o. and MZK Bydgoszcz.

As regards sales activities, Railway gft sold rails, track accessories, rail fastening systems and aggregate.

4. Order book

At this report preparation date, the net value of the Group's book of orders is approx. PLN 1,510m, including construction and assembly services worth approx. PLN 1,484m, and provides it with an ability to provide the services in the period 2017-2020. As for design services, the net value of the signed contracts is PLN 13m. The book of orders for the supply of materials and equipment is worth PLN 13m (net).

Contracts underway whose individual net value exceeds PLN 10,000 thousand:

Maintenance and repair of tram infrastructure in Cracow in the period 2015-2018. Net value attributable to ZUE is PLN 42,590 thousand;

- Design and completion of construction works as well as modernisation services on the Cracow – Medyka – state border railway line, 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, Cracow – Rzeszów section, stage III." Total net value attributable to ZUE is PLN 180,886 thousand;
- Upgrade of the railway line no. 273 on the Głogów - Zielona Góra - Rzepin - Dolna Odra section. Reconstruction of tracks, platforms and viaduct in the Zielona Góra station. Net value attributable to ZUE is PLN 36,585 thousand;
- Construction works on Kościelniki – Podłęże line no. 95. Net value attributable to ZUE is PLN 27,352 thousand;
- Provision of design services and completion of construction works and purchase of land in the area of the Medyka station in connection with the following project: "Investment project at the Medyka - Mościska II border crossing." Net value attributable to ZUE is PLN 41,461 thousand;
- Provision of design services and completion of works in connection with the following project: "Preparation of documentation and completion of construction works on the Skarżysko Kamienna – Suchedniów section, railway line no. 8" as part of the following project: "Modernisation of Radom – Kielce railway line no. 8. Net value attributable to ZUE is PLN 25,807 thousand;
- Completion of construction works on the Ostrowite – Biskupiec Pomorski and Biskupiec Pomorski – Jamielnik routes as part of the following project: "Works on the line no. 353 of the Jabłonowo Pom - Iława - Olsztyn – Korsze section." Net value attributable to ZUE is PLN 27,882 thousand;
- 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 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of 2014 – 2020 Infrastructure and Environment Operational Programme (IEOP). Net value attributable to ZUE is PLN 124,500 thousand;
- 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)." Net value attributable to ZUE is PLN 52,700 thousand;
- 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." Net value attributable to ZUE is PLN 281,000 thousand;

- 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) EU financial instrument. Net value attributable to ZUE is PLN 233,000 thousand;
- Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow.” Net value attributable to ZUE is PLN 49,470 thousand;
- 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 (POIiŚ) 7.1-19.1.a: “Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section” – Phase II. Net value attributable to ZUE is PLN 71,900 thousand.
- Reconstruction of the Basztowa Street in Cracow and reconstruction of tramway tracks, OCL network and dehydrating and lightening system as well as reconstruction of colliding technical infrastructure and reconstruction of tramway tracks in the intersection of the Basztowa -Długa and Westerplatte Streets. Net value attributable to ZUE is PLN 13,200 thousand.
- Design and construction services in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 “Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowice section.” Net value attributable to ZUE is PLN 174,500 thousand.
- 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 (POIiŚ) 5.2-6 “Works on the railway line no. 1 of the Częstochowa – Zawiercie section.” Net value attributable to ZUE is PLN 371,580 thousand.
- 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 (POIiŚ) 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.” Net value attributable to ZUE is PLN 79.8 thousand.

The total value of the construction contracts signed by ZUE in the reporting period is approx. PLN 1,022m. The total value of the construction contracts signed by ZUE by this report preparation date is approx. PLN 1,476m. Most of the contracts won in 2017 are at the initial state and have not generated revenue in the reporting period.

At the date of preparation of this report, ZUE submitted the most economically advantageous tenders in the following tender proceedings:

Project	[Net] value of ZUE's tender [PLNm]
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. 25 of the Skarżysko Kamienna – Sandomierz section.”	378.8
POIiŚ 5.1-12 “Works on the railway line no. 93 of the Trzebinia - Oświęcim - Czechowice Dziedzice section.”	303.1
Maintenance of street lighting equipment and building illuminations in Cracow with a breakdown into four regions.	16.3
Construction of transport hub – the Zawodzie hub as part of the following project: “Katowice System of Integrated Transport Hubs – the Zawodzie hub.” (Judgment by the National Appeal Chamber – current report 51/2017).	27
TOTAL	725

Apart from this, the Issuer participates in tender procedures for the estimated total amount of approx. PLN 3.7bn.

5. Major achievements or failures

In 2017, the Company won a number of construction contracts as a result of which the value the order book for the Group's key segment was significantly boosted. However, the contracts were at an early stage and did not generate significant income. In addition, the Company followed its policy and updated contract budgets as a result of which the risks on contracts were identified. This had a negative impact on the results for IH 2017.

By this report preparation date, no major events occurred other than the events described in detail in sections 9 and 10 below.

6. Strategic objectives

The Group's strategic objectives include:

- Maintenance of the position of the Group as one of the leaders of the urban transport infrastructure construction market;
- Strengthening of its position on the rail transport infrastructure construction market;
- Development of power construction services relating to the upgrade of LV, MV and HV power lines;
- Strengthening of its position on the transport systems design market; and
- Development of activities concerning the sale and manufacture of rail materials.

The main strategic objective in 2017-2020 is to take a maximum advantage of the current EU perspective.

The Company's Management Board will try to geographically diversify its operations in a short- and long-term perspective by entering foreign markets.

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

Prospects of the markets the Issuer operates in:

Rail infrastructure market

The National Railway Programme ("NRP") provides for the projects of the total value exceeding PLN 66bn with the perspective until 2023. Tenders are being frequently announced and contracts are being awarded under the NRP. This should lead to a maximum use of the funding provided under the current EU perspective. This is the main market the Group operates in and generates the biggest portion of the Group's revenue. Most of the contracts won and performed by the Group companies are railway contracts. New orders are being intensely acquired. Since the plans set out in the NRP are extensive, the rail infrastructure market is believed by the Group to enjoy broad prospects.

Urban infrastructure market

In the EU perspective for the years 2014-2020, Polish cities may receive as much as PLN 13bn¹ from the EU funding to finance low-emission transport, including the development of tram networks. After a downturn on the urban infrastructure market observed in previous years, 2017 witnesses a recovery in announcing tenders and awarding contracts by Polish cities. Individual cities present their long-term plans concerning the extension of tram networks which include significant projects. The Group companies win and perform the contracts on the urban infrastructure market as well as search for new projects.

Power infrastructure market

The information contained in the "Development plan to meet current and future electricity demand for the years 2016 – 2025" (the "Plan") prepared by Polskie Sieci Elektroenergetyczne S.A. (PSE) reveals that in the period 2016-2020, PSE intends to incur capital expenditures on infrastructure up to PLN 7bn. In the period 2021-2025, the capital expenditures are expected to amount to PLN 6.3bn. Thus, PSE's total capital expenditures in the period 2016-2025 will amount to approx. PLN 13.3bn.

The Company believes that the number of tenders announced according to the Plan is low. The power infrastructure market has great perspectives but waits for PSE to announce tenders for the major projects referred to in the Plan.

¹ <http://www.transport-publiczny.pl/wiadomosci/polskie-miasta-zyskaja-13-mld-zl-z-ue-glownie-na-tramwaje-52874.html>

7. Factors believed by the Issuer to have an influence on the Group's development

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

- **Untimely settlement of liabilities to the Group**

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

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

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

Not only do the lengthy procurement procedures produce additional costs of the appeal but they also entail a risk of growth in prices of goods and services. Signing a contract at a later date may make a project execution conditional on weather conditions because certain projects must not be executed in low temperatures or heavy snow or rain fall. Project execution may also be conditional on other factors; e.g. the date of closing the tracks by the contracting authority or the dates on which trees and bushes may 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.

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

The Group's construction activities involve the use of products and raw materials such as concrete, aggregates, steel elements (including 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). 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. Changing prices of raw materials and liquid fuels entail a risk relating to the estimation of costs incurred by subcontractors and, consequently, have a direct influence on the fees charged by subcontractors. This has a negative impact on the Group's financial results. A greater number of tenders may have a negative influence on the Group's ability to engage certain subcontractors.

- **Unstable EUR/PLN exchange rate**

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

8. Fundamental risks and threats

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

The Group's operation on the urban and rail infrastructure construction market as well as the power market is conditional on Poland's macroeconomic situation including, in particular, GDP growth rate, investments, inflation

and unemployment 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 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 execute a contract, which are difficult to identify at the stage of the preparation of tenders by the Group. This risk cannot be excluded and its occurrence could have a negative impact on the Group's financial results.

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

Another risk has occurred in the past years and is related to a loss of financial liquidity by other entities operating in the same sector. In addition, changes in VAT launched at the beginning of 2017 including, in particular, reverse charges for several dozen of construction services may result in poorer financial liquidity of construction companies.

- **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 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 bonds, contractual penalties and 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 of untimely completion of construction works**

The construction contracts entered into by the Group provide for the exact completion dates. If a contracting authority fails to deliver the site or any part thereof 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 logistics**

A risk of the accumulation of tender outcomes may limit transport capacity and the ability to obtain strategic

materials as well as railway traffic control devices.

- **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 the Company to execute a construction project may at any time demand the payment guarantee from the Group (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. Another risk includes, for instance, a consortium partner's failure to maintain their bid (extend the bid bond) as a result of which a contract with a specific investor could not be signed and consequently, potential revenue would be lost.

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

Pursuant to the Public Procurement Act, tender participants are able to appeal against illegal appointment of a contractor by a contracting authority or to appeal to the court against the decision issued by the authority hearing the appeal made in public procurement proceedings. Consequently, the date of signing a contract with an investor may be substantially postponed. Moreover, the 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 obtaining funds for the performance of construction contracts as well as performance and bid bonds**

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

- **Interest rate risk**

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

- **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 greater employments costs**

Given the changeable economic conditions, the Company's aspirations for constant development and raising the quality of the Company's services as well as insufficient number of employees practicing the professions which require proper licences, skills and experience, the costs of employment may grow and influence ZUE's financial results.

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

9. Major contracts

Construction contracts and agreements:

On 20 January 2017, the consortium of Trakcja PRKil S.A. (Leader), COMSA S.A., ZUE S.A., STRABAG sp. z o.o. and STRABAG Rail a.s entered into the design and construction contract with PKP PLK in connection with the following project: "Works on the railway lines no. 140, 148, 157, 159, 173, 689 and 691 of the Chybie – Żory – Rybnik – Nędza / Turze section" as part of the Infrastructure and Environment Operational Programme (IEOP) 5.2-5. The Company informed about the submission of the lowest price tender for the said project and the selection of the most economically advantageous tender in the current report 50/2016 and the current report 56/2016, respectively. The contract net value: 373.7m. The contract gross value: PLN 459.7m. The expected net remuneration attributable to the Company: PLN 124.5m. The project completion date: 30 months of the contract conclusion date. **(Current report 4/2017)**

On 17 February 2017, the consortium of Budimex S.A. (Leader), STRABAG sp. z o.o., STRABAG Rail a.s, STRABAG Rail GmbH, STRABAG Általános Építő Kft. and the Company signed the design and construction contract with PKP PLK for the following project: "Works on the ring rail line in Warsaw (the Warszawa Gołębki/Warszawa Zachodnia - Warszawa Gdańska section)." The Company informed about the selection of the consortium's tender as the most economically advantageous offer in the current report 53/2016. Net value of the contract: PLN 159.7m. The expected net remuneration attributable to the Company: PLN 52.7m. Project completion date: 26 months of the commencement of works. **(Current report 10/2017)**

On 23 February 2017, the Company informed that that the 90-day period of being bound by the tender had expired on 22 February 2017. The said tender was submitted in the tender procedure for the following project: "Preparation of design documentation and obtaining necessary administrative decisions as well as the construction of KST tram line, stage III (os. Krowdrza Górka – Górka Narodowa) and a two-level interchange along the Opolska Street in Cracow together with accompanying road infrastructure" (the "Project"). The Company informed about the submission of the lowest price tender in the current report 57/2016. At the request of the Contracting Authority; i.e. Zarząd Infrastruktury Komunalnej i Transportu w Krakowie, the Company intended to approve by the date specified by the Contracting Authority; i.e. 22 February 2017, of the extension of the said 90-day period by 60 days and extend the expiry date of the bid bond on part of ZUE. Therefore, ZUE (the Consortium Leader) asked PORR Polska Infrastruktura S.A. (the Consortium Member) to give their analogous approval necessary to extend the 90-day period for the entire Consortium and the expiry date of the bid bond on part of PORR Polska Infrastruktura S.A. PORR Polska Infrastruktura S.A. failed to give their approval to the said extension and to provide their part of the bid bond by the date specified by the Contracting Authority; i.e. 22 February 2017. Consequently, the Consortium Member stopped their efforts to win the contract for reasons unrelated to the Company. The Consortium Member's failure to give their approval and to provide their part of the bid bond prevented the Consortium from participation in the tender procedure. **(Current report 11/2017)**

On 23 February 2017, the Company learnt about the Company's submission of the lowest price tender in the tender procedure for the development of design documentation and completion of construction works on the Kraków Płaszów – Podbory Skawińskie section as part of the following project: "Works on the railway line no. 94 of the Kraków Płaszów – Skawina – Oświęcim section. Net value of the tender submitted by the Company: PLN

155.9m. Gross value of the tender submitted by the Company: PLN 191.8m. Project completion date: 1065 days of the contract conclusion date. On 15 May 2017, the Company learnt from PKP PLK about the rejection of the Company's tender on 12 May 2017 and the selection of a tender submitted by another tender participant. The Company's tender was rejected as a consequence of the abnormally low price of several items contained therein. Out of 7 tenders submitted by tender participants in the said tender procedure, 5 tenders were rejected by the Contracting Authority, including 4 tenders rejected on the grounds of abnormally low price. On 22 May 2017, the Management Board of the Company decided not to take further legal measures to appeal against the said decision of PKP PLK. **(Current reports 12/2017, 34/2017 and 36/2017)**

On 13 March 2017, the Company and PKP PLK entered into the design and construction contract for 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." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current report 48/2016 and the current report 64/2016, respectively. The contract net value: PLN 281m. The contract gross value: PLN 345.6m. The project completion date: 38 months of the commencement of works. **(Current report 17/2017)**

On 5 April 2017, the consortium of ZUE S.A. (Leader), Budimex S.A., Strabag sp. z o.o., Strabag Rail GmbH, Strabag Rail a.s. and Strabag Általános Építő Kft. entered into the contract with PKP PLK for the 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). The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 60/2016 and 8/2017, respectively. The Contract net value including the provisional sum: PLN 560.0m (i.e. the gross amount of PLN 688.8m). The expected net remuneration attributable to the Company: PLN 233m. Completion date: 42 months of the works commencement date. **(Current report 23/2017)**

On 6 April 2017, the consortium of ZUE S.A. (Leader), Przedsiębiorstwo Inżynieryjne "IMB-Podbeskidzie" sp. z o.o. and Przedsiębiorstwo Budownictwa Inżynieryjnego Energopol sp. z o.o. entered into the contract with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie for the completion of the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow." The Company informed about the selection of the Company's tender as the most economically advantageous offer in the current report 62/2016. The Contract net value including the provisional sum: PLN 145.5m (i.e. the gross amount of PLN 179m). The expected net remuneration attributable to the Company: PLN 49.5m. Completion date: 31 December 2019 **(Current report 24/2017)**

On 11 April 2017, the consortium of Strabag sp. z o.o. (Leader), Strabag Rail GmbH, Strabag Rail a.s, Strabag Általános Építő Kft., ZUE S.A. and Budimex S.A. entered into the contract with PKP PLK for the preparation of building and detailed designs and the completion of LOT B works as part of a "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-3: "Upgrade of the railway line no. 8 of the Warszawa Okęcie – Radom (LOT A, B, F) section" – Phase II. The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 61/2016 and 5/2017, respectively. The Contract net value including the provisional sum: PLN 216.7m (i.e. the gross amount of PLN 266.5m). The expected net remuneration attributable to the Company: PLN 71.9m. Completion date: 43 months of the works commencement date. **(Current report 26/2017)**

On 5 June 2017, the Company and PKP PLK entered into the contract for design and construction services as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.2 – 4 "Works on the railway line no. 146 of the Wyczerpy – Chorzew Siemkowiec section." The Company informed about the submission of the lowest price tender and the selection of the Company's tender as the most economically advantageous offer in the current reports 1/2017 and 19/2017, respectively. The Contract net value: PLN 174.5m. The Contract gross value: PLN 214.7m. Completion date: 28 months of the works commencement date. **(Current report 38/2017)**

On 29 June 2017, the Company learnt about the selection by PKP PLK of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the preparation of design documentation and the completion of a "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16: "Improvement of capacity of E 20 railway line of the Warsaw – Kutno section; Stage I: Works on the railway line no. 3 of the Warsaw – the Łowicz Local Traffic Control Centre (LCS)." Tender opening took place on 5 April 2017. The tender submitted by the Company ranked third. However, after the submitted

tenders had been analysed by the Contracting Authority, the tender submitted by the Company was selected the most economically advantageous offer. Net value of the tender submitted by the Company: PLN 79.8m. Gross value of the tender submitted by the Company: PLN 98.2m. Completion date: 33 months of the contract conclusion date. **(Current report 45/2017)**

Financial agreements:

Following a review of provisions relating to the performance of construction contracts for the purposes of 2016 financial statements, a decision was made on 6 February 2017 to partially release a provision (the "Provision") for the risks associated with the settlement of the following contract: "Construction of the FRANOWO tram depot in Poznań" (the "Contract"). The Contract was performed on the basis of a contract entered into with Miejskie Przedsiębiorstwo Komunikacyjne w Poznaniu (the "Contracting Authority"). The Contract was performed by the Company as part of the consortium including Elektrobudowa S.A. of Katowice (Elektrobudowa). On 1 December 2016, a settlement was reached between the Company and Elektrobudowa (the "Parties") whereby any and all disputes relating to the Contract were resolved finally and amicably (the "Settlement"). The Company informed about the Settlement in the current report 58/2016. As part of the Settlement, the Parties agreed to cooperate in order to resolve any disputes with the Contracting Authority and finally settle the Contract. The Issuer's decision about a partial release of the Provision (i.e. PLN 9m) was mainly influenced by the abovementioned Settlement. **(Current report 7/2017)**

On 17 February 2017, the Company and AXA TUIR S.A. of Warsaw entered into a mandate agreement. The agreement dealt with the provision of project-related bonding products up to PLN 42m for all bonds, including up to PLN 25m for bid bonds and up to PLN 20m for a single bond. The said bonding products will be provided under a revolving facility. The agreement would remain in force until 28 February 2018. **(Current report 9/2017)**

On 8 March 2017, the Company published preliminary separate and consolidated results for 2016. **(Current report 15/2017)**

On 23 March 2017, the Company and Polska Kasa Opieki S.A. of Warsaw (PEKAO) entered into the agreement for a multi-purpose revolving credit limit up to PLN 30m (the "Limit"). The Company would be able to use the Limit as a revolving credit up to the maximum amount of the Limit or as bank guarantees (up to the maximum amount of the Limit) of any type (including, in particular, bid bonds, performance bonds and defects liability bonds) provided at the Company's request to secure the contracts carried out by the Issuer. The Limit may also be used in USD and EUR. The Agreement would remain in force until 22 March 2018 **(Current report 20/2017)**

On 6 April 2017, an annex to the revolving facility agreement of 15 October 2014 with TU Europa S.A. was signed whereby the limit was raised from PLN 10m to PLN 20m.

On 10 April 2017, an annex was signed to the financing agreement concluded with BGŻ BNP Paribas S.A. on 10 December 2015. Under the said annex, the security in the form of mortgage was replaced with a deposit and the term of the bond line agreement was extended by two years until 8 December 2027.

On 24 April 2017, the Company published preliminary separate and consolidated results for the first quarter of 2017 **(Current report 27/2017)**

On 23 June 2017, the Company and mBank S.A. with registered office in Warsaw (the "Bank") signed an annex to the Cooperation Agreement. Under the said Cooperation Agreement, the Company may use the Bank's products and services to finance its day-to-day operations as part of the limit (the "Limit") provided by the Bank. On the basis of the annex, the Limit was increased from PLN 40m to PLN 50m and would be available from 28 June 2017 to 17 July 2020. In addition, the following sublimits were introduced:

- a) sublimit for bonds up to PLN 50m; and
- b) sublimit for non-revolving working credit facilities up to PLN 30m. **(Current report 43/2017)**

On 26 June 2017, the Company and mBank S.A. with registered office in Warsaw (the "Bank") signed an annex to the Master Agreement. Under the said Master Agreement, the Company may use the bonds as part of the limit (the "Limit") provided by the Bank. On the basis of the Annex, the Limit was increased from PLN 70m to PLN 150m and would be available from 28 June 2017 to 28 June 2018 **(Current report 44/2017)**

Corporate events:

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term. **(Current report 6/2017)**

On 15 March 2017, the Management Board of ZUE passed a resolution on recommendations to the Company's Ordinary General Meeting for allocating the entire net profit for the financial year 2016 of PLN 1.5m to reserve funds. **(Current report 18/2017).**

On 30 March 2017, the Company's Supervisory Board gave a favourable opinion on the Management Board's proposal whereby the entire net profit for the financial year 2016 of PLN 1.5m would be allocated reserve funds. **(Current report 21/2017)**

On 6 June 2017, the Company's Ordinary General Meeting resolved to allocate the entire net profit for the financial year 2016 to reserve funds and change the composition of the Company's Supervisory Board. **(Current report 39/2017)**

On 6 June 2017, the Company's Ordinary General Meeting resolved to dismiss Ms. Magdalena Lis, the Supervisory Board Member, and appoint Ms. Barbara Nowak the Supervisory Board Vice-Chairperson for the current term. **(Current report 41/2017)**

Other events:

On 4 January 2017, the Company learnt about the lawsuit of 30 December 2016 (the "Lawsuit") filed against PKP Polskie Linie Kolejowe S.A. (PKP PLK) by an agent of the consortium of OHL ŽS, a.s. (Leader), Swietelsky Baugesellschaft m.b.H and ZUE S.A. performing the following construction contract: Design 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 litigation value (the "Amount") was PLN 39.3m. The Company's total share in the Amount was approx. PLN 15.7m. **(Current report 2/2017)**

Following the acceptance on 2 March 2017 by Wytwórnia Podkładów Strunobetonowych S.A. of an order worth PLN 27m for the supply of building materials to the Issuer's subsidiary; i.e. Railway gft, the total value of agreements entered into in the 12 months between Railway gft and Wytwórnia Podkładów Strunobetonowych S.A. amounted to PLN 34m. **(Current report 13/2017)**

Following the acceptance on 6 March 2017 by Track Tec S.A. of an order worth PLN 13.4m for the supply of building materials to the Company, the total value of agreements entered into in the 12 months between the Group companies and Track Tec S.A. amounted to approx. PLN 21.7m. **(Current report 14/2017)**

Following the acceptance on 10 April 2017 by Railway gft of the Company's order for the supply of building materials, the total value of agreements entered into since 15 December 2016 between the Company and Railway gft amounted to PLN 21.3m. **(Current report 25/2017)**

On 5 May 2017, Railway gft, a subsidiary, the Company (the "Assignee") and the Polish manufacturer of power cables (the "Counterparty") signed the agreement for the assignment of a master agreement whose subject matter was the sale and supply of various types of power cables (the "Agreement"). On the basis of the Agreement, the buyer was changed; i.e. Railway gft was replaced with the Issuer and the Issuer acquired any and all rights and obligations of the buyer. The said change was approved of by the Counterparty. **(Current report 28/2017)**

Following the acceptance by the manufacturer of railway materials (the "Counterparty") of an order for the supply of building materials to Railway gft, a subsidiary, the total net value of orders/agreements concluded in the last year between the companies comprising ZUE Capital Group and the companies comprising the capital group of the Counterparty amounted as at 11 May 2017 to approx. PLN 20.2m. **(Current report 32/2017)**

On 5 June 2017, the Company and the Polish manufacturer of prestressed concrete sleepers signed the master agreement for the supply of building materials to the Company of the total estimated net value of approx. PLN 84m. The agreement set out the rules governing the sale of building materials to the Company. The agreement

would be performed on the basis of individual orders made by the Company. The agreement would be performed by the end of 2019. **(Current report 37/2017)**

On 8 June 2017, the Company and the manufacturer of prestressed concrete sleepers signed the master agreement for the sale of building materials to the Company of the total estimated net value of approx. PLN 109.7m. The agreement set out the rules governing the sale of building materials to the Company. The agreement would be performed on the basis of individual orders made by the Company. The agreement would be performed on the basis of individual orders made by the Company. The agreement would be performed by the end of 2019. **(Current report 42/2017)**

10. Major events after the end of the reporting period

On 5 July 2017, the Company learnt about the selection by PKP PLK of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for design and construction services 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 Operating Programme. Tender opening took place on 5 April 2017. The Company informed about the submission of the lowest price tender in the current report 22/2017. Net value of the tender submitted by the Company: PLN 378.8m. Gross value of the tender submitted by the Company: PLN 465.9m. Completion date: 39 months. **(Current report 46/2017)**

On 6 July 2017, the Company received the signed annexes to the revolving credit facility agreement and the bond line agreement, respectively, entered into with BGŻ BNP Paribas S.A. Following the amendments thereto, the revolving credit facility agreement was terminated. Under the annex to the bond line agreement, the limit was raised to PLN 100m and the scope of the provided bonds was extended to include bid bonds, performance bonds, defects liability bonds and advance payment bonds. **(Current report 47/2017)**

On 20 July 2017, the Company and PKP PLK concluded the contract for the preparation of design documentation and completion of the "design-build" project as part of the Infrastructure and Environment Operational Programme (POIiŚ) 5.2-6 "Works on the railway line no. 1 of the Częstochowa – Zawiercie section." The Company informed about the submission of the lowest price tender for the said project and the selection of the most economically advantageous tender in the current report 16/2017 and the current report 29/2017, respectively. The contract net value: PLN 371.6m. The contract gross value: PLN 457m. Completion date: 36 months of the works commencement date. **(Current report 48/2017)**

On 28 July 2017, the Company received the signed contract between the following cooperating companies 1) ZUE S.A. with registered office in Cracow, 2) Budimex S.A. with registered office in Warsaw, 3) Strabag sp. z.o.o. with registered office in Pruszków (the "Employer"); and Biuro Wdrożeniowo – Projektowe SABEL with registered office in Wrocław (the "Subcontractor"). Under the contract, the Employer expected the Subcontractor to perform specific design and construction services in connection with the Employer's execution of the project in the area of the Kutno Local Traffic Control Centre (LCS) – the Żychlin-Barłogi section. The contract net value was PLN 107.5m and 67% of this amount would be paid by the Company. **(Current report 49/2017)**

On 31 July 2017, the Company learnt about the selection by PKP PLK of the tender submitted by the Company as the most economically advantageous offer in the tender procedure for the completion of design and construction services as part of the project named: "Works on the railway line no. 93 Trzebinia – Zebrzydowice of the Trzebinia – Oświęcim section" in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-12: "Works on the railway line no. 93 of the Trzebinia – Oświęcim – Czechowice Dziedzice section." The Company informed about the submission of the lowest price tender for the said project in the current report 35/2017. Net value of the tender submitted by the Company: PLN 303.1m. Gross value of the tender submitted by the Company: PLN 372.8m. Project completion date: 44 months. **(Current report 50/2017)**

On 8 August 2017, the learnt about the judgment delivered on the same date by the National Appeal Chamber (the "Chamber"). The Chamber ordered that the selection by the City of Katowice and Tramwaje Śląskie S.A. (the "Contracting Authority") of the most economically advantageous tender submitted in the tender procedure for the construction of transport hub – the Zawodzie hub as part of the following project: "Katowice System of Integrated Transport Hubs" (the "Tender Procedure") be cancelled and the two contractors which ranked first and second, respectively, be excluded. The tenders were opened on 24 May 2017. The tender submitted by the consortium of ZUE S.A. (Leader) and UNIBEP S.A. (hereinafter jointly referred to as the "Consortium") ranked third. The most economically advantageous tender was selected on 10 July 2017. The Consortium appealed against the decision as a result of which the abovementioned judgment was entered by the Chamber. Net value of the tender submitted by the Consortium in the Tender Procedure was PLN 54.0m and the expected net remuneration

attributable to the Company was approx. PLN 27m. Gross value of the tender submitted by the Consortium in the Tender Procedure was PLN 66.4m. Project completion date according to the tender: 22 months. **(Current report 51/2017)**

Following the conclusion on 11 August 2017 by the consortium including the Company of a contract for additional works in connection with the following project: "Extension of the Igołomska Street, national road no. 79 – Stage 2 together with the infrastructure in Cracow," the total net value of the contracts entered into with Zarząd Infrastruktury Komunalnej i Transportu w Krakowie since 6 April 2017 amounted to PLN 26.3m. **(Current report 52/2017)**

On 17 August 2017, the Company entered into the contract with Zakład Automatyki KOMBUD S.A. with registered office in Radom (the "Subcontractor"). Under the contract, the Subcontractor shall provide certain design and construction services to the Company in connection with the Company's performance of the contract in the Łódź Kaliska – Zduńska Wola area. Contract net value: PLN 37.8m. Completion date: April 2020. **(Current report 53/2017)**

On 18 August 2017, the Company published preliminary separate and consolidated results for the first half of 2017. **(Current report 54/2017)**

On 21 August 2017, the Company and PKP PLK entered into the contract for the preparation of design documentation and the completion of "design-build" project in connection with the Infrastructure and Environment Operational Programme (POIiŚ) 5.1-16: "Improvement of capacity of E 20 railway line of the Warsaw – Kutno section; Stage I: Works on the railway line no. 3 of the Warsaw – the Łowicz Local Traffic Control Centre (LCS)." The Company informed about the selection of the most economically advantageous tender in the current report 45/2017. Contract net value: PLN 79.8m. Contract gross value: PLN 98.2m. Completion date: 33 months of the works commencement date. **(Current report 56/2017)**

11. Transactions with related entities

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

Section 42 "Transactions with related entities" of the interim consolidated financial statements of the Group contains detailed information about transaction with related entities.

12. Bonds and guarantees

The activities conducted by the Group require it to provide bonds. The bonds include, first and foremost, bid bonds, performance bonds, defects liability bonds and advance payment bonds provided by banks and insurance companies to the Company's counterparties to secure their claims against the Company. Banks and insurance companies have recourse against the Company.

The value of unused bond lines at the end of the first half of 2017 is PLN 423,524 thousand for the Group and PLN 419,824 thousand for ZUE.

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 value of the guarantees as at 30 June 2017 is PLN 24,112 thousand.

As part of their operations, the Group companies are provided by their subcontractors with performance bonds and defects liability bonds in the form of bonds and guarantees provided by banks and insurance companies or bills of exchange. The value of the Group's contingent assets as at 30 June 2017 is PLN 30,119 thousand.

CORPORATE INFORMATION

13. Governing bodies

13.1. Management Board

Composition of the Company's Management Board at the report preparation date:

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

13.2. Supervisory Board

Composition of the Company's Supervisory Board at the report preparation date:

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

On 3 February 2017, the Company's Supervisory Board changed the composition of the Company's Management Board. Two members of the Management Board; i.e. Ms. Anna Mroczek and Mr. Maciej Nowak were dismissed and were subsequently appointed the Vice-Presidents of the Management Board for a common three-year term. (Current report 6/2017).

On 6 June 2017, the Ordinary General Meeting of the Company resolved to dismiss Ms. Magdalena Lis from the position of Member of the Company's Supervisory Board as of 6 June 2017 and appoint Ms. Barbara Nowak the Vice-Chairperson of the Company's Supervisory Board. Apart from this, the composition of the Supervisory Board did not change. (Current report 39/2017).

14. 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 a par value of PLN 0.25 each, including:

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

At this report preparation date, the Company holds 264,652 treasury shares whose purchase value is PLN 2,690 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 shares were bought back on the basis of the Resolution no. 4 passed by the Company's Extraordinary General Meeting on 8 December 2014 authorising the Management Board of ZUE S.A. to buy back own shares. The transaction was described in detail in note no. 25 of the consolidated financial statements for the year ended 31 December 2015.

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

Shareholder	At the date of preparation of this half-yearly report; i.e. 21 August 2017		At the date of preparation of previous quarterly report; i.e. 26 April 2017	
	Number of shares/votes	% of the share capital/total number of votes	Number of shares/votes	% of the share capital/total number of votes
Wiesław Nowak	14,400,320	62.53	14,400,320	62.53
METLIFE OFE *	1,400,000**	6.08	1,400,000**	6.08
PKO Bankowy OFE	1,500,000***	6.51	1,500,000***	6.51
Other	5,729,763****	24.88	5,729,763****	24.88
Total	23,030,083	100	23,030,083	100

* Previously Amplico OFE.

** Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Extraordinary General Meeting of ZUE held on 8 December 2014 provided in the current report 41/2014 of 8 December 2014.

*** Shareholding on the basis of the list of shareholders holding at least 5% of votes at the Ordinary General Meeting of ZUE held on 18 June 2014 provided in the current report 31/2014 of 18 June 2014.

**** Including 264,652 ZUE shares repurchased by the Company as part of the buy-back of own shares.

15. Shares of ZUE held by members of the Issuer's management and supervisory bodies

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

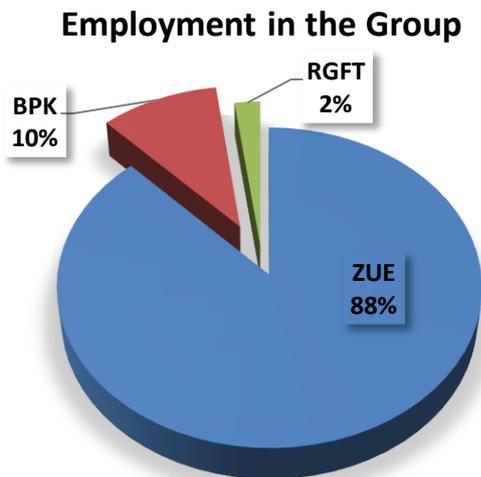
Shareholder	Position	Number of shares/votes at 21 August 2017	% of the share capital/total number of votes	Changes in shareholding since the preparation of the last quarterly report; i.e. 26 April 2017
Wiesław Nowak	Management Board President	14,400,320	62.53	None
Marcin Wiśniewski	Management Board Vice-President	2,300	0.01	None
Jerzy Czeremuga	Management Board Vice-President	136	< 0.01	None
Maciej Nowak	Management Board Vice-President	7,806	0.03	None
Michał Lis	Supervisory Board Member	661	< 0.01	None

According to the best knowledge of the Company's Management Board, other members of the Issuer's management or supervisory bodies did not hold any ZUE shares at this report publication date.

No members of the Management Board or the Supervisory Board had any rights to acquire the Company shares at the date of preparation of the last quarterly report or this report.

16. Employment in the Group

At 30 June 2017, the Capital Group employed 703 people.



17. Court and administrative proceedings

At the date of preparation of this report, the Group is a party to the pending court proceedings concerning the Group's claims and liabilities of the total value of PLN 48,751 thousand; i.e. more than 10% of the Company's equity. The total value of the proceedings concerning liabilities is PLN 324 thousand and the total value of the proceedings concerning claims is PLN 48,427 thousand.

The pending court proceedings relate to the companies' operating activities.

The biggest court proceeding concerning liabilities:

Case concerning the following project: "Design and execution of three rectifier substations supplying trolleybus overhead contact lines and Central Control Room in Lublin – case conclusion."

ZUE S.A. was sued by Sesto sp. z o.o. for PLN 456,048.58 plus statutory interest. The Company was supposed to pay the amount under the following design contract entered into with the Petitioner: "Design and execution of three rectifier substations supplying trolleybus overhead contact lines and Central Control Room in Lublin." The payment was not made by the Company because the Petitioner had been charged contractual penalties by ZUE in the amount equivalent to the abovementioned sum enforced by the Petitioner. Thus, the contractual penalties were set off against the sum. However, the contractual penalties proved too low and the Company sued the Petitioner for PLN 313,714.08 plus statutory interest. The first instance court recognized the claim of the Petitioner and rejected the claim of the Company. ZUE disagreed with the court's judgment and appealed against it but the appeal was rejected.

The biggest pending court proceeding concerning claims:

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

On 14 August 2014, the Petitioner (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.) filed a lawsuit against the Defendant (PKP Polskie Linie Kolejowe S.A.). The Petitioner sued the Defendant for the contractual penalty of PLN 72,835,010.99 plus interest from 18 August 2012 until payment (with PLN 18,521,943.30 plus interest from 18 August 2012 until payment attributable to the Company) for the Defendant's delay in the handover of the Construction Site. 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. POIiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding." Under the Contract, the Contracting Authority was obliged to provide the Contractor with an access to the entire construction site and the right to use it on the dates as specified in an appendix to the Contract. In case of delay through the fault of the Contracting Authority, the Contractor was authorised to charge the contractual penalties for each day of delay at the rate as specified in an appendix to the Contract. The Contracting Authority failed to provide an access to all parts of the Construction Site by the dates specified in the Contract. The Defendant questioned the claims made by the Petitioner both in terms of their amount and legitimacy. In addition, the Defendant filed a motion to dismiss the action and award the Defendant costs of the proceedings, including the cost of legal representation, according to the list of costs submitted during the proceedings. The Defendant filed a claim that the contractual fee charged by the Petitioner was too high in case the said motion for the dismissal was rejected.

The case concerns ZUE's claims whose value is PLN 18,521,943.30 plus interest and, consequently, exceeds 10% of the Company's equity.

In addition, on 29 September 2016, the Petitioner (PORR Polska Infrastruktura; i.e. former BILFINGER INFRASTRUCTURE S.A., ZUE S.A., Przedsiębiorstwo Budowy Kopalń PEBEKA S.A., Przedsiębiorstwo Napraw i Utrzymania Infrastruktury Kolejowej w Krakowie Sp. z o.o. and Kolejowe Zakłady Automatyki Katowice S.A.) sued the Defendant (PKP Polskie Linie Kolejowe S.A.) for PLN 11,506,921.00 (out of which PLN 2,926,209.77 plus statutory interest was payable to ZUE) after additional works had been carried out and expenses had been incurred during the extended completion time. The lawsuit concerned the construction contract of 27 October 2009 between the Petitioner (the Contractor) and the Defendant (the Contracting Authority) for the modernisation of the railway line no. 8. Stage I: the Warszawa Zachodnia – Warszawa Okęcie section and the construction of the Warszawa Służewiec – Okęcie Airport siding. Phase 3: construction work on the siding as part of the project no. POIiŚ 7.1-18: "Modernisation of the railway line no. 8, construction of the Okęcie Airport siding."

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 Biadoliny – Tarnów section between 61,300 km and 80,200 km as part of the following project: "Modernisation of E 30/C-E 30 railway line, the Cracow – Rzeszów section, stage III" (the "Contract").

The litigation value (the "Amount") is PLN 39.3m and includes:

- 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 is approx. PLN 15.7m.

Case concerning the following project: "Design and construction works as part of the following project: "Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie - Dąbrowa Górnicza Ząbkowice - Jaworzno Szczakowa section."

On 1 June 2015, ZUE S.A. of Cracow (Petitioner) sued PKP Polskie Linie Kolejowe S.A. of Warsaw (Defendant) for PLN 4,444,883.05 plus statutory interest and the costs of proceedings for the performance of additional works commissioned by the Contract Engineer (the Defendant's representative). The said works involved the replacement of the track structure, incorporating a subgrade protective layer, installation of geotextile and the filtration layer and installation of a deep drainage system at the section 288,850 – 291,609 km; i.e. the additional section of 2,009 km, in connection with the following Contract: "Design and construction works as part of the following Project: "Raising the quality of transport services through the improvement of technical condition of the railway lines no. 1, 133, 160 and 186 on the Zawiercie - Dąbrowa Górnicza Ząbkowice - Jaworzno Szczakowa section."

The Petitioner was obliged to perform the abovementioned works on the basis of the Contract Engineer's Order no. 17 although they went beyond the scope specified in the Functional Plan. According to the Plan, the Petitioner was obliged to perform the said works at the section 0.750 km and the location thereof had to be specified on the basis of geotechnical research. The purpose of the research was to identify the most "doubtful" land, which required the reinforcement of track substructure.

Before the lawsuit, the Defendant said that a risk of any works aimed at meeting specified parameters was borne by the Petitioner and that indicating the scope of works at 0.750 km in the Functional Plan was an obvious editorial mistake.

The Petitioner could not agree with the Defendant because a risk of incorrect description of an order was borne by the Defendant and the correction of an obvious mistake could not change the order understood as the Defendant's statement of will. The decision to impose on the Petitioner the obligation to perform any works goes beyond the risk included in the lump-sum remuneration. Therefore, the Petitioner demands the payment for the additional works commissioned by the Contract Engineer. In response, the Defendant filed a motion to dismiss the suit and questioned the Petitioner's obligation to carry out the tasks exclusively at 0.750 km. In addition, the Defendant stated there was no incorrect description of the order. According to the Defendant, each professional contractor acting with due care and diligence would be able to discover an obvious mistake of the Contracting Authority and take it into account while calculating the price.

FINANCIAL INFORMATION

The half-yearly consolidated financial statements have been prepared assuming that the Group will continue in operational existence for the foreseeable future. No going concern risks exist at the end of the reporting period.

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

The Group's revenue for the period 1 January – 30 June 2017 was PLN 107,843 thousand and fell by 16% when compared with the analogous period of 2016. The Company's revenue in the first half of 2017 decreased year-on-year by 11% and amounted to PLN 100,095 thousand. The Issuer wants to emphasise a significant step up in the pace of work under performed contracts observed after the end of the reporting period. Revenue generated by the Company in July 2017 amounted to approx. PLN 42,500 thousand.

In the first half of 2017, both revenue and financial results were influenced by the expected organisation of new contracts won under the present EU perspective. The said contracts, including a large number of "design-build" projects, did not yet generate significant revenues. In addition, in the period under analysis the Group continued to complete the contracts won on the last year's difficult market. This had an influence on the margins reported by the Group and its failure to reach the breakeven point as a result of which the Group had negative gross margin. The increase in allowances for contract risks was another factor with negative influence on the result.

Given a dynamic extension of the order book and the need to win new contracts, since the beginning of 2017 ZUE has carried out an intense recruitment process and prepared its equipment to perform construction works. This generates additional costs and the Management Board believe the costs will be compensated by sales revenue reported by the Group in the future.

The table below presents the results reported by the Group and the Company in the first half of 2017:

Item	Group (PLN '000)	ZUE (PLN '000)
Gross profit (loss)	-5,819	-6,101
EBIT	-15,525	-13,832
EBITDA*	-10,743	-9,111
Pre-tax profit (loss)	-17,498	-15,438
Net profit (loss)	-14,978	-12,875

* Operating profit + depreciation / amortisation.

The Group's general and administrative expenses between 1 January and 30 June 2017 amounted to PLN 10,359 thousand – down by 3% when compared with general and administrative expenses reported by the Group for the first half of 2016. The Company's general and administrative expenses the first half of 2017 stood at PLN 8,343 thousand and fell by 5% compared to the figure reported for the analogous period of 2016.

In the reporting period, the Group's other operating income stood at PLN 2,720 thousand and decreased by 11% compared to the analogous period of 2016. Other operating expenses amounted to PLN 2,067 thousand and increased by 249% over the amount disclosed in the analogous period of 2016. Following the assessment of risks relating to trade receivables, write-downs of PLN 1,207 thousand were recognised by the Group in the first half of 2017 including the write-down recognised in connection with an invoice for additional works issued by PKP PLK. The invoice is being negotiated.

The Group's financial income in the first half of 2017 was PLN 708 thousand and decreased year-on-year by 59%. Financial expenses stood at PLN 2,681 thousand and increased by 327% over the figure reported in the analogous period of 2016. The increase in financial expenses was mainly influenced by a discount of long-term deposits paid in the first half of 2017.

19. Discussion of major items of the statement of financial position

The table below sets out the items of the consolidated statement of financial position recorded by the Group as at 30 June 2017 as compared with the items as at 31 December 2016.

Item (PLN '000)	30-06-2017	31-12-2016	Change	% change
Non-current assets				
Property, plant and equipment	93,176	83,416	9,760	12%
Investment property	4,548	3,717	831	22%
Intangible assets	9,318	9,595	-277	-3%
Goodwill	31,172	31,172	0	0%
Investments in non-consolidated subsidiaries	0	0	0	
Advance payments for investments in subordinates	0	0	0	
Long-term receivables	0	0	0	0%
Retentions on construction contracts	11,731	7,334	4,397	60%
Deferred tax assets	11,195	8,683	2,512	29%
Advanced loans	5	0	5	
Other assets	0	0	0	
Total non-current assets	161,145	143,917	17,228	12%
Current assets				
Inventories	42,086	11,287	30,799	269%
Trade and other receivables	108,572	86,609	21,963	25%
Retentions on construction contracts	417	2,177	-1,760	-81%
Current tax assets	0	64	-64	-100%
Other financial assets	5,577	54,935	-49,358	-90%
Other assets	962	1,378	-416	-30%
Advanced loans	281	289	-8	-3%
Cash and cash equivalents	25,667	62,717	-37,050	-59%
Total current assets	183,562	219,456	-35,594	-17%
Total assets	344,707	363,373	-18,666	-5%

Item (PLN '000)	30-06-2017	31-12-2016	Change	% change
Equity and liabilities				
<i>Equity</i>				
Share capital	5,758	5,758	0	0%
Share premium account	93,837	93,837	0	100%
Treasury shares	-2,690	-2,690	0	0%

Retained earnings	97,781	112,391	-14,610	-13%
Total equity attributable to the shareholders of ZUE	194,686	209,296	-14,610	200%
Equity attributable to non-controlling interests	-432	-14	-418	2986%
Total equity	194,254	209,282	-15,028	-7%
<i>Non-current liabilities</i>				
Long-term loans and bank credits and other financing sources	15,263	8,892	6,371	72%
Retentions on construction contracts	5,847	6,792	-945	-14%
Other financial liabilities	490	630	-140	-22%
Liabilities under employee benefits	1,927	1,864	63	3%
Deferred tax liabilities	0	0	0	
Long-term provisions	6,302	7,645	-1,343	-18%
Deferred income	0	0	0	
Other liabilities	0	0	0	
Total non-current liabilities	29,829	25,823	4,006	16%
<i>Current liabilities</i>				
Trade and other payables	73,477	82,094	-8,617	-10%
Retentions on construction contracts	5,978	9,185	-3,207	-35%
Short-term loans and bank credits and other financing sources	18,202	14,194	4,008	28%
Other financial liabilities	316	317	-1	0%
Liabilities under employee benefits	15,753	17,928	-2,175	-12%
Current tax liabilities	0	0	0	
Short-term provisions	6,898	4,550	2,348	52%
Total current liabilities	120,624	128,268	-7,644	-6%
Total liabilities	150,453	154,091	-3,638	-2%
Total equity and liabilities	344,707	363,373	-18,666	-5%

At the end of the reporting period, the Group's total assets and liabilities stood at PLN 344,707 thousand and decreased by 5% compared to the analogous figure reported at the end of 2016.

Items with the biggest influence on the said total assets and liabilities:

1) Assets:

- a) Increase in property, plant and equipment by PLN 9,760 thousand. The Company invests in non-current assets, especially specialist machinery and vehicles (note no. 29 of the financial statements),
- b) Increase in inventories gathered for the purpose of contract performance and early sale of materials by PLN 30,799 thousand. According to contracts, the Company sales the materials before they are used in construction to avoid the accumulation of supplies. Strategic materials such as aggregate, sleepers, rails or railway switches are bought and long-term master agreements for the purchase of the abovementioned materials are signed to reduce the risk of price increase in times of decreased supply caused by the accumulation of railway works. The estimate security of the supply of strategic materials at the Group to perform the contracts which have already been or are waiting to be signed: rails – 100%, sleepers – 100%, railway switches – 80%, aggregate – 70%,
- c) Increase in trade and other receivables by PLN 21,963 thousand,
- d) Decrease in other financial assets by PLN 49,358 thousand following the sale of corporate bonds,
- e) Decrease in cash and cash equivalents by PLN 37,050 thousand reflecting the stage of performed contracts (including the purchase of materials and ongoing contract performance).

2) Liabilities:

- Increase in long-term loans and bank credits and other financing sources by PLN 6,371 thousand reflecting investments financed under lease contracts (note no. 35 of the financial

- statements),
- Decrease in trade and other payables by PLN 8,617 thousand.

20. Discussion of items of the statement of cash flows

Item (PLN '000)	30.06.2017	30.06.2016	Change
Cash flows from operating activities	-81,549	-40,028	-54,670
Cash flows from investing activities	35,410	-1,471	35,742
Cash flows from financing activities	9,818	-10,940	11,439
Total net cash flows	-36,321	-52,439	-7,489
Foreign exchange gains / (losses)	-729	753	-745
Cash and cash equivalents at the beginning of the period	62,717	172,334	-109,617
Cash and cash equivalents at the end of the period	25,667	120,648	-117,851
Depreciation / amortisation	4,782	4,747	2,405

The cash used in operating activities increased when compared with the analogous period of 2016. This was a result of the Group's greater involvement in the performance of new contracts. The Company's inventories increased. In order to optimize the margins, the Company shortened the dates of payment for the purchased materials and kept the collection dates unchanged.

Positive cash flows from investing activities were mainly influenced by the repurchase of the Company's corporate bonds bought by the Company in order to invest temporary cash surpluses.

Cash flows from financing activities were mainly influenced by the leaseback used to finance non-current assets.

Consequently, the Group's cash decreased by PLN 36,321 thousand.

21. Analysis of ratios

21.1. Debt ratios

Item	30.06.2017	31.12.2016	Calculation of ratios
Net debt	3,027	-93,619	(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 asset
Debt ratio	0.4	0.4	(non-current and current liabilities + provisions for liabilities) / total assets
Debt to equity ratio	0.8	0.7	(non-current and current liabilities) / equity
Equity to assets ratio	0.6	0.6	equity / total assets
Fixed capital to non-current assets ratio	1.4	1.6	(equity + non-current liabilities) / non-current assets
Short-term debt ratio	0.3	0.4	current liabilities / total assets
Long-term debt ratio	0.2	0.1	non-current liabilities / equity
Interest coverage ratio	43.7	0.2	EBIT / interest

21.2. Liquidity ratios

Item	30.06.2017	31.12.2016	Calculation of ratios
Working capital	62,938	91,188	current assets – current liabilities
Current ratio	1.5	1.7	current assets / current liabilities
Quick ratio	1.2	1.6	(current assets – inventory) / current liabilities
Cash ratio	0.2	0.5	cash and cash equivalents / current liabilities

21.3. Financing structure ratios

Item	30.06.2017	31.12.2016	Calculation of ratios
Equity to assets ratio	0.6	0.6	equity / total assets
Equity to non-current assets ratio	1.2	1.5	equity / non-current assets
Debt ratio	0.4	0.4	(total assets - equity) / total assets
Debt to equity ratio	0.8	0.7	(total assets - equity) / equity

21.4. Profitability ratios

Item	30.06.2017	30.06.2016	Calculation of ratios
Gross margin	-5.4%	4.34	gross profit / revenue
EBITDA	-10,743	2,136	operating profit + depreciation / amortisation
EBITDA margin	-10.0%	1.67%	EBITDA / revenue
EBIT margin	-14.4%	-2.04%	EBIT / revenue
Gross margin	-15.7%	-1.13%	gross profit / (revenue + other operating income + other financial income + extraordinary gains)
Net margin	-13.5%	-1.22%	net profit / (revenue + other operating income + other financial income + extraordinary gains)

ROA	-4.4%	-0.41%	<i>net profit / total assets</i>
ROE	-7.2%	-0.75%	<i>net profit / equity-net profit</i>

22. Discussion of results reported by segments

The total revenue generated by the Group is PLN 107,843 thousand. The biggest portion has been earned from construction activities.

Item (PLN '000)	Construction	Sales	Design	Exclusions	Total
Revenue	100,095	27,564	5,726	-25,542	107,843

Sales activities conducted by Railway gft in the first half of 2017 reported a net loss of PLN 1,346 thousand (gross profit of PLN 278 thousand).

Unfavourable economic situation on the rail and urban infrastructure market was a factor with the biggest influence on the segment's results. The segment strongly depends on a current situation on the market.

Design activities conducted by BPK Poznań in H1 2017 reported a gross profit of PLN 248 thousand. BPK Poznań ended the first half of 2017 with a net loss of PLN 557 thousand. Design activities complement construction activities.

23. Statement by the Management Board of ZUE on forecast financial results

The Company did not publish any forecast 2017 financial results.

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

No unusual factors or events that would have a significant influence on the Group's results occurred in the reporting period.

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

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

STATEMENTS BY THE MANAGEMENT BOARD OF ZUE S.A.

26. Statement on compliance

The Management Board of ZUE state that according to their best knowledge, the half-yearly condensed financial statements for H1 2017 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 the Company and the Group and their financial performance. The report on activities contains a true view of the Group's development and achievements and the Group's standing, including the description of fundamental risks and threads.

27. Statement on appointment of auditor

The Management Board of ZUE state that the entity responsible for the review of these half-yearly condensed consolidated financial statements has been appointed pursuant to applicable laws. The said entity and chartered auditors involved in the review have met the requirements necessary to make an unbiased and independent opinion on the audited half-yearly condensed consolidated financial statements in accordance with applicable laws and professional standards.

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, 21 August 2017